

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
OFFICE OF EARLY CHILDHOOD  
FISCAL YEARS ENDED JUNE 30, 2015, 2016, AND 2017*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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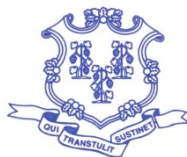
**EXECUTIVE SUMMARY**

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Office of Early Childhood (OEC). The objectives of this review were to evaluate the department’s internal controls; compliance with policies and procedures, as well as certain legal provisions; and management practices and operations for the fiscal years ended June 30, 2015, 2016, and 2017.

The key findings and recommendations are presented below:

<b>Page 20</b>	The Office of Early Childhood (OEC) and the State Department of Education (SDE) do not have formal, written policies and procedures for investigating hostile work environment complaints. OEC and SDE should ensure a thorough and timely investigation into all hostile work environment complaints. (Recommendation 12.)
<b>Page 26</b>	OEC and SDE should strengthen controls to ensure accurate and complete documentation supporting the recruitment process. (Recommendation 15.)
<b>Page 28</b>	We were unable to determine whether United Way retained all sub-contractors in accordance with state procedures. Documentation revealed that United Way did not retain all vendors through a competitive bidding process. The Office of Early Childhood should ensure proper oversight and accountability over all contracts and ensure compliance with state contracting rules. OEC should provide and retain written authorization when a contractor is granted the authority to hire a subcontractor. All subcontractors should be selected in accordance with state polices. (Recommendation 16.)
<b>Page 8</b>	OEC and SDE have not executed a new memorandum of understanding (MOU). SDE continues to provide administrative support under the prior agreement. The Office of Early Childhood should execute a memorandum of understanding with the State Department of Education defining the terms of SDE administrative support. (Recommendation 1.)
<b>Page 11</b>	The Office of Early Childhood did not prepare performance evaluations for 10 of 13 managers in fiscal year 2017 and 11 of 12 managers in fiscal year 2018. OEC should enhance administrative controls to ensure the completion of annual performance evaluations. (Recommendation 4.)

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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June 10, 2020

### **AUDITORS' REPORT OFFICE OF EARLY CHILDHOOD FOR THE FISCAL YEARS ENDED JUNE 30, 2015, 2016, AND 2017**

#### **INTRODUCTION**

We have audited certain operations of the Office of Early Childhood (OEC) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to; the years ended June 30, 2015, 2016, and 2017. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions;
2. Evaluate the office's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate

evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources, including but not limited to, the department's management and the state's information systems, and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with policies and procedures or legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Office of Early Childhood.

## **COMMENTS**

### **FOREWORD**

The Office of Early Childhood was created through Executive Order No. 35, effective June 24, 2013, which identified OEC as the office responsible for coordinating and improving the delivery of early childhood services for Connecticut children. OEC operates under the provisions of Title 10, Chapter 184c of the General Statutes and is the lead agency for early care and education, workforce development, program quality and improvement, child care licensing, and family support.

OEC is administered by a commissioner appointed by the Governor under section 10-500 of the General Statutes. Myra Jones-Taylor was appointed commissioner on January 26, 2015 and served in that capacity until September 1, 2016. Linda Goodman served as acting commissioner from September 2, 2016 to February 1, 2018. David Wilkinson was appointed commissioner on May 11, 2017 and served in that capacity until January 21, 2019. Beth Bye was appointed commissioner on January 22, 2019 and continues to serve in that capacity.

The State Department of Education (SDE) and OEC entered into a memorandum of understanding (MOU) defining the administrative relationship and responsibilities of the agencies. SDE has been designated as the agency to support OEC for administrative purposes only. In accordance with the agreement, SDE is responsible for providing OEC payroll, human resources, business office, and fiscal functions.

## **Legislative Changes**

Notable legislative changes that took effect during the audited period are as follows:

**Public Act 13-247** (Section 1) effective July 1, 2013, allocated funds for the creation of an Office of Early Childhood for fiscal years 2014 and 2015. The Governor's Executive Order No. 35 created the office and cited legislative intent to create it.

**Public Act 14-39** effective July 1, 2014, established OEC as the lead agency for the early care and education of young children. OEC is responsible for administering the early childhood programs previously administered by the State Department of Education and the Departments of Social Services and Public Health. These programs include a competitive grant program for Head Start grantees, School Readiness, Competitive District Grant Account for school readiness, Child Day Care Services, Childcare Subsidy, Competitive Supplemental Quality Enhancement Grant, and Children's Trust Fund. The act also requires OEC to be within SDE for administrative purposes only, collaborate with early childhood councils in the implementation of programs, develop and implement an information system to facilitate the sharing of data between childhood service providers, develop an early childhood accountability plan, and implement a performance-based evaluation system to evaluate licensed child day care centers.

**Public Act 14-41**, effective July 1, 2014, required the Office of Early Childhood, in consultation with the State Department of Education, to design and administer the Connecticut Smart Start competitive grant program to reimburse local and regional boards of education for capital and operating expenses related to establishing or expanding a preschool program under the jurisdiction of the board of education for the town.

**Public Act 15-45**, effective June 5, 2015, established a Home Visitation Program Consortium that shall advise the Office of Early Childhood, and the Departments of Children and Families, Developmental Services, and Education regarding the implementation of the recommendations for the coordination of home visitation programs within the early childhood system. The act also requires an annual report that shall include the status of the implementation of the recommendations, the level of collaboration among home visitation programs, recommendations for improvements in the collaboration among home visitation providers and other stakeholders, and additional information that the consortium deems necessary to improve the provision of home visitation services.

**Public Act 15-134** (Sections 1-5), effective July 1, 2015, required OEC to address several initiatives. OEC shall collect data and conduct trend analysis of certain unapproved early childhood degree programs, require that magnet and charter schools obtain accreditation by the National Association for the Education of Young Children (NAEYC), collaborate with regional early childhood councils, develop a plan for state-funded early care and education program providers to ensure the required staff qualifications are attained, and annually submit a report regarding the status of school readiness program provider's compliance with the staff qualifications requirement.

**Public Act 16-3 of the May Special Session** (Section 94), effective July 1, 2016, required the Commissioner of Early Childhood to submit a quarterly report to the General Assembly concerning program capacity and utilization related to school readiness and state-funded child care facilities. Each report must include (1) the number of spaces available by space type, (2) the number of spaces filled by space type, and (3) the rates being paid for each space type for each age group.

**Public Act 16-79** effective June 1, 2016, established a two-generational school readiness and workforce development pilot program to foster family economic self-sufficiency in low-income households by delivering academic and job readiness support services across two generations in the same household. The interagency working group was required to submit a report on the strategies for success; the challenges and opportunities in working with a parent and child; the changes in policy to achieve the goals of the program; child, parent, and family outcomes in the areas of school readiness and school success; workforce readiness; the cost of the program; and recommendations to expand the program.

**Public Act 16-131** (sections 1-3) effective June 7, 2016, required each initial applicant or prospective employee of a family child care home in a position requiring the provision of care to a child, including an assistant or substitute staff member and each household member who is sixteen years of age or older, to submit to state and national criminal history records checks. The commissioner shall also request a check of the state child abuse registry. The act also allows the Commissioner of Early Childhood to refuse, suspend or revoke the license of an operator or staff member of a family child care home based on an individual's criminal record. The licensed family child care provider must notify the commissioner of a conviction of any person employed in its family child care home in a position connected with the provision of care to a child receiving child care services. Failure to comply may result in the suspension or revocation of the license or other action.

## RÉSUMÉ OF OPERATIONS

### Revenue

Presented below is a summary of revenue by fund:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
General Fund	\$ 43,450,275	\$ 53,209,817	\$ 54,606,158
Federal and Other Restricted Account Fund	<u>17,463,489</u>	<u>68,266,022</u>	<u>64,226,374</u>
<b>Total Revenue by Fund</b>	<b><u>\$ 60,913,764</u></b>	<b><u>\$ 121,475,839</u></b>	<b><u>\$ 118,832,532</u></b>

The increase in revenues was primarily attributable to increases in federal grants, most significantly the Child Care Development Fund (CCDF), Preschool Development Grants (PDG), and Social Services Block Grant (SSBG).

Presented below is total general fund revenue by account:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Child Day Care Center Licenses	\$ 133,327	\$ 103,493	\$ 339,635
Youth Camp Licenses	245,110	243,650	254,075
Fines and Civil Penalties	30,735	30,143	36,880
Refunds of Expenditures – Prior Years	384,299	583,445	282,416
Dependent Children	42,673,998	52,248,491	53,693,661
All Other Receipts	<u>(17,193)</u>	<u>595</u>	<u>(510)</u>
<b>Total Revenue by Account</b>	<b><u>\$ 43,450,276</u></b>	<b><u>\$ 53,209,817</u></b>	<b><u>\$ 54,606,157</u></b>

The increase in Child Day Care Center Licenses is primarily attributable to an increase in child care program license renewals. Refunds of prior year expenditures increased due to several grantees returning unspent Early Childhood Education and Nurturing Families Network Grant funds.

Presented below is total federal and other restricted receipts:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Federal Grants	\$ 17,342,226	\$ 54,188,991	\$ 51,850,528
Non-Federal Grants	121,264	5,637,234	5,125,846
Grant Transfers	<u>-</u>	<u>8,439,798</u>	<u>7,250,000</u>
<b>Total Revenue</b>	<b><u>\$ 17,463,490</u></b>	<b><u>\$ 68,266,023</u></b>	<b><u>\$ 64,226,37</u></b>

### Expenditures

Presented below is a summary of expenditures by fund:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
General Fund	\$ 262,460,796	\$ 298,124,759	\$ 297,571,252
Capital Equipment Purchase Fund	109,231	40,638	-



STEAP – Grants to Local Governments	75,000	1,357,986	934,550
Federal and Other Restricted Accounts Fund	22,350,340	61,746,698	60,687,083
Community Conservation and Development	-	-	3,250,000
Capital Improvement and Other	<u>741,839</u>	<u>1,240,400</u>	<u>1,531,091</u>
<b>Total All Funds</b>	<b><u>\$ 285,737,206</u></b>	<b><u>\$ 362,510,481</u></b>	<b><u>\$ 363,973,976</u></b>

Presented below is total general fund expenditures by account:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Personal Services	\$ 5,771,689	\$ 7,792,358	\$ 7,276,350
Other Expenses	8,819,275	970,423	489,667
Children’s Trust Fund	11,302,845	11,092,651	11,207,514
Early Childhood Program	9,759,569	10,396,082	-
Birth to Three	-	30,930,270	32,447,839
Early Childhood Advisory Cabinet	76	-	-
Community Plans Early Childhood	712,476	659,540	519,296
Improving Early Literacy	142,500	133,302	-
Child Care Services	17,304,300	16,999,688	-
Even Start	451,250	438,938	415,151
Head Start Services	2,706,743	5,609,002	5,571,838
Head Start Enhancement	1,734,350	-	-
Care4Kids TANF/CCDF	104,776,111	123,830,082	124,376,409
Child Care Quality Enhancement	2,582,381	2,624,268	2,378,698
Head Start Early Childhood Link	1,985,500	648,824	-
Early Head Start – Child Care Partnership	-	732,937	1,130,750
Early Care and Education	-	-	107,985,987
School Readiness Quality Enhancement	4,733,178	3,654,271	3,771,753
School Readiness	77,958,419	81,612,123	-
Non-Functional Change to Accrual	<u>11,720,136</u>	<u>-</u>	<u>-</u>
<b>Total General Fund</b>	<b><u>\$ 262,460,798</u></b>	<b><u>\$ 298,124,759</u></b>	<b><u>\$ 297,571,252</u></b>

The increase in Care4Kids expenditures is primarily attributable to the inclusion of management and administration fees, technology services, and postage costs.

Summarized below are total federal and other restricted expenditures:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Federal Grants	\$ 22,149,324	\$ 51,110,602	\$ 50,517,362
Non-Federal Grants	201,016	2,197,625	2,919,721
Grant Transfers	-	8,438,471	7,250,000
<b>Total Federal and Other Restricted</b>	<b><u>\$ 22,350,340</u></b>	<b><u>\$ 61,746,698</u></b>	<b><u>\$ 60,687,083</u></b>

Certain federal restricted expenditures are audited on a statewide basis. The results of those annual reviews are presented as part of our statewide single audit for the 2018 fiscal year.

Summarized below are total capital improvement and other purpose fund expenditures:

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Community Conservation and Development	\$ -	\$ -	\$ 3,250,000
Capital Improvement and Other	<u>741,839</u>	<u>1,240,400</u>	<u>1,531,091</u>
<b>Total Other Funds</b>	<u>\$ 741,839</u>	<u>\$ 1,240,400</u>	<u>\$ 4,781,091</u>

The increase in the Community Conservation and Development fund represents grant funds paid to a preschool child care center. Capital improvement costs directly relate to an increase in information technology consulting services primarily associated with the Early Childhood Information System (ECIS).

## STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of Office of Early Childhood (OEC) identified the following 17 findings and recommendations. This is our first departmental audit of the Office of Early Childhood under section 2-90 of the General Statutes.

### **Memorandum of Understanding (MOU)**

*Background:* A memorandum of understanding (MOU) is a formal written agreement between two or more parties that communicates mutually accepted expectations. The agreement may include responsibilities, plans, and actions to accomplish specific goals.

Section 10-500 of the General Statutes states, in part, that the Office of Early Childhood shall be within the State Department of Education (SDE) for administrative purposes only.

The State Department of Education and the Office of Early Childhood entered into a memorandum of understanding defining the administrative relationship and responsibilities of the agencies. SDE is responsible for providing OEC payroll, human resources, and business office and fiscal functions.

*Criteria:* Strong internal controls dictate that an executed memorandum of understanding should be on file to document the SDE administrative support services provided to OEC. OEC and SDE prepared a draft agreement on September 27, 2015 to replace the MOU that expired on June 30, 2015.

*Condition:* OEC and SDE have not executed a new MOU. SDE continues to provide administrative support under the prior agreement.

*Effect:* Without an executed agreement, the parties may not understand and fulfill the expected terms and duties.

*Cause:* The MOU between the OEC and SDE lapsed, and management failed to extend it or reach a new agreement.

*Recommendation:* The Office of Early Childhood should execute a memorandum of understanding with the State Department of Education defining the terms of the SDE administrative support. (See Recommendation 1.)

*Agency Response:* “We agree with this finding. Upon learning that the Office of Early Childhood did not have an executed MOU with the State Department of Education since July 2015, Christopher Lyddy, the new Chief Operating

Officer of OEC, initiated a series of discussions with Kathy Demsey, Chief Financial Officer of SDE, about the need to execute a new MOU. These discussions commenced in March 2019, shortly after the appointment of Commissioner Bye and Christopher Lyddy to their respective positions. Each agency is currently reviewing the prior MOU and are developing a proposal that is reflective of OEC’s current needs, assets, and organizational infrastructure. We expect a new MOU to be executed by the start of 2020.”

**Failure to Perform Internal Control Self-Assessment**

*Criteria:*

The Office of the State Comptroller issues an annual memorandum reminding agency heads to conduct yearly internal control self-assessments as required by the Internal Control Guide. In accordance with the Internal Control Guide, agency management is responsible for establishing and maintaining effective internal controls. Agencies must annually complete an internal control self-assessment by June 30th and keep it on file. The review of the self-assessment questions should include a report noting weaknesses and recommendations for improvements.

The questionnaire includes a form that the agency head and business manager must sign to confirm that the information entered into the questionnaire is complete and accurate.

Section 10-500 of the General Statutes states that the Office of Early Childhood “shall be within the Department of Education for administrative purposes only.” Section 4-38f of the General Statutes defines the term “administrative purposes only.” Part B of this section states, in part, “the department to which an agency is assigned for administrative purposes only shall provide record keeping, reporting, and related administrative and clerical functions for the agency to the extent deemed necessary by the department head.”

The Office of Early Childhood entered into a memorandum of understanding with the State Department of Education. The MOU outlines the fiscal responsibilities of each agency. Part 4 section J states that the SDE Bureau of Fiscal Services will perform “additional functions,” including preparing, coordinating, or updating internal control questionnaires.

*Condition:*

The OEC internal control questionnaire was not available during the audited period. SDE informed us that it did not prepare the OEC questionnaire.

- Effect:* OEC has not used the annual internal control questionnaire as an assessment tool to assist in identifying weaknesses in internal controls. Management has less opportunity to design and implement effective controls.
- Cause:* SDE did not complete the annual internal control questionnaire for OEC as part of its responsibilities under the MOU. OEC did not follow up with SDE to ensure that the department completed the required report.
- Recommendation:* The Office of Early Childhood should work with the State Department of Education to ensure that the department completes the annual OEC internal control questionnaire and maintains a copy on file. The Office of Early Childhood should document any identified deficiencies and corrective action taken to address those deficiencies. (See Recommendation 2.)
- Agency Response:* “We agree with this finding. As noted in the findings above, the OEC has relied upon the SDE to provide administrative support and functions to the Agency. OEC will ensure that the Internal Control Questionnaire is completed moving forward. In addition, OEC has updated the agency’s Internal Control Summary and has made that updated document available to the Auditors of Public Accounts.”

### **Payroll and Personnel – Compensatory, Overtime and Holiday Timesheet Approvals**

- Criteria:* Office of Early Childhood employees are permitted to earn compensatory time or overtime, with prior approval, for time worked in excess of their normal schedule. Such time is awarded in accordance with collective bargaining agreements and agency policies. Employees must submit a request form that documents the dates, approximate hours, and reason for the request. Supervisors must authorize requests in advance and maintain them at the division level.
- Agency overtime policy requires advance authorization, except in an emergency. The agency must retain documentation of approval at the division level.
- When a regularly scheduled workday falls on a designated holiday, the Holiday (HOL) timecode is used. Supervisors review employee timesheets to identify and correct timesheet errors prior to approval.
- Condition:* Two of 10 instances of compensatory time were not supported by documentation of a supervisor’s preauthorization and approval.

Six of 10 instances of overtime did not have approvals on file. One of 10 overtime requests was approved after the overtime was earned.

Seven approved employee timesheets were incorrectly coded with holiday time charged to non-designated holidays. The incorrectly coded hours ranged from two to 56.

*Effect:* The failure to approve compensatory or overtime in advance could lead to unnecessary expenses.

The lack of administrative controls over timesheet approvals increases the risk of errors.

*Cause:* Lack of managerial oversight appears to be the cause.

*Recommendation:* The Office of Early Childhood should enhance its control procedures to ensure compliance with agency compensatory and overtime policies, including advance approvals and maintenance of records. The office should ensure proper review of timesheets to prevent incorrect timecode usage. (See Recommendation 3.)

*Agency Response:* “OEC agrees with this finding and will provide all managers and direct supervisors with the policies, training and tools necessary to adhere to their roles and responsibilities. In addition, all managers will maintain all timekeeping records and approvals for overtime and compensatory time at the divisional level.”

## **Performance Evaluations**

*Criteria:* Section 5-210 of the General Statutes provides that the Commissioner of Administrative Services may establish one or more incentive plans for employees whose positions are designated managerial or confidential and are assigned to the managerial pay plan. The incentive plan is the means by which managers and confidential employees can receive increases in pay beyond any amount received from general wage increases. The current plan is the Performance Assessment and Recognition System (PARS).

Basic features of the PARS program include developing results-oriented, measurable performance objectives and goals for each manager and confidential employee. Supervisors and their employees should discuss the results of the performance reviews and related goals and objectives on a regular basis.

The performance evaluation is a method of assessing each employee's job performance in relation to pre-established standards. Standard business practice advocates that supervisors evaluate each employee's job performance in writing at least once each year.

*Condition:* OEC did not prepare performance evaluations for 10 of 13 managers in fiscal year 2017 and 11 of 12 managers in fiscal year 2018.

*Effect:* The absence of written performance evaluations diminishes management's ability to develop employee performance plans, track career development, and make informed personnel decisions.

*Cause:* Administrative controls to ensure completion of all performance evaluations were inadequate.

*Recommendation:* The Office of Early Childhood should enhance administrative controls to ensure the completion of annual performance evaluations. (See Recommendation 4.)

*Agency Response:* "We agree with this finding. Upon learning that the prior commissioner of OEC waived the Performance Assessment and Recognition System (PARS) requirements, Commissioner Bye put together a plan to ensure that each manager and executive assistant is engaged in a joint planning process that establishes clear, achievable, measureable, results-oriented performance objectives, consistent with OEC's priorities. Commissioner Bye plans to have the first set of Planning and Appraisal Records completed by the end of October 2019."

### **Timely Execution of Contracts**

*Criteria:* Sound business practice dictates that contracts should be fully executed prior to the start of the contract term.

*Condition:* OEC executed eight of the 10 reviewed contracts after their start date.

*Effect:* Expenditures could have been made for unauthorized activities. Without an executed contract, the parties may not understand and fulfill the terms and duties.

*Cause:* Lack of management oversight appears to be the cause.

*Recommendation:* The Office of Early Childhood should ensure that it executes all contracts prior to the start of the contract term. (See Recommendation 5.)

*Agency Response:* “We agree with this finding. OEC relies upon the Department of Mental Health and Addiction Services’ Central Contract Unit (CCU) for the development and execution of its contracts. Despite the large volume of contracts OEC executes each year, the CCU is only able to provide OEC one Grants and Contracts Specialist and one Accountant two days per week. After assessing OEC’s areas for improvement, Commissioner Bye requested that OEC be granted permission to hire additional Grants and Contracts Specialists and also created a new Internal Operations Division that will begin assist and monitor the contract development process. This Operations Division is also in the process of creating a policy and procedure for staff to follow when they need to request a contract through the pre-authorization process which will also assist in getting contracts executed more timely. In addition, OEC is exploring digitizing the contract management process that will help to streamline workflow within the agency.”

**Property Control – CO-59 Asset Management/Inventory Report**

*Criteria:* Section 4-36 of the General Statutes requires each state agency to establish and maintain inventory records as prescribed by the State Comptroller. The State Property Control Manual (SPCM) establishes the standards and reporting requirements to maintain an inventory system and provide for accountability and the safeguarding of assets.

Core-CT is the official record for each agency’s inventory. The SPCM states that the Asset Management/Inventory Report (CO-59 form) should be used to report all property owned by each state agency based on Core-CT Asset Management queries of capitalized assets. If the values reported on the CO-59 form do not reconcile with Core-CT, the agency must provide a written explanation of the discrepancy.

*Condition:* The equipment OEC reported in its CO-59 form for the fiscal years ended June 30, 2015, 2016, and 2017 did not agree with values in Core-CT. We noted that the errors totaled \$65,950.

OEC did not properly tag 2 of 7 reviewed purchases and did not add all 7 to its inventory.

*Effect:* There is a decreased ability to safeguard state assets.

*Cause:* Management did not follow proper procedures included in the property control manual.

*Recommendation:* The State Department of Education should maintain and report assets as prescribed by the State Property Control Manual. The Office of Early



Childhood should ensure the accurate reporting of all items on its CO-59 forms. (See Recommendation 6.)

*Agency Response:* “We (SDE) agree with this finding. SDE storekeepers will be conducting an inventory this fall so all records can be updated.”

### **Property Control – Licensed Software**

*Criteria:* The State Property Control Manual states that all agencies must establish a software library to track, inventory, and report all software media and licenses.

The memorandum of understanding between SDE and OEC states that OEC is responsible for maintaining its software inventory.

*Condition:* OEC does not inventory its licensed software, and did not include capitalized software on its CO-59 form.

*Effect:* There is less assurance software records are properly maintained and controlled.

*Cause:* Management’s accountability over licensed software was inadequate.

*Recommendation:* The Office of Early Childhood should create and maintain a software inventory to track and control its software media, licenses, or end user license agreements and certificates of authenticity. (See Recommendation 7.)

*Agency Response:* SDE Response: “We (SDE) agree. Please note that SDE transitioned all IT functions and responsibilities to OEC at the end of the previous MOU.”

OEC Response: “While SDE states that the IT functions and responsibilities were transitioned to the OEC at the end of the previous MOU, OEC did not receive all of the necessary information and inventory from SDE until late 2017. In addition, the OEC continues to transition away from SDE’s IT support and infrastructure as it has not fully separated from SDE.”

### **Property Control – Physical Inventory**

*Criteria:* The State Property Control Manual states that each agency should have a complete physical inventory of all property by the end of the fiscal year to ensure accurate property control records. SDE performs certain administrative functions, including OEC inventory.

<i>Condition:</i>	SDE did not conduct a physical inventory during the fiscal year ended June 30, 2017. The department conducted the last physical inventory during the fiscal year ended June 30, 2016.
<i>Effect:</i>	There is less assurance that the recorded inventory is accurate, leaving state property susceptible to loss or theft.
<i>Cause:</i>	SDE decided not to conduct an inventory.
<i>Recommendation:</i>	The State Department of Education should perform the Office of Early Childhood’s annual physical inventory as required by the State Property Control Manual. (See Recommendation 8.)
<i>Agency Response:</i>	“We (SDE) agree. SDE storekeepers will be conducting an inventory this fall so all records can be updated.”

### **Property Control – Internally-Generated Software**

*Criteria:* GASB 51 requires governmental entities to recognize intangible capital assets in its financial reports. Intangible assets include internally-developed and third-party licensed software if they meet the governmental entity’s capitalization threshold. The entity should value its internally-developed software using the development stage approach, which includes activities such as design, configuration, coding, installation, and testing. Outlays that increase the software’s capacity, efficiency, or useful life should also be capitalized. Outlays for routine maintenance or annual licensing should not be capitalized.

The State Property Control Manual (SPCM) states that, “agency internally-generated software that meets the capital threshold and is owned by the state, is reported on the CO-59 form as software owned by the state. Executive Branch agencies must record developed software in the Core-CT Asset Management Module.” SPCM established the level of capitalization at \$5,000 per item or unit of inventory. Good business practice requires that, in the absence of specific guidance, available information should be used to document best effort measures to comply with requirements. The Office of the State Comptroller includes a listing and definitions of accounts used for expenditures in its State Accounting Manual.

*Condition:* The Office of Early Childhood’s CO-59 Asset Management/Inventory Report for the fiscal years ended June 30, 2015, 2016, and 2017 did not contain any software inventory costs. We learned that OEC has

internally-developed software programs that it should include on the CO-59 form.

*Effect:* There is less assurance that reporting will occur in accordance with GASB 51.

*Cause:* Management's accountability over agency-developed software was inadequate.

*Recommendation:* The Office of Early Childhood should review its agency-developed software to determine which programs required disclosure on its CO-59 form.

The State Department of Education should adhere to the State Property Control Manual guidelines for capitalized property and include agency-developed software on the CO-59 form. (See Recommendation 9.)

*Agency Response:* SDE Response: "We (SDE) agree with this finding. As noted earlier, all IT responsibilities and functions were transitioned to OEC at the end of the previous MOU. Moving forward, we will ensure greater collaboration with OEC at the time of completion of the CO-59 Asset Management/Inventory Report for the fiscal year-end."

OEC Response: "While SDE states that the IT functions and responsibilities were transitioned to the OEC at the end of the previous MOU, OEC did not receive all of the necessary information and inventory from SDE until late 2017. In addition, the OEC continues to transition away from SDE's IT support and infrastructure as it has not fully separated from SDE."

### **Asset Purchases – Manufacturer Suggested Retail Price**

*Criteria:* The Office of Early Childhood purchased audio/visual equipment for two conference rooms through a Department of Administrative Services (DAS) state contract. The "instructions for contract use" recommends a comparison of price quotes to the specific contractor's price schedule. Exhibit A of the contract states, in part, "upon request, awarded contractor(s) shall provide, to all ordering entities, at no charge, catalogs and price lists for all items offered under the contract." Exhibit B provides a listing of items offered along with percentage discounts for select items. Prior to any purchase, the agency should know the manufacturer suggested retail price.

<i>Condition:</i>	OEC did not compare the invoiced pricing to the contractor's price schedule. OEC was unable to confirm the accuracy of the purchased items' contractor pricing, including any available discounts.
<i>Effect:</i>	The lack of compliance with contractual terms increases the risk for fraud, invoice error, and overpayment.
<i>Cause:</i>	OEC management did not request documentation from the vendor to ensure that prices on invoices matched the contractor's price schedule. The DAS contract did not provide detailed information concerning equipment pricing.
<i>Recommendation:</i>	The Office of Early Childhood should obtain and review vendor price schedules to ensure invoices contain accurate pricing and applicable discounts based on the manufacturer suggested retail price. (See Recommendation 10.)
<i>Agency Response:</i>	<p>"We disagree with this finding. When 450 Columbus was being finished and moved into during 2016 and 2017, DAS outfitted many of the common area conference rooms with AV equipment out of its own budget. Towards the end of the process of outfitting and moving into the building in 2017, DAS did not have sufficient funds to provide every last conference room with AV equipment, and some of the smaller conference rooms were left to be supplied with AV equipment when funds eventually became available. Then OEC Acting Commissioner Linda Goodman elected to spend OEC funds to purchase suitable AV equipment for conference rooms 3B and 3C in the North Tower. OEC would fund the purchase of the AV equipment, and its installation and maintenance would be overseen by BEST's Unified Telecommunications Division. On January 25, 2017, OEC Fiscal approved PC1 # 17-097 to acquire the AV equipment for these rooms from Valley Communications, and that order specified each room would have a 50" Samsung smart TV at a cost of \$779.31 each (\$1558.62 for both). The PO associated with PC1 17-097 was later modified to reflect that the cost of the TVs had to include installation and conform to state contract terms, and the final price of each of those 50 inch smart TVs, including installation, came out to be \$1631.00 (or \$3,263.98 for both). That Purchase Order was #OECM1-0000000798, first issued Feb 2, 2017, with a 5<sup>th</sup> revision dated 6/26/2017. This PO references Revision 3 of Valley Communication's Proposal # V-20484-3 dated 3/7/2017, which accurately describes what is actually installed in Conferences Rooms 3B and 3C of the 450 North Tower in every respect except for the screen size. It later transpired that Valley Communication was out of stock of 50" Samsung Smart TVs at the time, and correspondence reveals back and forth discussion about different size options, including 55 inches. However, a change in cost would have resulted in a delay</p>

because a new PO would have needed to go through the approval process. It is believed that following verbal intervention by then Acting Commissioner Goodman, Valley Communications agreed to supply 60” TVs at the same price as it had quoted for 50” TVs to resolve the situation without causing additional delay and risking losing access to certain funds at the end of that fiscal year. On April 21, 2017, Valley Communication issued an invoice for the equipment ordered using PC1# 17-097, and that invoice indicates two 60 inch Samsung smart TVs were delivered at a cost of \$1631.00 each (or \$3,263.98 for both), the exact same price as Valley Communication had quoted for 50 inch Samsung smart TVs. The TV’s actually present today in Conference Rooms 3B and 3C of the 450 North Tower are Samsung Smart TVs that are 60 inches in diagonal size. The serial number of the 60 inch Samsung Smart TV currently installed in conference room 3B is 04KG3CRJ205836E. The serial number of the 60 inch Samsung Smart TV currently installed in conference room 3C is 04KG3CRJ205833F.”

*Auditors’ Concluding  
Comments:*

We reiterate our recommendation that OEC should have properly verified pricing.

**Reporting**

*Criteria:*

The Office of Early Childhood is required to submit reports under various statutes and public acts. The information in the reports is necessary for executive and legislative branch oversight of OEC projects.

Section 17b-751b (d) of the General Statutes requires a report to the General Assembly on the establishment, implementation, and progress of the Nurturing Families Network, on July 1st of each year. This network is intended to demonstrate the benefits of preventive services for high-risk families in reducing the abuse and neglect of infants.

Section 17a-22gg of the General Statutes requires the Home Visitation Program Consortium to advise OEC regarding the implementation of the recommendations for the coordination of home visitation programs and to submit an annual report to the General Assembly no later than September 15<sup>th</sup>.

Public Act 16-3 section 94 of the May special session requires the OEC to submit quarterly reports to the joint standing committee of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies regarding program capacity and utilization related to school readiness and state-funded

child care facilities. Each report shall include quarterly program information about (1) the number of spaces available by space type, (2) the number of spaces filled by space type, and (3) the rates being paid for each space type for each age group

*Condition:*

We identified the following exceptions:

- OEC submitted the Nurturing Family Network (NFN) annual report due July 1<sup>st</sup> 2017 in April 2018 (9 months late).
- OEC submitted the Home Visitation annual report due September 15<sup>th</sup> in April 2018 (7 months late).
- We were unable to determine whether OEC submitted the Staff Qualifications Compliance report due January 1<sup>st</sup> 2017.
- The Early Care and Education Spending and Slot Utilization quarterly report for April 2017 was not available. OEC informed us on April 25, 2018, that data was not yet compiled.

*Effect:*

The intended report recipients are not receiving and evaluating required information in a timely manner.

*Cause:*

OEC management did not track the completion and submission of required reports.

*Recommendation:*

The Office of Early Childhood should improve administrative control to ensure that it prepares and promptly submits all statutorily mandated reports to their required recipients. (See Recommendation 11.)

*Agency Response:*

“We partially agree with the finding. The OEC has a protocol to identify and monitor legislatively mandated reports. The Director of Government & Community Relations tracks legislation that passes each year and adds it to the attached chart that outlines the nature of the reports, dates each is due, and staff responsible for producing the report. This chart is shared with the Director’s Team and other relevant staff at the start of each fiscal year and then shared when needed to remind staff. The Director of Government & Community Relations then reached out to staff one on one to remind them about the report and due date. Once the draft report is submitted internally, the Director reviews, asks questions for clarification if needed, and edits. The report is then shared with the OEC Commissioner. When appropriate, draft reports have also been shared with the OEC legal unit. Depending upon the nature of the report, it may be shared with OPM and the Governor’s Office for review and approval. The report is then made into a PDF and submitted, in accordance with Section 11-4a. The report is submitted to the following individuals: House Clerk, Senate Clerk, Office of Legislative Research,

and the State Library. OEC provided the APA with the third and fourth quarter Early Care and Education slot utilization reports for FY18. The third quarter report is mistakenly labeled as second quarter, though the data is for January through March. OEC has a month lag in reporting on each quarter because of the time it takes to gather the needed data from providers.”

*Auditors’ Concluding  
Comments:*

Despite the efforts described, it appears that greater administrative control is necessary to ensure proper reporting.

**Other Matters – Office of Early Childhood Hostile Work Environment**

This recommendation relates to hostile work environment matters within the Office of Early Childhood.

Human resources professionals are responsible for implementing specific programs and initiatives, consistent with management’s strategies, which can help promote a positive work environment.

**Hostile Work Environment Investigations**

*Background:*

In a negative work environment, there can be low or nonexistent levels of employee morale or feelings of loyalty. The American Institute of Certified Public Accountants’ report “Management Antifraud Programs and Controls: Guidance to Help Prevent, Detect Fraud” lists the following as components that make up a negative work environment:

- Perceived organizational inequities
- Autocratic rather than participative management
- Unfair, unequal, or unclear organizational responsibilities

*Criteria:*

Good business practice dictates that agencies should work towards a positive work environment.

The State Department of Education has a workplace violence policy that states, “the Department of Education will promptly investigate all reports or alleged incidents of violent, threatening, harassing or intimidating behavior.”

To ensure that an investigation’s conclusions and actions are reasonable and consistent, the Human Resources Unit should use formal, written

investigation procedures. The unit's administrator should document the review of the investigations and evaluate its conclusions. These procedures should include documentation to substantiate the administrator's review, a determination of whether the complaint requires further investigation, the proper preparation of case files, and support of the investigation's conclusions. Management should clearly articulate that all employees will be held accountable to act within the organization's code of conduct.

*Condition:*

The Auditors of Public Accounts received whistleblower complaints of a hostile work environment at the Office of Early Childhood. We found that:

- OEC and SDE do not have formal written policies and procedures for investigating hostile work environment complaints.
- A formal listing of complaints was not available.
- Final reports were not always available.
- At least one investigation was not documented completely.

The only investigation report we were able to review, revealed that the State Department of Education (SDE) Affirmative Action Office (AAO) informed OEC of its final determination 2 months after AAO completed its investigation. AAO informed the complainant 5 months after the investigation. Our review of the final report also revealed that SDE did not fully investigate 2 allegations and substantiated one allegation without sufficient evidence.

*Effect:*

The lack of standardized written investigation procedures and formal documentation of administrative reviews increases the risk of inconsistent conclusions. This makes it more likely that an agency may not address a potentially hostile work environment.

*Cause:*

There was a lack of proper management oversight.

*Recommendation:*

The Office of Early Childhood and the State Department of Education should ensure a thorough and timely investigation of all hostile work environment complaints.

The State Department of Education should formalize written policies and procedures regarding hostile work environment investigations. These policies should include disciplinary measures for policy violations and review procedures related to its complaint handling and monitoring of the investigation process. (See Recommendation 12.)



*Agency Response:*

“We (SDE) agree in part. SDE on behalf of the OEC adheres to the formal, written policies that are in the “*State of Connecticut Violence in the Workplace Policy and Procedures Manual*” (Rev. April 2012) that are found on pages 7 and 8 of the policy. The “*Response Procedures*” do not require a written report at the conclusion of the investigation, and we do not always issue a written report. However, SDE always initiates an investigation in a prompt and responsive manner. OEC does not keep an updated list of complaints; however, annual reports to DAS will be filed in accordance with their procedures. The policies include language: If necessary “Implement the most appropriate step in the progressive discipline process (i.e., verbal warning, written warning/reprimand, suspension, termination)” The level of discipline will vary depending on the evidence presented in the investigation, the severity of the violation, consistency with similar offenses, and the employee’s disciplinary history.”

OEC Response: “OEC appreciates the support of SDE in managing, reporting, and enforcing the “*State of Connecticut Violence in the Workplace Policy and Procedures Manual*.” Upon learning that this issue was unresolved from the prior administration, OEC’s new leadership inquired with SDE HR about their processes related to investigating complaints. At this time, OEC learned that what was described as the SDE process and what was reported by the OEC complainant appeared to be in conflict as the complainant never heard of any findings or conclusions and did not receive a copy of the report or letter that SDE stated is typically sent to the complainant. OEC leadership requested that a letter regarding the outcome of investigation be sent to the complainant. That letter was received by the complainant on July 25, 2019. OEC leadership takes allegations of harassment and retaliation very seriously and understands how an unclear process between the two agencies can impact people’s safety, morale, and overall work experience. To that end, OEC has developed a stronger working relationship and communication with SDE and its HR department to enhance communication and to ensure that all complaints are handled in a timely and clear manner.”

*Auditors’ Concluding  
Comments:*

According to the *State of Connecticut Violence in the Workplace Policy and Procedures Manual*, the goal of recordkeeping is to have all information pertaining to a particular incident readily available. The documentation should include a summary of the incident findings, corrective actions, agency’s response, and the final disposition. The agency also should keep notes from meetings, assessments, and inspections. We do not believe the agency adhered to the manual based upon the condition we found during our audit.

## **Nurturing Families Network Program Payments and Audits of Private Providers**

<i>Background:</i>	<p>Nurturing Families Network (NFN) represents a comprehensive home visiting program created for the prevention of child abuse statewide. Its mission is “to prevent child maltreatment and improve child well-being by working in partnership with high risk first-time parents facing the challenges of parenthood by enhancing their strengths, providing education and creating community connections.” The program is designed to address 4 target areas, including: nurturing parenting, healthy families, parent life outcomes, and school readiness. The program promotes bonding and positive interaction between parent(s) and child, overall health and wellness, achievement of personal and family goals, and positive childhood development.</p>
<i>Criteria:</i>	<p>Proper internal control dictates that formal written policies and procedures should be established, maintained, and disseminated to provide guidance to employees in the performance of their assigned duties, including for quarterly payments to private providers who administer services under this program.</p> <p>OEC has a contract with each private provider to administer the program, which states that the contractor shall provide an annual financial audit that includes management letters and audit recommendations.</p> <p>The going concern principle is the assumption that an entity will remain in business for the foreseeable future unless conditions or events occur that may contradict that assumption.</p>
<i>Condition:</i>	<p>OEC does not have formal written procedures to document the processing of quarterly payments to providers.</p> <p>Two of 10 audit reports were not on file. One of the missing audit reports disclosed a going concern matter. OEC does not have a process for obtaining and reviewing required provider audit reports.</p>
<i>Effect:</i>	<p>There is less assurance that private providers are monitored appropriately. OEC may not be aware of significant audit issues that can affect future services.</p>
<i>Cause:</i>	<p>A lack of management oversight contributed to this condition.</p>
<i>Recommendation:</i>	<p>The Office of Early Childhood should create formal written procedures for issuing quarterly payments to providers.</p>

The Office of Early Childhood should develop a process to ensure providers submit all required audit reports. The office should review those reports for significant recommendations and other matters. (See Recommendation 13.)

*Agency Response:*

“OEC has developed and documented a Quarterly Contract Payment Procedure to ensure both program and fiscal staff have all relevant information necessary to authorize payments to contractors.

OEC is in process of developing a process to ensure required audit reports are submitted by providers and reviewed for significant audit recommendations by OEC staff. OEC is exploring the viability of hiring an “Associate Accounts Examiner” or assigning audit review, monitoring and compliance responsibilities to a current OEC staff member capable performing such duties.”

**Temporary Workers and Cost-Benefit Analysis**

*Criteria:*

Section 4e-1 (21) of the General Statutes states that “privatization contract” means an agreement or series of agreements between a state contracting agency and a person or entity in which such person or entity agrees to provide services that are substantially similar to and in lieu of services provided, in whole or in part, by State employees.”

Section 4e-16 (b) of the General Statutes requires that “cost-benefit analysis conducted by a state contracting agency prior to entering into a privatization contract shall document the direct and indirect costs, savings, and qualitative and quantitative benefits that will result from the implementation of such privatization contract.”

Agencies may use the Department of Administrative Services contract award for “Temporary Office Services.” The contract contains “Guidelines for State Agencies for Usage of Contract.” Under these guidelines, agencies must utilize the preferred vendor for position categories in which the preference has been awarded. If the preferred vendor cannot fill the position, agencies may then select another provider.

Section 4-98 of the General Statutes provides that, except for emergencies, budgeted agencies should not incur obligations without an approved purchase order. Payments should be made in accordance with contractual requirements.

*Condition:*

OEC did not perform a cost-benefit analysis before procuring services in 10 transactions reviewed. OEC did not utilize the services of the

preferred vendor listed in the contract. OEC could not provide support as to why it did not select the preferred vendor. We estimated that OEC would have saved approximately \$7,700 if it used the preferred vendor. OEC paid \$120,000 for temporary employees during the audited period.

We also identified 10 instances in which OEC received services prior approving a purchase order. OEC approved 2 purchase orders after it received the services.

*Effect:* OEC did not determine its projected costs or whether savings were achievable through privatization contracts. OEC did not realize potential cost savings through hiring the preferred vendor.

*Cause:* A lack of administrative controls and management oversight contributed to this condition.

*Recommendation:* The Office of Early Childhood should comply with Section 4e-16 (b) of the General Statutes and perform a cost-benefit analysis before procuring services.

The Office of Early Childhood should adhere to state contract requirements by selecting the preferred vendor for temporary services. If it cannot select the preferred vendor, OEC should maintain documentation supporting why it made that decision.

The Office of Early Childhood should comply with Section 4-98 of the General Statutes and authorize purchase orders prior to the receipt of goods or services. (See Recommendation 14.)

*Agency Response:* “The OEC agrees in part with this finding. Fiscal staff have been recalibrated to internal controls and also on how to properly procure services of temporary employees through DAS’ Master Service Agreements. Several of the temporary IT staff procured were initially procured under SDE’s authority and were transferred to the OEC at which time their service was extended in order to complete the development of the ECIS project. Over time, additional temporary workers were necessary to provide additional support for the same task.”

## **Recruitment Process**

*Criteria:* A memorandum of understanding between the State Department of Education and the Office of Early Childhood outlines the fiscal responsibilities of each agency.

Part 4, Section A of the MOU states that SDE shall be responsible for managing policies and procedures for recruitment, selection, processing human resources transactions, and maintaining employee records. Part 5, Section A of this MOU states that OEC shall be responsible for “participating in hiring/promotional interview panels except at SDE’s discretion.”

Commission on Human Rights and Opportunities (CHRO), Affirmative Action Plans by State Government Agencies Regulations section 46a-68-92, part C, states that, to ensure a fair and nondiscriminatory section process, agencies should interview as many applicants as possible to increase opportunity, keep written records of all applicants interviewed, and document the selection process fully.

SDE requires 2 of 3 applicant screeners to affirm a candidate is qualified for that individual to be granted an interview.

The SDE recruitment manual provides guidance for interviewing potential candidates. The manual requires the use of an “interview questions template” to document interview questions. Each interview panel member may document notes in space provided on the form.

Employment candidate representations regarding their work experience and professional credentials are a key factor in hiring decisions. Verification of these representations is a fundamental part of the hiring process.

*Condition:*

The Auditors of Public Accounts received a whistleblower complaint related to an Office of Early Childhood recruitment process. Our testing of this process revealed the following:

- The majority of applicant screeners (2 of 3) did not affirm the qualifications of certain individuals who were still granted an interview.
- SDE Human Resources provided us documentation indicating that OEC did not schedule interviews for 7 potentially qualified individuals. Correspondence indicated that the SDE Chief Financial Officer instructed the OEC Commissioner to interview the 7 candidates. We confirmed that OEC did not interview the candidates.
- Some candidate screeners did not document notes and comments resulting from interview questions. One screener did not include notes/comments related to interview questions. SDE informed us that there was no such requirement in the SDE recruitment manual.

Notes and comments can help verify how and why certain conclusions were reached. Candidate scoring sheets should include accurate and complete details.

- Individual justifications noted on panel member interview question templates did not appear to agree with the justifications noted on the flow chart summarizing information concerning each interview.
- SDE did not confirm the validity of candidate college degrees. As a result, SDE did not obtain adequate assurance regarding job candidates' truthfulness concerning their experience and professional credentials.

*Effect:*

The lack of certain standardized written procedures increases the potential for inconsistencies in the interview process, and does not clearly document the interview panel's conclusions and actions.

The lack of internal controls over the hiring process increases the potential that OEC may hire unsuitable candidates.

The lack of verification of a job candidate's work experience and professional credentials may result in OEC hiring unqualified candidates. It also may hinder the office's ability to detect job candidates' misrepresentations and misstatements.

*Cause:*

SDE does not have adequate written policies and procedures regarding the recruitment process, and does not formally document its 2 of 3 screeners rule.

The incomplete candidate screening and documentation appears to be the result of management oversight.

Management override of internal controls limited those interviewed and allowed other candidates a better chance to be selected.

*Recommendation:*

The Office of Early Childhood and the State Department of Education should strengthen internal controls to ensure accurate and complete documentation supporting the recruitment process, including the hiring manager's review.

The Office of Early Childhood should work with the State Department of Education to formalize written policies and procedures regarding the hiring process, and establish procedures to verify candidates' work experience and professional credentials. (See Recommendation 15.)

Agency Response: SDE Response: “We (SDE) agree in part. In this particular instance, the hiring manager did review the recruitment process. The hiring manager’s designee that oversaw the recruitment process did not follow the process as was directed to her by the HR Specialist. The HR Administrator recommended that the recruitment be scrapped and started over with closer SDE oversight due to significant areas of concern with the initial recruitment process due to OEC management’s unwillingness to follow SDE’s internal hiring processes. SDE is in the process of revising the Recruitment Manual to reflect the new process under DAS’s Job Aps recruitment platform, which will include any new internal controls that are deemed appropriate for the manual.”

OEC Response: “Under the new leadership, the recruitment process has improved substantially and closely mirror’s SDE’s processes and internal controls.”

### **United Way - Subcontracting**

*Criteria:* The Office of Early Childhood contracts with the United Way of Connecticut, Inc. to manage and administer child care programs on its behalf.

Part 3, section A.1 of the contract states that “None of the services to be provided by the Contractor shall be subcontracted, assigned, or delegated in whole or in part to any other organization, subdivision, association, individual, corporation, partnership or group of individuals or other such entity without the prior written consent of the Department.”

The state has established reasonable business practices over procurement, budgeting, and contracting through a variety of statutes, regulations, policies, and procedures.

Section 3-117 of the General Statutes addresses the payment of claims against the state, and requires that if payments are for services that have not yet been received or performed; they must be covered by properly drawn and executed contracts.

Section 4a-57 of the General Statutes indicates that whenever possible, purchases of, and contracts for, supplies, materials, equipment, and contractual services, shall be based on competitive bids or competitive negotiation.

Section 4-98 of the General Statutes provides that, except for emergencies, budgeted agencies should not incur obligations without a properly processed purchase order.

Sections 4-212 to 4-219 of the General Statutes establish guidelines for the selection and contracting for personal services. These standards require agencies to develop an outline of work that describes in detail what the agency wants the prospective contractor to do, provide, or accomplish. At a minimum, the outline of work must include information about the contract's purpose, scope, activities, deliverables, outcomes, and a timeline.

Section 4-213 of the General Statutes states that no state agency may hire a personal service contractor without executing a personal service agreement.

Section 4-214 of the General Statutes states that personal service agreements under \$20,000 shall be based, when possible, on competitive negotiation or quotations.

Section 4-215 of the General Statutes states that personal service agreements greater than \$20,000 are required to be competitively bid for the services unless the agency obtains a waiver from competitive bidding from the Office of Policy and Management.

Section 4-216 Personal service agreements greater than \$50,000 are subject to Office of Policy and Management (OPM) approval.

Department of Administrative Services (DAS) – General Letter 71 specifies that purchases between \$2,500 and \$50,000 must be based upon, whenever possible, at least three quotations or bids, from qualified and responsible sources of supply. Certain non-competitive purchases and emergency purchases are exempt from this provision.

*Condition:*

The Auditors of Public Accounts received a whistleblower complaint related to the hiring of subcontractors.

We obtained a listing of United Way subcontractors that included 70 vendors totaling \$5 million. We were unable to determine whether OEC provided prior written authorization to United Way to subcontract on OEC's behalf.

We were unable to determine whether United Way retained all subcontractors in accordance with state procedures. Documentation revealed that United Way did not retain all vendors through a competitive bidding process.



- United Way did not have a purchase order for 33 of 70 sub-contractors.
- United Way did not have a contract or agreement for 27 of 70 sub-contractors.

We reviewed 9 sub-contractors and found:

- United Way did not obtain quotes for 6 of 9.
- United Way signed 5 of 9 contracts rather than OEC.
- United Way did not sign 2 of 9 contracts.
- United Way could not locate 2 of 9 contracts.
- One of 9 contracts did not provide total costs for services, only indicating an hourly rate.
- One of 9 sub-contractors selected was not supported by a signed “procurement process template.”
- United Way selected 4 of 9 sub-contractors “due to immediate needs or experience.” We were unable to obtain additional detail or determine the reasons for immediate need.
- One web development sub-contractor did not have a current contract. The purchase occurred in May of 2018, but the contract provided to us ended in January of 2016.

Our review of contractor documentation for “digital consulting services” during fiscal year 2018 and 2019 revealed the following:

- United Way did not have an executed contract and approvals of cost proposals for review.
- Cost proposals did not include consultant labor costs by activity.
- United Way did not have a purchase order for fiscal year 2018 available for review.
- We were unable to identify invoice approvals, as signatures on certain invoices were illegible.
- We were unable to obtain supporting details for invoiced consultant labor or total costs of each activity. The contractor labeled approximately \$229,000 of \$327,000 in total costs during fiscal year 2018 and 2019 as “consultant labor” with no further detail provided.

- Not all travel expenses were supported by complete documentation. We noted a \$120.00 line item listed as “undocumented food.”

*Effect:*

There is less assurance that United Way retained subcontractor services in accordance with state procedures. The lack of internal controls over the competitive procurement process enhances the potential for fraud, increases the risk of circumventing state procedures, and may result in the department receiving unfavorable contract terms for services. There is a risk that OEC will contract for services that may already be available through a DAS contract at lower cost. OEC may overpay for services without adequate supporting detail in invoices.

*Cause:*

OEC does not have formal written policies and procedures regarding the hiring and monitoring of subcontractors. Management oversight and lack of an adequate review process contributed to this condition.

*Recommendation:*

The Office of Early Childhood should ensure proper oversight and accountability over all contracts and ensure compliance with state contracting rules. The Office of Early Childhood should provide and retain written authorization when a contractor is granted the authority to hire a subcontractor. All sub-contractors should be selected in accordance with state polices. (See Recommendation 16.)

*Agency Response:*

“The agency agrees in part with this finding. While the agency is unable to identify any verbal agreements or directives given to the contractor by the prior administration, it should be noted that the contractor has followed and continues to reference their adherence to OMB Guidance. Information provided to the auditors by the agency’s contractor indicated that it made “procurements” in line with the federal procurement standards of either bids, quotes, or sole sourcing qualifications. At the time of this inquiry, these standards were being further updated, but the contractor continued with its own internal threshold of \$3,000 as it gives the contractor better control. The contractor referenced standards as outlined in the OMB Uniform Guidance: <https://cfo.gov/wp-content/uploads/2017/08/July2017-UniformGuidanceFrequentlyAskedQuestions.pdf>

The contractor referenced Section 110-6 Effective Dates and Grace Period for Procurement, “Will the Federal government provide a grace period after the effective date for non-Federal entities to comply with the procurement standards in the Uniform Guidance?” The guidance reflects that yes, in accordance with the Federal Notice published May 17, 2017 (82 FR 22609), a grace period is allowed for three full fiscal years after the effective date of the Uniform Guidance. In general non-Federal entities must comply with the terms and conditions of their Federal award, which will specify whether the Uniform Guidance

applies. However, in light of the new procurement standards, for procurement policies and procedures, for the non-Federal entity's first full fiscal year that begins on or after December 26, 2014, the non-Federal entity must document whether it is in compliance with the old or new standard, and must meet the documented standard. For example, the third full fiscal year for a non-Federal entity with a June 30th year end would be the year ending June 30, 2018. The Single Audit Compliance Supplement will instruct auditors to review procurement policies and procedures based on the documented standard. For future fiscal years, all non-Federal entities will be required to comply fully with the uniform guidance.

The agency's contractor indicated that not all purchases require contracts, and can be done with specifications defined within a Purchase Order, especially if the purchase is for goods, for services predefined in a proposal, when we are repurchasing a service that has already been provided in previous fiscal years, or a purchase specifically directed by the agency.

Under the new administration, the agency and the contractor have engaged in a more active contract management process that ensures all requests made of the contractor are clearly identified and documented."

### **Consultant Hiring Support**

*Criteria:* According to the memorandum of understanding between the State Department of Education and the Office of Early Childhood, SDE will perform personnel functions for OEC, including developing, reviewing, and/or managing policies and procedures pertaining to recruitment and selection of employees.

Good business practices include requirements that reports of hours and personnel be documented on vendor invoices in sufficient detail to support the expenditure.

*Condition:* The Office of Early Childhood hired a consultant to provide hiring support for an information technology position within the agency. We were unable to determine the total costs of hiring support and associated travel expenses. This activity was included with other services listed on several invoices. Some invoices indicated "consultant labor" without detailing the specific activities performed.

*Effect:* OEC may have paid for services that it did not need.

*Cause:* OEC elected to utilize the services of a consultant rather than seeking assistance from other state agencies.

*Recommendation:* The Office of Early Childhood should ensure that all consultant invoices include detailed support for each activity and determine the most cost-effective resources available when recruiting for agency positions. (See Recommendation 17.)

*Agency Response:* “The agency agrees in part with this finding. The Office of Early Childhood procured the services of an information technology company to widely support the agency’s modernization of technological capacities and system improvements. This vendor provided content area expertise during the hiring process, as consultants do. The agency typically uses unpaid consultants from both inside and outside of the state government to support the agency’s hiring efforts when necessary. The agency understands the need for vendors to adequately reflect their work and that all invoices include detailed support for each activity.”

## RECOMMENDATIONS

### Status of Prior Audit Recommendations:

This is our first audit of the Office of Early Childhood under section 2-90 of the General Statutes. Therefore, there were no prior recommendations.

### Current Audit Recommendations:

- 1. The Office of Early Childhood should execute a memorandum of understanding with the State Department of Education defining the terms of SDE administrative support.**

Comment:

OEC and SDE have not executed a new memorandum of understanding. SDE continues to provide administrative support under the prior agreement.

- 2. The Office of Early Childhood should work with the State Department of Education to ensure that the department completes the annual OEC internal control questionnaire and maintains a copy on file. The Office of Early Childhood should document any identified deficiencies and corrective action taken to address those deficiencies.**

Comment:

The OEC internal control questionnaire was not available during the audited period. SDE informed us that it did not prepare the OEC questionnaire.

- 3. The Office of Early Childhood should enhance its control procedures to ensure compliance with agency compensatory and overtime policies, including advance approvals and maintenance of records. The office should ensure proper review of timesheets to prevent incorrect timecode usage.**

Comment:

OEC did not support instances of compensatory time and overtime with adequate supervisory preauthorization and approval documentation.

Employees incorrectly coded their timesheets with holiday time on non-designated holidays.

- 4. The Office of Early Childhood should enhance administrative controls to ensure the completion of annual performance evaluations.**

Comment:

OEC did not prepare performance evaluations for 10 of 13 managers in fiscal year 2017 and 11 of 12 managers in fiscal year 2018.

- 5. The Office of Early Childhood should ensure that it executes all contracts prior to the start of the contract term.**

Comment:

OEC executed eight of the 10 reviewed contracts after their start date.

- 6. The State Department of Education should maintain and report assets as prescribed by the State Property Control Manual.**

**The Office of Early Childhood should ensure the accurate reporting of all items on its CO-59 forms.**

Comment:

The equipment OEC reported in its CO-59 form for the fiscal years ended June 30, 2015, 2016, and 2017 did not agree with values in Core-CT. OEC did not properly tag 2 of 7 reviewed purchases and did not add all 7 to its inventory.

- 7. The Office of Early Childhood should create and maintain a software inventory to track and control its software media, licenses, or end user license agreements and certificates of authenticity.**

Comment:

OEC does not inventory its licensed software, and did not include capitalized software on its CO-59 form.

- 8. The State Department of Education should perform the Office of Early Childhood's annual physical inventory as required by the State Property Control Manual.**

Comment:

SDE did not conduct a physical inventory during the fiscal year ended June 30, 2017. The department conducted the last physical inventory during the fiscal year ended June 30, 2016.

- 9. The Office of Early Childhood should review its agency-developed software to determine which programs require disclosure on its CO-59 form.**

**The State Department of Education should adhere to the State Property Control Manual guidelines for capitalized property and include agency-developed software on the CO-59 form.**

Comment:

The Office of Early Childhood's CO-59 Asset Management/Inventory Report for the fiscal years ended June 30, 2015, 2016, and 2017 did not contain any software inventory costs. We learned that OEC has internally-developed software programs that it should include on the CO-59 form.

- 10. The Office of Early Childhood should obtain and review vendor price schedules to ensure that invoices contain accurate pricing and applicable discounts based on the manufacturer suggested retail price.**

Comment:

OEC did not compare the invoiced pricing to the contractor's price schedule.

- 11. The Office of Early Childhood should improve administrative control to ensure that it prepares and promptly submits all statutorily mandated reports to their required recipients.**

Comment:

We were unable to determine whether OEC submitted 2 statutorily-required reports. OEC submitted 2 reports late.

- 12. The Office of Early Childhood and the State Department of Education should ensure a thorough and timely investigation of all hostile work environment complaints.**

**The State Department of Education should formalize written policies and procedures regarding hostile work environment investigations. These policies should include disciplinary measures for policy violations and review procedures related to its complaint handling and monitoring of the investigation process.**

Comment:

OEC and SDE do not have formal written procedures to investigate hostile work environment complaints. SDE does not maintain a formal listing of investigated matters. We were unable to obtain supporting documentation, including final reports for certain SDE investigations. One investigation showed that OEC did not determine a final resolution.

- 13. The Office of Early Childhood should create formal written procedures for issuing quarterly payments to providers.**

**The Office of Early Childhood should develop a process to ensure that providers submit all required audit reports. The office should review those reports for significant recommendations and other matters.**

Comment:

OEC does not have formal written procedures to document the processing of quarterly payments to providers. OEC does not have a process for obtaining and reviewing private provider audit reports.

- 14. The Office of Early Childhood should comply with Section 4e-16 (b) of the General Statutes and perform a cost-benefit analysis before procuring services.**

**The Office of Early Childhood should adhere to state contract requirements by selecting the preferred vendor for temporary services. If it cannot select the preferred vendor, OEC should maintain documentation supporting why it made that decision.**

**The Office of Early Childhood should comply with Section 4-98 of the General Statutes and authorize purchase orders prior to the receipt of goods or services.**

Comment:

OEC did not perform a cost-benefit analysis before procuring services. OEC did not utilize services of the preferred vendor listed in the contract and approved 2 purchase orders after it received the services. This occurred in 10 instances.

- 15. The Office of Early Childhood and the State Department of Education should strengthen internal controls to ensure accurate and complete documentation supporting the recruitment process, including the hiring manager's review.**

**The Office of Early Childhood should work with the State Department of Education to formalize written policies and procedures regarding the hiring process and establish procedures to verify candidates' work experience and professional credentials.**

Comment:

The majority of applicant screeners (2 of 3) did not affirm the qualifications of individuals who were still granted an interview.

SDE Human Resources provided us documentation indicating that OEC did not schedule interviews for 7 potentially qualified individuals.



Some candidate screeners did not document notes and comments resulting from interview questions. One screener did not include notes/comments related to interview questions.

Individual justifications noted on panel member interview question templates did not appear to agree with the justifications noted on the flow chart summarizing information concerning each interview.

SDE did not confirm the validity of candidate college degrees. As a result, SDE did not obtain adequate assurance regarding job candidates' truthfulness concerning their experience and professional credentials.

**16. The Office of Early Childhood should ensure proper oversight and accountability over all contracts and ensure compliance with state contracting rules. The Office of Early Childhood should provide and retain written authorization when a contractor is granted the authority to hire a subcontractor. All sub-contractors should be selected in accordance with state polices.**

Comment:

We were unable to determine whether United Way retained all sub-contractors in accordance with state procedures. Documentation revealed that United Way did not retain all vendors through a competitive bidding process.

Certain sub-contractors were not supported by purchase orders, contracts or agreements. We were unable to identify invoice approvals and obtain supporting details for all invoiced items.

**17. The Office of Early Childhood should ensure that all consultant invoices include detailed support for each activity and determine the most cost-effective resources available when recruiting for agency positions.**

Comment:

The Office of Early Childhood hired a consultant to provide hiring support for an information technology position within the agency. We were unable to determine the total costs of hiring support and associated travel expenses. This activity was included with other services listed on several invoices. Some invoices indicated "consultant labor" without detailing the specific activities performed.

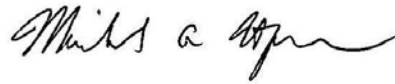
**ACKNOWLEDGMENTS**

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Jennifer Courbin  
Andrew Kane

**CONCLUSION**

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of Early Childhood during the course of our examination.



Michael A. Haynes  
Associate Auditor

Approved:



John C. Geragosian  
State Auditor



Robert J. Kane  
State Auditor