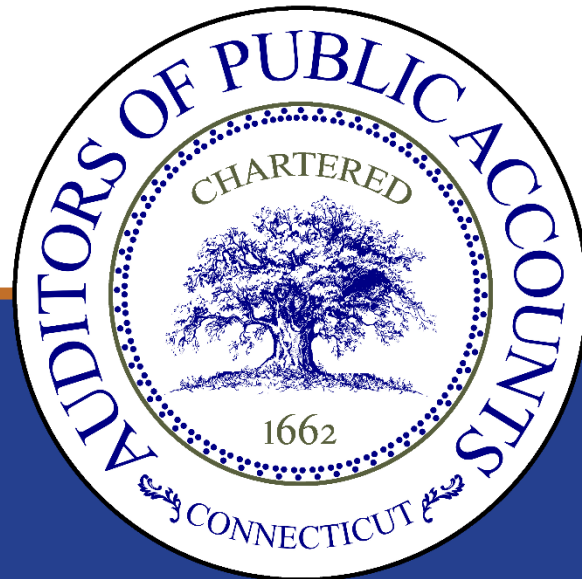


AUDITORS' REPORT

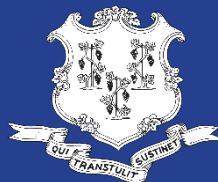
Office of Early Childhood

FISCAL YEARS ENDED JUNE 30, 2021, 2022, AND 2023



STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor



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CONTENTS

INTRODUCTION.....	3
STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....	4
Lack of Current Memorandum of Understanding with the State Department of Education	4
Failure to Perform Internal Control Self-Assessment	5
Payroll - Minimum Leave Increments.....	6
Payroll - Compensatory and Overtime Approval.....	7
Payroll - Medical Leave Improperly Documented.....	8
Statutory Reporting - Inadequate Controls	9
Property Control - Deficiency in Software Reporting.....	11
Property Control - Physical Inventory Controls	12
Expenditures - Privatization Contract Need	13
Expenditures - Travel Procedures Not Finalized	15
Expenditures -Timely Contract Execution.....	16
Subcontractor Monitoring	17
Lack of Adopted Regulations.....	18
Revenue - Lack of Receipts Journal	20
Lack of Service Organization Control Report.....	21
STATUS OF PRIOR AUDIT RECOMMENDATIONS	23
OBJECTIVES, SCOPE, AND METHODOLOGY.....	26
ABOUT THE AGENCY	28

STATE OF CONNECTICUT



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August 28, 2025

INTRODUCTION

We are pleased to submit this audit of the Office of Early Childhood for the fiscal years ended June 30, 2021, 2022, and 2023 in accordance with the provisions of Section 2-90 of the Connecticut General Statutes. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, or policies; and a need for improvement in practices and procedures that warrant management's attention.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of Early Childhood (OEC) during the course of our examination.

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

Dennis Collins
Michael Haynes
Shirley Huang

Edyta Lachut
Kevin Thompson

A handwritten signature in black ink, appearing to be "Dennis Collins".

Dennis Collins
Principal Auditor

Approved:

A handwritten signature in black ink, appearing to be "John C. Geragosian".

John C. Geragosian
State Auditor

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Craig A Miner
State Auditor

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of Early Childhood disclosed the following 15 recommendations, of which 12 have been repeated from the previous audit:

Finding 1

Lack of Current Memorandum of Understanding with the State Department of Education

Background

Section 10-500 of the General Statutes states, in part, that the Office of Early Childhood (OEC) shall be within the State Department of Education (SDE) for administrative purposes only. A memorandum of understanding (MOU) sets forth mutually accepted expectations related to administrative responsibilities.

Criteria

Sound business practices dictate that a current executed MOU should be on file to document the SDE administrative support provided to OEC.

Condition

OEC and SDE did not execute a new MOU. SDE continues to provide administrative support under an agreement that expired on June 30, 2015.

Context

The previous executed MOU outlined the agencies responsibilities related to payroll and personnel, affirmative action, business office, grants, property management, purchasing, accounts payable, accounts receivable, reporting and information technology functions.

Effect

Without an executed MOU, OEC and SDE may not understand and fulfill their expected terms and duties.

Cause

Management failed to extend the MOU or reach a new agreement.

Prior Audit Finding

This finding has been previously reported in the last two audit reports covering the fiscal years 2015 through 2020.

Recommendation	The Office of Early Childhood should execute an updated memorandum of understanding with the State Department of Education defining the terms of the department's administrative support.
Agency Response	"We agree with this finding. The OEC shared a draft of an updated MOU with the SDE legal staff on July 25, 2024; the OEC will endeavor to have it expeditiously executed. Although not fully executed, the OEC and SDE have been operating collaboratively under a previously revised MOU."
Auditors' Concluding Comments	Public Act 2025-168, section 311, effective July 1, 2025, amended Section 10-500 of the General Statutes by eliminating the provision that OEC be within the State Department of Education for administrative purposes only. However, OEC indicated that it plans to execute an interim transitional MOU with SDE.

Finding 2

Failure to Perform Internal Control Self-Assessment

Criteria	The Office of the State Comptroller requires all executive branch agencies to complete an annual internal control self-assessment by June 30 th and maintain it on file. The questionnaire helps managers evaluate their internal control system and identify potential deficiencies within their areas of responsibility.
Condition	OEC did not complete its annual internal control self-assessments for the fiscal years ended June 30, 2021, and 2022. OEC did not complete the questionnaire for fiscal year ended June 30, 2023, until March of 2024.
Context	The annual internal control questionnaire includes eight sections applicable to all agency programs, and five related to federal funds.
Effect	OEC has not properly evaluated its internal controls or identified possible deficiencies.
Cause	OEC did not complete its internal control self-assessments due to a lack of effective managerial oversight.
Prior Audit Finding	This finding has been previously reported in the last two audit reports covering the fiscal years 2015 through 2020.

Recommendation

The Office of Early Childhood should ensure it promptly completes its annual internal control questionnaire by each June 30th. The office should document any identified deficiencies and corrective action taken to address them.

Agency Response

"We agree with this finding. Even though the internal controls questionnaire was completed late this year by OEC, we believe our internal controls are adequate because our policies and procedures follow the State of Connecticut's statutes and regulations, along with the State Accounting Manual and all Office of the State Comptroller memos. Going forward, the OEC will ensure timely submission of the Internal Controls Questionnaire at the end of each Fiscal Year."

Finding 3**Payroll – Minimum Leave Increments****Criteria**

Internal controls require the review and approval of timesheets to ensure accuracy and compliance with bargaining unit contracts. The following contracts include the minimum leave time increment an employee may charge:

- The Administrative and Clerical (NP-3) contract allows vacation leave in one-hour increments. This changed to 15-minute increments after June 30, 2021.
- The Education Administrators (P-3A) contract allows sick leave in one-hour increments.

Condition

OEC had 44, 73, and 76 instances in which 34 employees charged leave time below the minimum increments set forth in their collective bargaining contracts during fiscal years 2021, 2022 and 2023, respectively.

Context

We queried Core-CT to identify and review all leave time below the minimum increments allowed in bargaining agreements during the audited period.

Effect

The use of leave time in increments under the mandated minimum may result in an undue administrative burden.

Cause

There appears to be a lack of oversight managing leave time.

Prior Audit Finding

This finding has been previously reported in the last audit report covering the fiscal years 2018 through 2020.

Recommendation

The Office of Early Childhood should improve internal control over the review and approval of timesheets to ensure compliance with minimum leave time increments in bargaining unit contracts.

Agency Response

"We agree with this finding. OEC acknowledges the need to improve its communication and oversight related to payroll; more specifically, minimum leave increments. The OEC Chief of Staff will utilize monthly leadership meetings and OEC all-staff meetings to review and reiterate with directors and all staff the appropriate minimum leave increment requirements in accordance with the various union contracts. OEC will ensure the various current union contracts are readily accessible to all staff on a Teams channel. When the updated MOU is executed, OEC intends to assume responsibility of OEC payroll in SFY2027; this will permit more direct oversight by OEC management."

Finding 4**Payroll - Compensatory and Overtime Approval****Criteria**

Collective bargaining agreements and agency policies permit employees to earn compensatory time or overtime with prior approval for time worked in excess of their normal schedule. Employees must submit a request documenting the dates, approximate hours, and reason for the request. Supervisors must authorize requests in advance and maintain them at the division level.

Condition

Our review of ten instances of earned compensatory time totaling 282.5 hours disclosed:

- Two instances totaling 13 hours were not supported by authorization forms.
- Seven of 10 authorization forms totaling 256 hours were signed after compensatory time was earned.
- One instance of compensatory time was recorded as 225 hours in Core-CT instead of the 2.25 hours on the supporting form.

Our review of 15 instances of earned overtime totaling 66.25 hours disclosed:

- Two were not supported by authorization forms for a total of 9.5 hours of overtime.

- One of these two employees was not eligible to earn overtime during part of the audited period based on their salary grade per their collective bargaining agreement. The employee improperly received \$990 in overtime payments during the audited period.
- Supervisors did not sign seven of 15 authorization forms in advance for 34 hours of overtime.

Context	Thirty-four OEC employees earned 3,418 hours of compensatory time and 57 earned 2,516 hours of overtime. We judgmentally selected ten compensatory time transactions totaling 283 hours and 15 overtime transactions totaling 66 hours.
Effect	One employee incorrectly received overtime payments rather than earning compensatory time based on their salary grade. There is an increased risk of unauthorized compensatory time or overtime.
Cause	OEC did not implement proper administrative oversight.
Prior Audit Finding	This finding has been previously reported in the last two audit reports covering the fiscal years 2015 through 2020.
Recommendation	The Office of Early Childhood should strengthen internal controls to ensure compliance with its compensatory and overtime policies. The office should recover any overpayments.
Agency Response	"We agree with this finding: OEC will reiterate this to all managers during the next leadership meeting in September and will ensure any compensatory or overtime time for union staff adhere to preauthorization protocols and supervisors maintain the signed authorization forms on file. For one of the two employees without a preauthorization, based upon the information that was available in CORE, the OEC believed the employee was eligible for overtime."

Finding 5

Payroll – Medical Leave Improperly Documented

Criteria	Section 5-247-11 of the Regulations of Connecticut State Agencies requires employees to substantiate a request for sick leave for five or more consecutive working days with an acceptable medical certificate, which must be on a form prescribed by the Commissioner of Administrative Services. Employees must submit a medical certificate to substantiate a period of sick leave of more than
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five consecutive working days. The medical certificate must be signed by a licensed physician or other practitioner whose method of healing is recognized by the state.

Condition

Two of nine instances of medical leave reviewed, totaling 21 days, were not supported by required medical certificates.

Context

During the audited period, 19 employees were on medical leave for more than five consecutive days totaling 261.25 days. We judgmentally selected five employees based on the highest number of sick days taken and tested all nine instances of those employees using five or more consecutive sick days totaling 142.75 days.

Effect

There is an increased risk that management could fail to detect abuse of sick leave.

Cause

The condition appears to be due to a lack of management oversight.

Prior Audit Finding

This finding has been previously reported in the last audit report covering the fiscal years 2018 through 2020.

Recommendation

The Office of Early Childhood should improve its monitoring of medical leave to ensure that employees provide medical certificates for absences of more than five consecutive working days.

Agency Response

"We agree with this finding. The Department of Labor recently conducted training for OEC managers to address, among other topics, the requirement to ensure medical certifications are completed when an employee has an absence of more than five consecutive working days. More detailed training will be sought from DAS HR before the end of this calendar year to reiterate this important requirement and to ensure OEC managers are fully aware of the fairly recent HR centralization of the medical certification process through the HR dedicated FMLA pod."

Finding 6

Statutory Reporting – Inadequate Controls

Criteria

The Office of Early Childhood is mandated to submit 38 statutorily required reports under various sections of the General Statutes and public acts. These reports are necessary to facilitate executive and legislative oversight of OEC programs.

Section 17b-749(k) of the General Statutes, requires the OEC to submit quarterly reports on Care 4 Kids state expenditures of state and federal funds and enrollment in the childcare subsidy program.

Public Act 19-61 section 1(d) requires the OEC to submit a report by January 1, 2021, on a compensation schedule for lead teachers employed by State-funded programs.

Section 10-16z(c) of the General Statutes requires that the Early Childhood Cabinet shall, within available resources, develop an annual plan of action that assigns the appropriate state agency to complete the tasks specified in the federal Head Start Act of 2007, P. L. 110-134, an annual state-wide strategic report to the General Assembly's Education and Human Services committees, pursuant to said federal Head Start Act.

Section 17a-22gg(h) of the General Statutes requires the Home Visitation Program Consortium, of which OEC serves as administrator, to annually report the progress about its work to the Children's Committee by September 15th.

Section 10-503(c) of the General Statutes requires OEC, in consultation with the Early Childhood Cabinet, to develop an annual early childhood accountability plan and report to the Education and Appropriations Committees by January 15th.

Section 17b-751b(d) of the General Statutes requires OEC to report on the establishment, implementation and progress of the Connecticut Home Visiting System and annually report to the General Assembly by July 1st.

Condition

Our review of OEC reporting requirements noted the following exceptions:

- OEC did not submit ten of 12 quarterly reports on the Care 4 Kids state and federal expenditures for the fiscal years 2021 through 2023. OEC submitted two quarterly reports one month late.
- OEC filed the report on the early childhood compensation schedule 720 days late.
- OEC did not prepare or submit the Early Childhood Cabinet annual statewide strategic report for fiscal years 2021 through 2023.
- OEC filed the report on the home visiting consortium 20 and 89 days late for fiscal years 2021 and 2022, respectively and did not submit a report for fiscal year 2023.
- OEC did not prepare or submit a report on the accountability plan for fiscal years 2021 through 2023.

- OEC filed the report on the home visiting system for fiscal years 2021 through 2023 between 76 and 270 days late.

Context	We judgmentally selected 10 of 38 required reports for review.
Effect	The absence of timely reporting may diminish executive and legislative oversight of OEC.
Cause	OEC management did not have effective internal controls to ensure compliance with statutory reporting requirements.
Prior Audit Finding	This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2015 through 2020.
Recommendation	The Office of Early Childhood should strengthen internal controls to ensure that it prepares and promptly submits all statutorily mandated reports to their required recipients.
Agency Response	“We agree with this finding. The OEC has recently enhanced its internal controls to ensure timely receipt and submission of legislatively mandated reports to the General Assembly. These enhanced protocols include revised and more detailed documentation of required reports and due dates for submission with clear designations of the OEC program staff responsible for the legislative report. Additionally, the OEC Communications and Legislative Program Manager will include as a standing agenda item regular progress reports during OEC Leadership Team meetings to ensure timely submission of reports.”

Finding 7

Property Control – Deficiency in Software Reporting

Criteria	Section 4-36 of the General Statutes requires a property inventory to be kept in the form prescribed by the State Comptroller. The State Property Control Manual requires agencies to annually report all capitalized software on the property control report (CO-59).
Condition	OEC made \$4,692,465 in errors for software on its inventory reports. <ul style="list-style-type: none"> • OEC did not include 21 software assets, totaling \$4,685,657, on its CO-59 for fiscal year 2023. OEC incorrectly categorized two of these assets totaling \$53,648 as received but not in service in Core-CT.

- OEC incorrectly capitalized four software licenses totaling \$6,808.

Context	OEC reported \$47,148, \$109,517, and \$109,517 on its CO-59 for the fiscal year ended June 30, 2021, 2022, and 2023, respectively.
Effect	Management’s failure to report accurate asset information prevents the Office of the State Comptroller from preparing an accurate Annual Comprehensive Financial Report. This could reduce the office’s ability to safeguard its software assets.
Cause	Management did not follow proper internal control procedures identified in the State Property Control Manual.
Prior Audit Finding	This finding has previously been reported in the last two audit reports covering the fiscal years 2015 through 2020.
Recommendation	The Office of Early Childhood should accurately maintain and report all assets on its CO-59 property control report in accordance with the State Property Control Manual.
Agency Response	“We agree with this finding. During the reporting period, additional duties and responsibilities have continued to be absorbed by OEC from SDE. As thresholds and categories of assets have changed over the years, we have been taking steps to acquire the staff training, knowledge, and permissions needed to process the CO-59 properly moving forward. The OEC IT and Fiscal Directors are collaborating to develop policies and procedures that will ensure accurate reporting on the CO-59; we expect to have these internal controls, consistent with the property control manual, and resulting policies and procedures, finalized by the end of the calendar year.”

Finding 8

Property Control – Physical Inventory Controls

Criteria	The State Property Control Manual requires that agencies perform a complete physical inventory of all property by the end of the fiscal year to ensure accurate property control records. The manual also requires the inclusion of certain cost and expenditure coding data as part of the inventory record and requires a listing of controllable property approved by the agency head or designee.
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Condition	Our review of OEC property control records found the office did not perform a complete physical inventory during the audited period and did not have an approved listing of controllable property.
Context	OEC reported \$47,148, \$109,517, and \$109,517 in ending balances on its CO-59 for the fiscal year ended June 30, 2021, 2022, and 2023, respectively.
Effect	Control deficiencies result in inaccurate and incomplete financial reporting and may decrease the office’s ability to safeguard its assets.
Cause	A lack of management oversight contributed to this condition.
Prior Audit Finding	This finding has previously been reported in the last two audit reports covering the fiscal years 2015 through 2020.
Recommendation	The Office of Early Childhood should perform a complete physical inventory and prepare a listing of controllable property to ensure compliance with the State Property Control Manual.
Agency Response	“We agree with this finding. During the reporting period, additional duties and responsibilities have continued to be absorbed by OEC from SDE. As thresholds and categories of assets have changed over the years, we have been taking steps to acquire the staff training needed to conduct a timely and complete physical inventory, as required. Once notified of the miscategorized assets, we have since correctly categorized the assets as in service. A dedicated resource has recently been identified and added by the commissioner’s office to assist in ensuring the annual physical inventory is accurately completed. We are also in the process of reviewing our Controllable Property Policy and Procedures and expect to have any enhancements implemented by the end of the calendar year.”

Finding 9

Expenditures – Privatization Contract Need

Criteria	Section 4e-16(b) of the General Statutes requires that prior to entering a privatization contract, a state contracting agency must conduct a cost-benefit analysis and document the resulting direct and indirect costs, cost savings, and qualitative and quantitative benefits.
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Condition	OEC did not perform a cost-benefit analysis before procuring contracted services.
Context	During the audited period, OEC spent \$890,758 on temporary services without the appropriate cost-benefit analysis to determine the potential cost savings and other statutory provisions.
Effect	OEC did not determine its projected costs or whether savings were achievable through privatization contracts.
Cause	A lack of administrative controls and management oversight contributed to this condition.
Prior Audit Finding	This finding has been previously reported in the last two audit reports covering the fiscal years 2015 through 2020.
Recommendation	The Office of Early Childhood should comply with Section 4e-16(b) of the General Statutes and perform a cost-benefit analysis before contracting for privatization services.
Agency Response	<p>"We agree with this finding. As an enhanced administrative control, the cost-benefit analysis (CBA) that has been successfully incorporated into OEC's pre-authorization process will be incorporated into the temporary workers procurement process. Hiring managers will be required to complete the CBA before the fiscal department will issue a purchase order. Management training will be provided. The OEC previously misinterpreted Section 4e-16(b) of the General Statutes to primarily apply to large scale privatization contracts and not temporary workers hired through a staffing agency via the Department of Administrative Services (DAS) master contract process. The OEC will incorporate the "Instructions for Using Contract," Temporary Employment Services and DAS General Letter 220 (issued on February 3, 2023) into the temporary service procurement process to ensure agency-wide knowledge of the requirements. As a practical matter, managers seeking to hire temporary staff via a temporary employment services contract currently do conduct a cost-benefit analysis (but admittedly not with the formality envisioned by the statute). Given the inordinate amount of time it often takes to hire staff, OEC is often left with no other viable option but to engage temporary workers."</p>

Finding 10

Expenditures – Travel Procedures Not Finalized

Criteria	Department of Administrative Services General Letter No. 212 states that all agencies must comply with the state travel regulations and establish written procedures for travel reimbursement decisions and approvals.
Condition	OEC has not formalized its travel processing procedures.
Context	We judgmentally selected 20 expenditures totaling \$3,278,942 for review and of this amount, we judgmentally selected two travel-related transactions. Total non-payroll expenditures for the audited period were \$856,836,961.
Effect	There is less assurance that travel reimbursements are proper.
Cause	A lack of management oversight contributed to this condition.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Office of Early Childhood should finalize its travel processing procedures to ensure compliance with Department of Administrative Services' General Letter No. 212.
Agency Response	"We agree with this finding. Prior to the pandemic, the OEC's travel requests were processed by SDE. After the pandemic, when travel was permitted again, SDE transitioned the responsibility of processing OEC's travel requests to OEC. While we have generally continued using SDE's travel procedures, there have been some changes that OEC has informally implemented; regrettably, without updating our official written procedure. We also knew that we were soon transitioning to an online system for travel requests; we deemed it inefficient to update procedures that would soon become obsolete. We have now fully transitioned to our online travel system, have hired dedicated staff responsible for processing requests, and have become proficient with processing our own travel requests. We anticipate finalizing our online Travel Procedures by the end of this calendar year."

Finding 11

Expenditures – Timely Contract Execution

Criteria	Sound business practice dictates that contracts should be fully executed before their start date. Signed formal written agreements establishing rights and responsibilities are a safeguard for all parties.
Condition	OEC signed 16 of 25 contracts between one and eight months after their effective date.
Context	We reviewed 25 contracts with \$11,588,656 in related expenditures for the audited period. We selected nine contracts from related expenditures totaling \$1,805,678 for fiscal years 2021, 2022, and 2023. We also reviewed 16 contracts with related expenditures totaling \$9,782,978 that were charged to the Childcare Development Fund that were judgmentally selected during our statewide single audit for fiscal year 2023. Total expenditures during fiscal years, 2021, 2022 and 2023 were \$856,836,961 and total Childcare Development Fund federal expenditures for fiscal year 2023 were \$33,036,579.
Effect	There is increased risk of noncompliance with contract requirements. Payments could be made prior to contract execution and performance.
Cause	A lack of management oversight contributed to this condition.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Office of Early Childhood should strengthen internal controls to ensure that contracts are executed prior to their effective date.
Agency Response	“We agree with this finding. During the reporting period, OEC acknowledges delays in contract execution but contributes some of the delays to the structure for OEC contracting, established in 2015, through MOU #15MHA4080 between OEC and the Central Contracting Unit (CCU) of the Department of Mental Health and Addiction Services (DMHAS). Section 15 identifies CCU as the party responsible for providing staff to perform the functions of OEC contracting from the preauthorization process, through contract drafting, the signature process, and the Office of Attorney General review and final execution process. As the number of OEC contracts increased over time, the staffing from CCU remained the same and challenges with timely execution surfaced. Additionally, the structure established through the MOU made it difficult to fully manage the execution of OEC contracts, as the staff responsible for

the contracting functions did not report to the OEC Grants and Contracts Unit Director. Due to staffing changes at DMHAS, since 7/1/2023, the OEC has increased Grants and Contract staffing and assumed all responsibility for the OEC contracting process. (OEC has commenced the process of terminating the MOU with DMHAS)."

Finding 12

Subcontractor Monitoring

Criteria

The Department of Administrative Services General Letter No. 71 (GL71) indicates that purchases over \$5,000 and up to \$50,000 must be based, when possible, on at least three written quotations or bids from responsible and qualified sources.

Certain contractual provisions for developmental screenings, technology integration, and marketing support requires contractors to enter proper contracts with subcontractors, obtain detailed expenditure reports, and report quarterly to OEC.

The Office of Early Childhood engaged with a contractor to manage and administer childcare programs on its behalf. The contract requires the contractor to request and obtain prior written approval from OEC before finalizing any subcontract.

Condition

OEC did not provide supporting documentation to demonstrate it monitored one childcare program administration contractor's subcontracting activities. The contract value was \$12,558,158. In addition, OEC did not sufficiently document its invoice review process.

For a different contractor, our review of subcontracting records disclosed:

- For one \$1,094,592 contract, the contractor selected three subcontractors without obtaining proper written quotes or competitive bids.
- Both the contractor and its subcontractor failed to sign one \$50,000 contract.
- OEC did not provide us with a subcontractor's \$10,000 contract.
- OEC did not ensure that the contractor and subcontractors

submitted all required financial reports for four contracts totaling \$1,242,292.

Context	As part of our federal statewide single audit for fiscal year 2023, we judgmentally selected 14 contracts with related expenditures totaling \$9,782,978 charged to the Childcare Development Fund for review. Total Childcare Development Fund federal expenditures for fiscal year 2023 were \$33,036,579.
Effect	There is an increased risk of fraud, waste, and abuse within the subcontracting process.
Cause	A lack of managerial oversight contributed to this condition.
Prior Audit Finding	This finding has been previously reported in the last two audit reports covering the fiscal years 2015 through 2020.
Recommendation	The Office of Early Childhood should implement controls to ensure that subcontracts are executed prior to the contract effective date and subcontractors are selected in accordance with the Department of Administrative Services General Letter No. 71. All subcontracts should be on file as required and be executed by both parties.
Agency Response	“We agree with this finding. Since the last audit finding, the OEC has created a Grants and Contracts Specialist position dedicated to the CCDF team and this Contracts Specialist oversees the United Way contract. In order to provide direct management oversight, this position reports directly to the CCDF Administrator. A dedicated position specific to this contract allows full implementation of the appropriate internal controls ensuring that all subcontractor guidelines and requirements are met, including full adherence to General Letter No. 71. This position has recently been filled and monitoring practices are currently being established. The OEC will have monitoring practices in place by October 1, 2024.”

Finding 13

Lack of Adopted Regulations

Criteria	Multiple sections of the General Statutes require the OEC Commissioner to adopt regulations, including: <ul style="list-style-type: none">• Section 17b-749(h) for establishing and operating a childcare subsidy program, including income, eligibility, and program standards.
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- Section 17b-749j for health and safety standards for the childcare subsidy program.
- Section 17a-248d(d) to carry out the provisions requiring the establishment of statewide Birth-to-Three councils and for multiple areas of administration of the Birth-to-Three program.

Condition

OEC did not adopt or update its regulations in accordance with the General Statutes. The regulations related to Section 17b-749(h) (childcare subsidy program) have not been updated since 2001. The regulations for 17a-248d(d) (statewide Birth to Three councils) have not been updated since 2014.

In addition, the regulations for these sections were included in the Secretary of the State’s eRegulation database under the Departments of Social Services and Developmental Services rather than OEC.

For Section 17b-749j (childcare subsidy program health and safety standards), there were no regulations during the audited period.

Context

State regulations provide essential guidance on how to implement and adhere to applicable statutes.

Effect

Without formal regulations, there could be inconsistencies in the implementation, quality, oversight, and effectiveness of early childhood programs.

Cause

OEC management did not prioritize updating its regulations.

Prior Audit Finding

This recommendation has not been previously reported.

Recommendation

The Office of Early Childhood should periodically review and update its regulations to reflect current statutory language and internal procedures.

Agency Response

“We agree with this finding. As noted, there were three state statutes that require regulation adoption that are outstanding. With respect to the obligation to promulgate updated regulations under Sections 17b-749 (h) and Section 17b-749j of the General Statutes, OEC has been operating the Care for Kids (C4K) child care subsidy program under the broad statutory authority found in Section 17b-749 et seq. of the General Statutes and (until July 1, 2024) under the outdated regulations. The C4K program is administered under federal law; accordingly, the OEC has a legal obligation to operate the C4K program consistent with federal law. Considering the need to administer the C4K program in accordance with federal law--

pursuant to Public Act 24-91, section 9, effective July 1, 2024--the OEC commissioner now has the authority to implement the provisions of federal regulations (i.e., 45 CFR 98) to administer the C4K program. More specifically, the new law authorizes the OEC commissioner to adopt policies and procedures to implement these federal provisions. In addition, Public Act, 24-91, section 12, also effective July 1, 2024, repealed the C4K regulations (sections 17b-749-01 to 17b-749-23 of the Regulations of Conn. State Agencies). With respect to the obligation under Public Act 23-10 to update regulations under Section 17a-248d(d) of the General Statutes, a newly hired attorney has been tasked with drafting these regulations without delay. OEC expects to post the public notice of these regulations in the eRegulation database during the first half of calendar year 2025. To ensure future compliance, the Communications and Legislative Program Manager has formalized a process to incorporate and institutionalize into the yearly legislative review (held among directors and program managers) the requirement to identify the appropriate timeline to adopt any new regulations."

Finding 14

Revenue – Lack of Receipts Journal

Criteria	The State Accounting Manual requires each agency to establish internal controls over receipts to minimize the risk of loss. All agencies receiving funds should maintain a receipts journal. Each entry should include the receipt date, payer, revenue classification, total receipts, deposited amount, deposit slip number, and deposit date.
Condition	OEC does not maintain a receipts journal for its licensing or civil penalties revenue.
Context	SDE processed \$533,002, \$559,461, and \$401,167 in receipts for license fees and penalties in fiscal years 2021, 2022 and 2023, respectively.
Effect	This condition increases the risk of loss.
Cause	There is a lack of management oversight over the administration of receipts.
Prior Audit Finding	This finding has not been previously reported.

Recommendation

The Office of Early Childhood should establish a receipts journal in accordance with the State Accounting Manual.

Agency Response

"We agree with this finding. For checks received by OEC in other departments, the fiscal department does maintain a check log. The OEC will incorporate the check log process, receipts journal, in accordance with the State Accounting Manual, for all agency departments."

Finding 15**Lack of Service Organization Control Report****Criteria**

When an organization outsources a business function, it should obtain assurance that the service organization is accurately and reliably processing data to properly carry out the outsourced business function. It should also gain assurance that the service organization's security environment is adequate to safeguard confidential information.

One method of gaining assurance is to obtain a Service Organization Control (SOC) Report that addresses the service organization's control environment. The report provides assurance regarding organizational controls relevant to security, availability, confidentiality, processing integrity, and privacy. If a SOC report is not available, the organization should take other measures to obtain the same assurance.

A service organization utilized by the Office of Early Childhood is responsible for designing, implementing, and maintaining a web-based billing and collection system (Early Intervention (EI) Billing System) hosted in the Amazon Web Services (AWS). The organization primarily processes claims and payments to Early Intervention Services (EIS) Programs on behalf of the state for authorized services provided to children enrolled in the Connecticut Birth to Three System; validates and makes necessary edits to claims data; submits claims to commercial insurers and Medicaid; and monitors provider specialty and licensure on file.

Condition

OEC did not obtain or evaluate a SOC report for a vendor with significant impact on agency operations.

Context

The contracted service organization collected over \$40 million from commercial insurers and Medicaid in fiscal year 2024.

Effect	The lack of adequate monitoring of service organizations increases the risk associated with outsourcing business functions. Outsourcing the responsibility to safeguard confidential information is of special concern due to the potential inappropriate disclosure.
Cause	OEC was not cognizant of the service organization definition and thus, unaware that it contracted with one.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Office of Early Childhood should obtain and evaluate a Service Organization Control Report from its vendor to ensure that it accurately and reliably processes data and implements proper safeguards to protect confidential information.
Agency Response	"We agree with this finding. OEC appreciates the time that the subject matter expert staff member from the Auditors of Public Accounts (and other staff) spent with OEC staff explaining the nuanced service organization definition. OEC believes the Public Consulting Group, LLC (PCG) contract contains the appropriate safeguards for, among other things, data protection. However, we will execute a Service Organization Control Report with PCG (and in the future with any other contracted vendor that meets the service organization definition)."

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our prior [audit report](#) on the Office of Early Childhood contained 18 recommendations. Six have been implemented or otherwise resolved and 12 have been repeated or restated with modifications during the current audit.

Prior Recommendation	Current Status
<p>The Office of Early Childhood should execute an updated memorandum of understanding with the State Department of Education defining the terms of the department’s administrative support.</p>	<p>REPEATED Recommendation 1</p>
<p>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.</p>	<p>REPEATED Modified Form Recommendation 2</p>
<p>The Office of Early Childhood should improve controls over the review and approval of timesheets to ensure compliance with minimum leave time increments in bargaining unit contracts. The State Department of Education should develop and distribute guidelines to OEC employees on the appropriate charging of leave time.</p>	<p>REPEATED Recommendation 3</p>
<p>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 form.</p>	<p>REPEATED Recommendation 7</p>
<p>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.</p>	<p>REPEATED Modified Form Recommendation 6</p>
<p>The Office of Early Childhood should consider enabling the ImpaCT system function that automatically deactivates inactive childcare providers after six months.</p>	<p>RESOLVED</p>

<p style="text-align: center;">Prior Recommendation</p>	<p style="text-align: center;">Current Status</p>
<p>The State Department of Education should perform the Office of Early Childhood’s annual physical inventory as required by the State Property Control Manual.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 8</p>
<p>The Office of Early Childhood should prepare its Schedule of Expenditures of Federal Awards in accordance with the Office of the State Comptroller's instructions.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Office of Early Childhood should improve controls over software inventories and correct its reporting of inventory in accordance with the State Property Control Manual.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 9</p>
<p>The Office of Early Childhood should improve the coding of expenditures to ensure that it records purchased assets in proper expenditure accounts and capitalizes them when appropriate.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Office of Early Childhood should strengthen internal controls over software media, licenses, and hardware inventory to ensure that listings are complete, accurate, and maintained in accordance with the State Property Control Manual.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 9</p>
<p>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.</p>	<p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 10</p>
<p>The Office of Early Childhood should strengthen internal controls over purchasing card transactions by ensuring compliance with established procedures in the Agency Purchasing Card Coordinator Manual.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Office of Early Childhood should enhance its control procedures to ensure compliance with agency compensatory, overtime and holiday policies, including advance approvals and maintenance of records. The office should ensure proper review of timesheets to prevent incorrect timecode usage.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 4</p>
<p>The Office of Early Childhood should improve its monitoring of employee medical leave to ensure that employees submit complete medical certificates when required for absences of more than five consecutive working days.</p>	<p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 5</p>

<p style="text-align: center;">Prior Recommendation</p>	<p style="text-align: center;">Current Status</p>
<p>The Office of Early Childhood should ensure that the Leave in Lieu of Accrual time reporting code is properly used, reported, and adjusted in accordance with established criteria.</p>	<p style="text-align: center;">RESOLVED</p>
<p>The Office of Early Childhood should develop internal controls to monitor the United Way’s subcontracting activities to ensure compliance with state policies. The office should provide and retain written authorization granting the authority to hire a subcontractor and should document its procedures concerning its review of subcontractor invoices to ensure completeness and accuracy.</p>	<p style="text-align: center;">REPEATED Modified Form</p> <p style="text-align: center;">Recommendation 12</p>
<p>The Office of Early Childhood and the State Department of Education should strengthen internal controls to ensure the hiring and promotional process is adequately supported by complete documentation.</p>	<p style="text-align: center;">RESOLVED</p>

OBJECTIVES, SCOPE, AND METHODOLOGY

We have audited certain operations of the Office of Early Childhood 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 fiscal years ended June 30, 2021, 2022, and 2023. The objectives of our audit were to evaluate the:

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

In planning and conducting our audit, we focused on areas of operations based on assessments of risk and significance. We considered the significant internal controls, compliance requirements, or management practices that in our professional judgment would be important to report users. The areas addressed by the audit included payroll and personnel, revenue and cash receipts, purchasing and expenditures, asset management, reporting systems, information technology, complaint review process and office regulations. We also determined the status of the findings and recommendations in our prior audit report.

Our methodology included reviewing written policies and procedures, financial records, meeting minutes, and other pertinent documents. We interviewed various personnel of the office. We also tested selected transactions. This testing was not designed to project to a population unless specifically stated. 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying financial information is presented for informational purposes. We obtained this information from various available sources including the office's management and state information systems. It was not subject to our audit procedures. For the areas audited, we identified

1. Deficiencies in internal controls;
2. Apparent noncompliance with laws, regulations, contracts and grant agreements, policies, or procedures; and

3. A need for improvement in management practices and procedures that we deemed to be reportable.

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

ABOUT THE AGENCY

Overview

The [Office of Early Childhood \(OEC\)](#) 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, childcare licensing, and family support.

Organizational Structure

OEC is administered by a commissioner appointed by the Governor under section 10-500 of the General Statutes. Beth Bye was appointed commissioner on January 22, 2019, and continues to serve in that capacity.

OEC is within the State Department of Education (SDE) for administrative purposes only. In accordance with a memorandum of understanding between the agencies, SDE provides OEC with payroll, human resources, business office, and fiscal functions.

Significant Legislative Changes

Notable legislative changes that took effect during the audited period are presented below:

- [Public Act 20-01 \(Section 62\)](#), effective March 12, 2020, required proceeds from the sale of bonds to be used for early care and education facility improvements in the Smart Start competitive grant program; the school readiness program; Even Start program; state-funded day care centers; programs administered by local and regional boards of education; and to expand the delivery of childcare services to infants and toddlers. Eligible applicants may receive a grant for capital expenses of up to \$75,000 per classroom for facility renovation costs.
- [Public Act 21-82 \(Section 1\)](#), effective October 1, 2021, required comprehensive background checks for certain employees of youth camps and youth sports coaches, trainers, and instructors.
- [Public Act 22-80 \(Section 1\)](#), effective July 1, 2022, required the establishment of a wage supplement and childcare program enhancement grant program for early childhood education program operators and childcare service providers. Grants were to begin on or after August 1, 2022.

Financial Information

General Fund Receipts

A summary of General Fund receipts during the audited period follows:

	Fiscal Year Ended June 30,		
	2021	2022	2023
Child Day Care Center Licenses	\$ 343,192	\$ 319,571	\$ 154,472
Youth Camp Licenses	184,095	213,025	220,330
Civil Penalty-Imposed-Agency	5,715	26,865	26,365
Refunds of Expend-Prior Years	895,629	1,581,046	4,599,822
Refunds and other Receipts	1,822	180	646
Total	\$ 1,430,453	\$ 2,140,687	\$ 5,001,635

The increase in General Fund receipts during the audited period was primarily attributed to refunds of prior year expenditures for various programs including a partnership with the Connecticut School of Social Work (UConn) for various procurement and analytical functions in addition to refunds for unused school readiness grant funds and home visiting programs. The decrease in child daycare license receipts is primarily attributable to a reduction in license applications during the fiscal year 2020. There were several childcare center closures due to financial struggles resulting from COVID-19. License renewals occur every four years resulting in decreased revenue for the fiscal year 2023. OEC awarded grants and incentives to providers to build capacity and support new childcare businesses during fiscal years 2021 and 2023.

A summary of Federal and other Restricted Accounts Fund receipts during the audited period follows:

	Fiscal Year Ended June 30,		
	2021	2022	2023
Federal Grants	\$ 177,439,149	\$ 199,033,698	\$ 221,265,132
Non-Federal Grants	(5,792)	550,000	0
Grant Transfers	6,298,180	1,000,000	1,632,000
Restricted Aid	88,000	88,000	88,000
Other Receipts	15	44	358
Total	\$ 183,819,552	\$ 200,671,742	\$ 222,985,490

The growth in Federal and Other Restricted Accounts Fund receipts was primarily attributed to increases in federal grants due to increases in Child Care Development Fund (CCDF) and American Rescue Plan Act (ARPA) funding used primarily in fiscal years 2022 and 2023.

The reduction in grant transfers between fiscal years 2021 and 2022 is due to a decrease in the Coronavirus Relief Cares Act funds. The increase in grant transfers between 2022 and 2023 is due to an growth in Community Health Worker Program grants which includes a pilot program to hire and train staff in major cities.

General Fund Expenditures

A summary of General Fund expenditures by account during the audited period follows:

	Fiscal Year Ended June 30,		
	2021	2022	2023
Early Care and Education	\$ 122,026,863	\$ 127,919,049	\$ 139,466,790
Early Child Care Provider Stability Payment	0	0	69,908,522
Care4Kids - Temporary Assistance for Needy Families/Childcare Development Fund	55,045,133	58,088,967	57,809,329
Birth to Three	23,452,406	25,050,126	31,892,788
Nurturing Families Network	10,201,731	10,080,931	14,089,169
Personal Services	8,607,678	8,509,676	8,410,624
Head Start Services	4,719,623	5,038,338	4,867,305
Child Care Quality Enhancement	4,423,221	6,168,525	4,189,292
Smart Start	3,250,000	3,250,000	3,249,999
Early Head Start-Child Care Partnership	1,144,209	1,095,243	1,109,419
Other Expenses	438,353	331,743	316,878
2Gen - Temporary Assistance for Needy Families	312,500	249,880	324,225
Evenstart	295,455	295,455	295,455
Total	\$ 233,917,172	\$ 246,077,933	\$ 335,929,795

The increase in General Fund expenditures during the audited period was primarily attributed to COVID-19-related Early Childcare Provider Stability Payments, Birth to Three program, and payments for educational services and state aid grants.

Growth in the Early Care and Education account were due to minimum wage increases for childcare providers and private provider payments.

A summary of Federal and Other Restricted Accounts Fund expenditures during the audited period follows:

	Fiscal Year Ended June 30,		
	2021	2022	2023
American Rescue Plan Act	42,570,590	120,032,126	87,913,337
Childcare Development Fund (CCDF)	94,962,123	109,016,192	130,233,315
Maternal Infant & Early Childhood Home Visiting Grant	8,390,805	6,045,604	8,717,844
Preschool Development Grant B-5 Renewal	3,996,084	10,015,264	7,078,256
Temporary Assistance for Needy Families- CCDF DISCRETIONARY	20,009,108	26,678,810	31,406,461
Other	14,919,886	6,536,012	6,082,347
Total	\$ 184,848,596	\$ 278,324,008	\$ 271,431,560

The overall increase in Federal and Other Restricted Account Fund expenditures between fiscal years 2021 and 2022 was primarily attributable to growth in the Child Care Development Fund and the American Rescue Plan Act grants.