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TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)

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**State Project/Program: NC PRE-KINDERGARTEN PROGRAM**

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**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**Federal Authorization:** Title IV-A of the Social Security Act, as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (PL 104-193), Balanced Budget Act of 1997, Public Law 105-33

**State Authorization:** Session Law 2017-57 Section 11 B.1.(a)  
Session Law 2017-57 Section 11 B.1.(f)

**N. C. Department of Health and Human Services  
Division of Child Development and Early Education**

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**Address Confirmation Letters To:**

SFY 2020 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCOs), Boards of Education, Councils of Government, District Health Departments and DHSR Grant Subrecipients will be available by mid-October at the following web address:  
<https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports> At this site, click on the link entitled “Audit Confirmation Reports (State Fiscal Year 2019-2020). Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from DHHS are found at the same website except select “Non-Governmental Audit Confirmation Reports (State Fiscal Years 2018-2020).”

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The Auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the Auditor should be prepared to justify departures from the suggested procedures. The Auditor can consider the Supplement a “safe harbor” for identification of compliance requirements to be tested if the Auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

This compliance supplement should be used in conjunction with the OMB 2020 Compliance Supplement which will be issued in the summer. This includes “Part 3 - Compliance Requirements,” for the types that apply, “Part 6 - Internal Control,” and “Part 4 - Agency Program” requirements if the Agency issued guidance for a specific program. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

### I. PROGRAM OBJECTIVES

**SFY 2020 Compliance Supplement for TANF funding infused to supplement the existing State Appropriations and NC Pre-K contractor funding may include TANF for expansion.**

The objective of the North Carolina Pre-Kindergarten Program is to develop and implement a voluntary pre-kindergarten program that provides high quality pre-kindergarten services to enhance kindergarten readiness for the at-risk four-year-old. State legislation (Session Law 2013-360 Section 12. B.1.(a) ) and (Session Law 2015-214 Section 12.B.6) authorizes the Department of Health and Human Services (DHHS) to continue the NC Pre-K Program for four-year-old children in North Carolina to ensure that eligible children have the opportunity to succeed in kindergarten and throughout school.

### II. PROGRAM PROCEDURES

Legislation appropriates funding for the program from the Education Lottery Fund and General Fund. At the State level, the NC Pre-K Program is housed in the Division of Child Development and Early Education, Department of Health and Human Services with primary oversight provided by the Director.

DCDEE NC Pre-K contracts are designated as Financial Assistance contracts. Annual allocations are made for each county. The County/Region NC Pre-K Committee selects a contractor to operate the NC Pre-K Program in each county. This contractor must submit a plan via the NC Pre-K on-line system for approval before a contract is approved and executed. This plan follows all the criteria of the NC Pre-K Program Requirements and Guidance Manual and can be found on the DCDEE web page: <https://ncchildcare.ncdhhs.gov/> under Services tab/NC Pre-K. The program contractor must follow all the requirements in the *NC Pre-K Program Fiscal and Contract Manual* also found on the above website.

Contracts for approximately 29,301 children to be served statewide were executed in SFY 19-20.

NC Pre-K funds also may be subcontracted by the contractor to other public and private agencies to purchase services as outlined in the approved plan. Activities to be performed by the sub-contractor are outlined in contract with the NC Pre-K Program. The contractor will also have a separate contract with each sub-contractor as applicable. These subcontracts are purchase of service, rather than financial assistance contracts.

The Program Requirements and Guidance Manual for the NC Pre-K Program defines the program and policy requirements for subcontractors and providers. The Program Requirements and Guidance Manual for 2019-2020 address: (i) the purpose, composition, and authority of County/Region NC Pre-K Committees, (ii) eligibility of at-risk children for the program, (iii) general program operation, including a variety of program requirements and (iv) program standards and curriculum requirements, including monitoring requirements. Additionally, local funded sub-recipients must meet specific child care rules as defined in 10 A NCAC 09.3000.

#### **NC Pre-K: A Comprehensive Approach**

## NC PRE-KINDERGARTEN PROGRAM

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NC Pre-K Program participation is voluntary for eligible four-year-olds who are at-risk for school failure. Legislation specifies that the program establish eligibility criteria, prioritize services to children who are at risk, build on the existing service delivery system, and set program standards. NC Pre-K funds services for eligible children in counties based on need and capacity to serve the eligible client group.

The NC Pre-K Program requires that each county/region maintain a local Committee that oversees the local program (both programmatic and fiscal). This Committee is to be chaired by the Superintendent of schools or designee and the chair of the local Partnership for Children (Smart Start) or designee. The local Committee designates a local Contracting Agency that is constituted to receive funding allocations to serve children in local classrooms through subcontracts, if applicable.

Eligibility for the program is based on age (age 4 by August 31 of the service year), income level, and other specified risk factors as defined in the Program Requirements.

Priority of service is described under Section 3. **Child Eligibility** (page 3-1) of the 2018-2019 NC Pre-K Program Requirements and Guidance Manual.

The initiative is designed to take advantage of and build on the diversity of service providers currently serving families with young children in North Carolina. NC Pre-K classrooms may be provided in public schools, Head Start programs, and community-based child care centers (both for profit and not-for-profit) that meet program requirements.

The NC Pre-K Program is designed to provide high-quality educational experiences to enhance school readiness for eligible four-year-old children. The program requirements are built on the premise that to be successful academically in school, children need to be prepared in all five of the developmental domains outlined by the National Education Goals Panel and the *North Carolina Foundations for Early Learning and Development*. Each of these domains is critical to children's well-being and for their success in reading and math as they begin school. The five domains, as reflected in the *NC Foundations for Early Learning and Development* standards are:

- (i) Approaches to play and learning; (ii) Emotional and social development; (iii) Health and physical development; (iv) Language development and communication; and (v) Cognitive development.

Program standards include: (i) maximum class size of 18, with a qualified teacher and a teacher assistant, (ii) teachers with NC Birth-through-Kindergarten (BK) or Preschool Add-On or Lateral Entry BK licensure, (iii) use of recommended research-based pre-k curricula, (iv) formative assessments, (v) early learning standards, developmental screening, and (v) a minimum of 6.5 hours per day for 10 months (36 weeks) of instructional days per school calendar year.

### Monitoring

Each NC Pre-K contractor will be expected to comply with any reporting requirements by DCDEE. Ongoing support and monitoring for consistency with program guidelines will be provided by DCDEE.

**III. COMPLIANCE REQUIREMENTS**

The Type of Compliance Requirements can be found in Section B in the link: [2020 Agency Matrix for Federal Programs](#). This matrix incorporates the OMB Compliance Supplement “Part 2 - Matrix of Compliance Requirement.” A State Agency may have added a compliance requirement that the OMB matrix in Part 2 has a “N” (Not Applicable).

**A. ACTIVITIES ALLOWED OR UNALLOWED**

Services provided under the NC Pre-K contracts should be consistent with those defined in the approved county/region plan and should meet specific requirements outlined in the *Program Requirements* and Guidance Manual which include:

**1. Staff to child ratio and class size**

- A NC Pre-K Classroom will not exceed a maximum staff to child ratio of 1 to 9 with a maximum class size of 18 children.

**2. Facility requirements**

- All Public and specified non-public school programs qualify to receive NC Pre-K funds to provide high-quality pre-kindergarten classrooms.

Programs serving NC Pre-K children shall maintain a four or five-star rated license per NC Child Care Rule **10A NCAC 09 .3002 FACILITY REQUIREMENTS.**

- For new centers, a temporary license will be issued for six months with the expectation of the program achieving a four or five-star license at the end of the temporary time period.
- Head Start programs operated by non-profit organizations and all private non-profit and for-profit centers must meet NC DCDEE regulatory standards and maintain a 4 or 5-star license.

**Initial screening and assessment of enrolled children**

- **Health Assessments** are required of children entering the NC Pre-K Program in accordance with the following provisions:
  - The health assessment must be in place on the first day of attendance. If it is not in place, the family/parent is given written notice to:
    - Have the assessment completed within 30 calendar days of the notice date, or
    - Request parent/family to provide written evidence within 30 days of a date that the child has been scheduled for the health assessment.

- If the assessment is not completed within 30 calendar days, or an appointment has not been made or has not been kept for the child's health assessment, the parent/family should be notified by the contract administrator that the child will lose their NC Pre-K placement, and the slot will be filled by another eligible child with the appropriate health assessment, unless there are extenuating circumstances.
- **Developmental Screening** – All children enrolled in NC Pre-K Program must receive a developmental screening using an approved screening instrument, unless the child has an existing Individualized Education Program (IEP). Children must be screened within 90 days after the first day of attendance in the program or within 6 months prior to the first day of attendance.

### 3. Instructional Component

- Use approved curriculum specified in the county/region plan for student instruction.
- Determine that lead classroom teacher has been approved by the NC DCDEE to act in that capacity.

### Suggested Audit Procedures

1. Review the NC Pre-K Program Requirements and Guidance Manual to determine specific program requirements.
2. Determine that specific program standards were met in locally approved programs. Acceptable documentation/verifications for specified program standards are as follows:
  - a. **Staff to child ratio and class size** (enrollment, classroom attendance records)
  - b. **Facility requirements**
    1. NC Division of Child Development and Early Education facility requirements for a 4- or 5- star-rated license (copy of current facility license).
    2. **Initial screening and assessment** for enrolled children:
      - a. Health Assessments (log of assessment dates or written documentation of appointment and a copy of each child's assessment)
      - b. Developmental Screen (log of assessment dates and copy of cover sheet of each child's assessment)

**B. ALLOWABLE COSTS/COST PRINCIPLES**

**Compliance Requirements**

In the NC Pre-K Program there are three types of funds: Administrative, Direct Services and Quality funds. Under a Financial Assistance contract, all Pre-K funds will be budgeted by expenditure category. Direct services funds are NC Pre-K funds paid to the Contractor for serving children in NC Pre-K classrooms. Direct services funds that a Contractor receives must be passed to NC Pre-K providers for payment of direct services to children. Administrative funds are approximately 4% or a minimum of \$20,000 of the Contractor's initial total allocation. Administrative funds are used to support costs at the Contractor level, such as staff salaries, benefits, staff travel, training, equipment, and/or other administrative costs related to administering the NC Pre-K program. Quality funds may be issued to contracting agencies in form of an additional 2% of Child Care Development Fund (CCDF) funds in the NC Pre-K administrative budget for defined quality activities and services. See the Fiscal and Contract Manual for the NC Pre-K Program, Section III. Pre-K Allocations, Allowable Uses of Pre-K Funds, and Children Served, B. Types of Pre-K Funds Allocated and Allowable Uses.

All non-consumable items purchased with NC Pre-K funds must remain with the NC Pre-K Program. Non-consumable items are defined as tangible products that can be stored or inventoried and have an average life expectancy of at least two years. Non-consumables must be accounted for and movable from the time a site/classroom joins the NC Pre-K Program. When a classroom terminates, all non-consumable items must be redistributed to other NC Pre-K classrooms.

In addition to the above types of funds, NC Pre-K programs are required to certify that they have accessed other resources to support the NC Pre-K Program. The certified other resources are reported to DCDEE annually and should represent up to 5 months of actual expenditures. These expenditures, listed by funding source, represent the amount of cash (not in-kind) that has been spent July 1 through November 30 from other sources to support the NC Pre-K Program. The Contractor must submit an **Other Resources Certification Statement** to DCDEE no later than January 15 and is required to have full documentation of the resources.

Indirect cost charges are not allowed. However, allocation of direct costs may be allowed if there is a cost allocation plan in place.

**Audit Objectives** – Determine whether:

- **Pre-K funds agree with the amount recorded at DHHS and are expended as allowed.**

Expenditures for allocated NC Pre-K Direct Services funds were passed to Pre-K providers for serving eligible children.

Approved expenditure of unspent direct service funds used to build and/or sustain capacity in preparation for maintaining current services and/or to increase service capacity to serve more eligible children.

Expenditures for allocated NC Pre-K Administrative funds were for costs related to the NC Pre-K program.

### **Suggested Audit Procedures**

Test a sample of transactions for compliance with the following criteria:

1. Allowable cost provisions of or limitations in the program contract, program regulations, or fiscal manual.
2. Charges for actual costs, not budgeted or projected amounts.
3. Calculated in conformity with generally accepted accounting principles or another comprehensive basis of accounting when required.
4. Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, inventory, time and attendance records, and correctly charged as to account, amount, and period. Documentation may be in an electronic form.

### **E. ELIGIBILITY**

**Compliance Requirements** – The specific requirements for eligibility are found in legislation and the Program Requirements and Guidance Manual. This requirement specifies the criteria for determining the individuals that can participate in the program and include:

#### Age Requirements

1. Children to be enrolled must be four years of age on or before **August 31st** in the year served.
2. Children age-eligible for kindergarten cannot be served with NC Pre-K funds.

#### Priority Requirements

1. Children in families with annual incomes at or below 75% of the State Median Income (SMI) level are eligible for *NC Pre-K* services.
2. Any age-eligible child who is a child of either of the following shall be eligible for the program, without regard to income: 1) an active duty member of the Armed Forces of the United States, including the North Carolina National Guard, State military forces or a reserve component of the Armed Forces, who was ordered to active duty by the proper authority within the last 18 months or is expected to be ordered within the next 18 months or 2) a member of the Armed Forces of the United States, including the North Carolina National Guard, State military forces or a reserve component of the Armed Forces, who was injured and/or is receiving military disability retirement or was killed while serving on active duty.
3. NC Pre-K Programs are strongly encouraged to serve any age eligible child whose family is experiencing homelessness.

Other Eligibility Requirements:

In addition, up to 20% of age eligible children enrolled may have family incomes more than seventy-five percent (75%) of state medium income if the child has one of the risk factors identified below:

1. Identified developmental disability, as indicated by the child's Individual Education Program;
2. Limited English Proficiency (LEP) as indicated by the family and/or child speaking limited or no English in the home;
3. Developmental/Educational Need as indicated by the child's performance results on a developmental screening or child's Individualized Education Program;
4. Chronic Health Condition as indicated by a health care provider diagnosis, e.g., asthma, sickle cell anemia, cancer, HIV.
5. Homelessness

**Audit Objectives** – Determine whether:

1. Required eligibility determinations were made, (including obtaining any required documentation/verifications) and that individual program participants were determined to be eligible. Acceptable documentation/verifications are as follows:
  - Date of Birth (birth certificate, medical records, or date recorded in family bible)
  - Proof of Income (pay stubs, tax records, signature, award letters from Social Security Administration, Employment Security Commission, employer statements, business records for self-employment)
2. Payments were made for services provided to eligible participants only.
3. Payments were made in accordance with the program's fiscal requirements.

**Suggested Audit Procedures**

1. Review to determine if an eligibility determination system is in place.
2. Using a random sample, perform test to determine if eligibility criteria are being followed.
  - a. Specific individuals were eligible in accordance with the requirements of the program.
  - b. Payments made were in compliance with the requirements of the program.
  - c. Payments were discontinued when the period of eligibility expired.



**G. MATCHING, LEVEL OF EFFORT, EARMARKING**

Not applicable at local level

**L. REPORTING**

**Compliance Requirements**

*Financial and Program Reporting*

The specific requirements for contractor reporting are found in the provisions of the NC Pre-K contract; Program Requirements and Guidance Manual; and the Program Fiscal and Contract Manual. There are four reports that must be completed: The monitoring tool; the monthly Financial Status Report (including supporting attendance documentation); the Other Resources Certification Statement; and the Quarterly Start-up Report (if start-up funds are in the contract).

**Audit Objective** – Determine whether required reports for NC Pre-K contracts include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program and fiscal requirements.

**Suggested Audit Procedures**

1. Review applicable provisions of contracts for reporting requirements. Obtain and review instructions for completing the reports.
  - a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual). The NC Pre-K Program requires the cash basis.
  - b. For program reports, determine the criteria and methodology used in compiling and reporting the data is consistent with program requirements and accepted documentation.
2. Select a sample of report types.
  - a. Ascertain if the financial reports were prepared in accordance with the required accounting basis.
  - b. Determine if the financial reports were calculated properly and are documented appropriately. For the monthly Financial Status Report, documentation of direct services expenditures is the classroom attendance report. Ascertain that the reports were submitted when due.
  - c. Ascertain if the monitoring tool was completed and available for state office review.

**M. SUBRECIPIENT MONITORING**

**Compliance Requirements**

A contractor is responsible for:

1. Identifying to the sub-contractor the monitoring requirements specified in the Program Requirements and Guidance Manual and the Program Fiscal and Contract Manual. These subcontracts are purchase of service which are not required to have line item budgets. The DCDEE contractor is responsible for monitoring the subcontractor for compliance with attendance, payment rate, and program requirements.
2. Monitoring the sub-contractor activities to provide reasonable assurance that program requirements are met.
3. Requiring the sub-contractor to take prompt corrective action on any findings discovered during the monitoring process.

**Audit Objectives** – Determine whether the contractor:

1. Identified monitoring requirements to the sub-contractor.
2. Monitored sub-contractor activities to provide reasonable assurance that the sub-contractor administers contract in compliance with the Program Requirements and Guidance Manual and ensured that appropriate corrective action was taken on monitoring findings.

Specific program monitoring tools developed by the DCDEE or other similar locally developed tools should be used at the local level for self-review and verification of compliance with the operating regulations and standards.

### **Suggested Audit Procedures**

1. Test contract to ascertain if the contractor made subcontractor aware of monitoring requirements specified in the Program Requirements and Guidance Manual.
2. Review the contractor's documentation of subcontractor monitoring to ascertain if that subcontractor provided services in compliance with NC Pre-K program guidelines and that appropriate corrective action was taken on any monitoring finding.

The contractor's process for monitoring is as follows:

- The local NC Pre-K Contract Administrator has on file an original copy of the completed site/classroom monitoring tool selected for use by each NC Pre-K site.
- Results from the tool utilized for sites and classrooms were used to complete the Contractor/Program tool selected for monitoring. Specific concerns for any site/classroom were recorded and attached to the monitoring tool.
- The tool utilized for Contractor/Program monitoring was made available for review during a scheduled monitoring/compliance visit conducted by the DCDEE.

- Additionally, the Contract Administrator made at least one annual site visit to each NC Pre-K program site/classroom during the program year. During the visit, the selected site/classroom monitoring was discussed and validated by the local Contract Administrator. For sites/classrooms that did not meet specific guidelines, plans to ensure compliance were reviewed and monitored for completion, submitted to the contractor and made available at the child care facility for review by the child care consultant in the Division of Child Development and Early Education assigned to monitor the NC Pre-K program.

**N. SPECIAL TESTS AND PROVISIONS**

**1. CONFLICT OF INTEREST AND CERTIFICATION OF NO OVERDUE TAX DEBTS**

**Compliance Requirements**

Local Partnerships and other non-governmental entities are required within their contracts to formally adopt a policy which addresses conflicts of interest that might arise involving the entity's management, employees, and/or board members. The policy statement is expected to address situations in which any of the above referenced individuals may directly or indirectly benefit from the entity's disbursement of funds received from the State. In addition, the policy should specify actions to be taken by the entity or individuals or both to avoid either actual conflicts of interest or the appearance of an impropriety. Before a private, not-for-profit entity receives and disburses State funds, the entity should have adopted and have on file a copy of the policy statement.

**Audit Objective** – Before receiving and disbursing State funds, determine whether the grantee has adopted and has on file a conflict of interest policy and that the grantee was in compliance with the policy.

**Suggested Audit Procedures**

1. Ascertain that the grantee has a conflict of interest policy in accordance with its contract with the local partnership.
2. Check the policy and verify through board minutes that a policy was adopted before the grantee received and disbursed State funds. Also, from review of board activities, determine that grantee is in compliance with this policy.

**2. FEDERAL CERTIFICATIONS REQUIRED IN ALL CONTRACTS AWARDING TANF FUNDS**

**Compliance Requirements**

All subrecipients must comply with certain federal certifications as a requirement of receiving TANF funds. These certifications are included in all contracts with subrecipients and are as follows:

- a. The Certification Regarding Nondiscrimination;
- b. The Certification Regarding Drug-Free Workplace Requirements;
- c. The Certification Regarding Environmental Tobacco Smoke;
- d. The Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion Lower Tier Covered Transactions; and
- d. The Certification Regarding Lobbying;
- e. The Certification of Eligibility Under the Iran Divestment Act

**Audit Objective** – Before receiving and disbursing federal funds, determine whether the

grantee has complied with the contractual requirements of the five (5) federal certifications.

**Suggested Audit Procedures**

Ascertain whether the grantee has complied with the contractual requirements of the five (5) federal certifications.