CITY OF PHILADELPHIA
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OFFICE OF THE CONTROLLER

MAYOR'S OFFICE OF EDUCATION

Review of PHL Pre-K Initiative

December 2017

City Controller

Alan Butkovitz

Promoting honest, efficient & fully accountable government

CITY OF PHILADELPHIA

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City Controller

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December 20, 2017

Otis Hackney, Chief Education Officer
Mayor's Office of Education
1515 Arch Street – 3rd Floor
Philadelphia, PA 19102

Dear Mr. Hackney:

Pursuant to Section 6-400(d) of the Home Rule Charter, the Office of the Controller conducted a performance audit of the City of Philadelphia's Pre-K Initiative. Our objectives were to determine whether revenues from the Philadelphia Beverage Tax were accurately accounted for and properly used to increase access to early preschool education for underserved children. A synopsis of the results of our work, which was performed in accordance with *Government Auditing Standards*, is provided in the executive summary to the report.

We discussed our findings and recommendations with you and your staff at an exit conference and included your written response to our comments as part of the report. We believe that our recommendations, if implemented by management, will improve operations of the city's preschool education program while also providing transparency and accountability for Philadelphia Beverage Tax collections. Our recommendations have been numbered to facilitate tracking and follow-up in subsequent years.

We would like to express our thanks to you, your staff, and especially the monitoring agencies and child care providers we visited during the audit, for the courtesy and cooperation displayed throughout our work.

Very truly yours,

ALAN BUTKOVITZ
City Controller

cc: Honorable James F. Kenney, Mayor
Honorable Darrell L. Clarke, President
and Honorable Members of City Council
Members of the Mayor's Cabinet

MAYOR'S OFFICE OF EDUCATION

REVIEW OF PHL PRE-K INITIATIVE

EXECUTIVE SUMMARY

Why the Controller's Office Conducted the Audit

Concerned about whether the city was properly accounting for revenues received from the Philadelphia Beverage Tax (PBT), and if those funds were going toward the expressed purpose of the tax, pursuant to Section 6-400(d) of the Home Rule Charter, the Office of the Controller (Controller's Office) conducted a performance audit of the Philadelphia (PHL) Pre-K Program. The objective of this audit was to determine whether revenues from the PBT were accurately accounted for and properly used to increase access to early preschool education for underserved children.

What the Controller's Office Found

While we observed many positive features in the administration and performance of the PHL Pre-K Program, there were several items that are problematic and diminish the commitment to transparency promised for the program and the use of PBT revenues that fund it. Specifically, we noted that (1) pre-k providers overbilled the PHL Pre-K Program $102,350 for children who never attended per actual attendance records, (2) twenty percent (or 18 of the 88 providers) still have not achieved quality standards as recommended by the Universal Pre-K Commission, (3) the Mayor's Office of Education would not provide us with inspection reports used for vetting lower-rated providers. One site in question, had obvious visual health and safety deficiencies that appear not to have been considered when the site was originally selected, (4) the city has not yet prepared a written implementation plan that would address future expansion of the PHL Pre-K Program, (5) collection of PBT revenues are currently included in the city's General Fund and not a Special Revenue Fund, which could result in the revenues being used for purposes other than intended, and (6) many providers participating in the PHL Pre-K Program are not current regarding payment of the business and wage taxes.

What the Controller's Office Recommends

The Controller's Office has developed recommendations to address the above findings. Some of the more significant include: (1) verifying the accuracy of provider invoices, (2) establishing a written policy for removing pre-k providers who have not reached a quality 3 or 4 STARS rating after their initial 18 months in the program, (3) thoroughly researching the qualifications of providers who wish to participate in the PHL Pre-K Program, (4) establishing a written implementation plan that would serve to provide an open blueprint for expanding pre-k services in in the future, (5) placing PBT proceeds into a Special Revenue Fund that would provide the transparency necessary to ensure that collections are being used to only fund the designated and publicized intentions of the tax, and (6) collecting outstanding business and wage taxes from providers not complying with their tax obligations.

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Background

Studies have shown that children with access to quality pre-kindergarten (pre-k) programs improved their long-term school performance, and consequently lessened the achievement gap caused by environmental, social and economic factors. The City of Philadelphia, in an effort to improve the prospects for children born into low-income families and poor economic conditions, set out to initiate a plan that would allow all Philadelphia children to have access to quality preschool programs at no cost to their families, and thereby set them on the path to a more prosperous future.

On May 19th, 2015, the citizens of Philadelphia approved a ballot referendum to create the Philadelphia Commission on Universal Pre-Kindergarten (Commission). The 17-person Commission was comprised of seven members appointed by the mayor, seven members appointed by City Council, the city's director of finance, and representatives from the School District of Philadelphia and the Pennsylvania Department of Education. The Commission was tasked with proposing a universal pre-k program that provides quality, affordable, and accessible services to three- and four-year-olds throughout the city. Furthermore, the Commission was asked to provide options for sustainable pre-k funding that would not reduce existing school subsidies.

The Commission found that between 2015 and 2016, more than 50% of three- and four-year-olds from low to moderate income families were not enrolled in quality pre-k programs. Quality was defined as programs with a workforce meeting credential requirements, locations convenient for families, and dedicated funding for those who cannot otherwise afford quality pre-k. In Pennsylvania, quality is further defined by:

- Keystone STARS level of 3 or 4: Keystone STARS is a quality rating system initiated by the Pennsylvania Department of Education in 2002. Early learning programs participating in Keystone STARS earn rating scores from a STAR 1 to a STAR 4, based on standards in four key areas: staff education, learning environment, leadership/ management, and family/community partnerships. The higher the STAR level, the higher the quality standards.
- Pre-K Counts: Pennsylvania Pre-K Counts was established by the Pennsylvania Department of Education in 2007 and incorporates quality components adopted by the State Board of Education.
- Head Start: First introduced in 1965, Head Start is a federal program, meeting the educational, emotional, social, health, nutritional and psychological needs of preschool children from low-income families.

- Other nationally accredited programs such as the National Association for the Education of Young Children (NAEYC) or the National Association for Family Child Care (NAFCC).

Furthermore, the Commission reported that nationally, investments in early childhood education resulted in a reduced need for social services, special education, remediation, and public safety activities. Children directly benefited by increased academic performance throughout their education, developed fewer physical and behavioral health problems and enhanced social and emotional skills. Parents benefited by being able to enter the workforce and better provide for their families.

In Pennsylvania, similar observations were noted. A significant number of children enrolled in the state's "Pre-K Counts" program showed increased proficiency in math, literacy and social skills. Over time, results showed decreased risk for problematic social behavior.

The Commission presented their final recommendations for a quality Philadelphia (PHL) Pre-K Program to the mayor and City Council in April 2016. The Commission offered 17 recommendations that covered these and other key factors: quality expectations, the population to be served, child care settings, coordination of funding, curriculum, assessing child outcomes, program monitoring, and workforce development. Also included in the Commission's recommendations was a call for the City Council and the mayor to consider a sugary drink tax, among other options, as potential funding source for the PHL Pre-K program.

Upon receipt of the Commission's Final Recommendations Report in April 2016, the city quickly set out to contract with an outside agency to act as the Administrative Intermediary for the program. The function of the Administrative Intermediary was to provide project oversight and integration for the program, programmatic and operational monitoring, technical assistance and coordination of enrollment. The Philadelphia Health Management Corporation (PHMC), in partnership with the Urban Affairs Coalition (UAC), was the sole bidder on this project and was awarded the contract in October 2016.

Meanwhile, on June 16, 2016, Philadelphia became the first major city in the United States to pass a tax on sugar-sweetened beverages. City Council voted 14-4 in favor of the Philadelphia Beverage Tax (PBT) bill, which added a 1.5-cents-per-ounce levy on all bottled, canned, or fountain beverages sweetened with sugar or artificial sweeteners. The city hoped to raise about $92 million a year from this tax and publicly stated that the proceeds would

be spent to expand pre-k in the city, improve community school programs, and fund bond repayment costs associated with Rebuild -- a program aimed at improving the city's libraries, parks, and recreation facilities. The city started collecting the tax as of January 1st, 2017.

However, continuing litigation against the imposition of the PBT prevented the city administration from fully implementing its plan for offering quality pre-k to **all** three- and four-year-olds residing in the city. Therefore, a goal of providing 2,000 available slots (or seats) was planned with further expansion to 6,500 slots anticipated if the courts ruled in the city's favor and allowed the tax to continue.

The first contingent of child care agencies chosen to fill the initial 2,000 slots were selected by the city based largely on need, availability of "quality" (3 or 4 STAR) child care sites, and the sites' ability to accept additional capacity on short notice. Hoping to get the PHL Pre-K program functioning by the start of the new calendar year, but still early enough in the school year, the city started seeking enrollments in October 2016 for the start of the program. When several quality sites stated that they could not expand their capacity by January 2017, some providers not yet meeting the Keystone STARS higher quality ratings were selected instead, with the intention that these providers would meet quality expectations within 18 months.

In its capacity as Administrative Intermediary over the PHL Pre-K program, PHMC delegated the oversight and monitoring for a portion of the pre-k providers to three other agencies (or "hubs" as they would be called): UAC, the School District of Philadelphia, and Union Local 1199C.[1] The child care providers previously selected by the city were grouped by educational setting type and assigned to their designated hub, which formalized and executed contracts with each agency. The hubs were charged with conducting periodic monitoring visits and reporting their findings to PHMC, which in turn, reported their findings to the city administration. The number of slots awarded as of June 2017, the number of providers, and the type of delivery system for each hub are noted in Table 1 below:

[1] Union Local 1199C represents the Union of Hospital and Health Care employees.

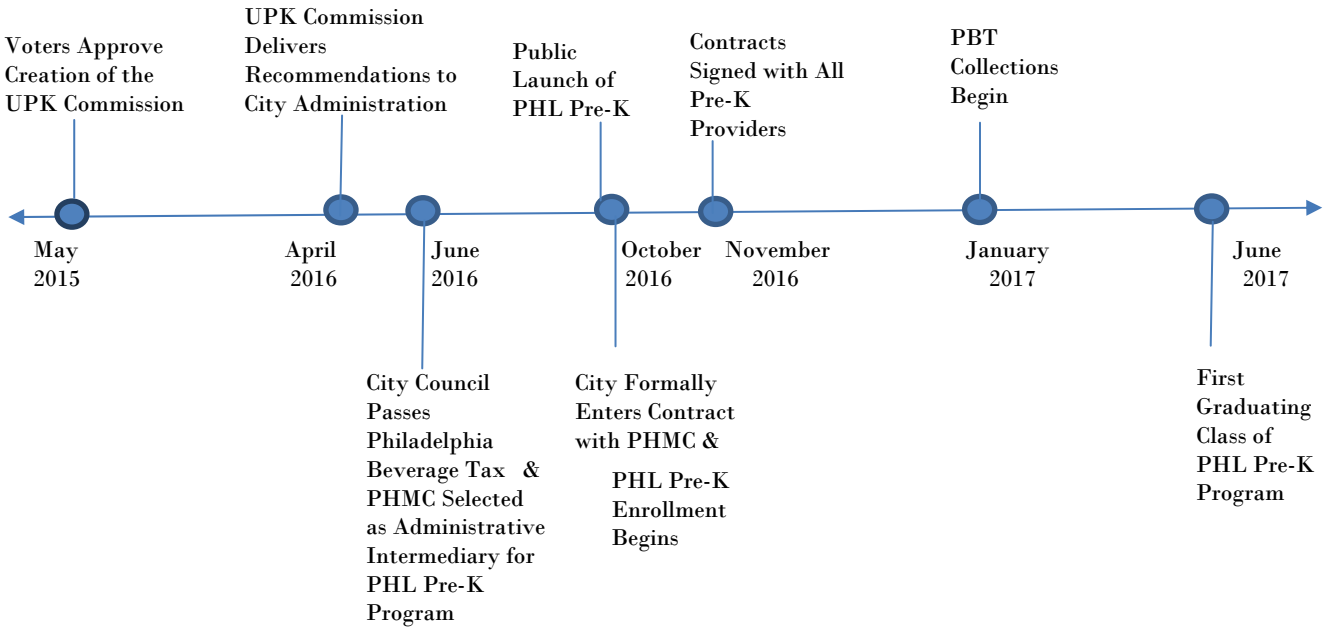
Table 1: Allocation of Pre-K Slots to Selected "Hubs"

	# of Slots Allocated	# of Pre-K Providers	Type of Delivery System	Quality Rating
PHMC Managed	762	29	Community & Group-Based	STAR 3 and 4
UAC	921	34	Community & Group-Based	No STARS, STAR 1 and 2
School District of Philadelphia	261	12	Community & School-Based	STAR 3 and 4
Union 1199C	52	13	Family	STAR 1 through 4
Total ➔	1,996	88		

Prepared by the Office of the City Controller

The PHL Pre-K Program reached its preliminary goal to provide pre-k services to 2,000 low income and at risk children in Philadelphia by March 2017. Enrollment for the 2017-2018 school year started in July 2017. Figure 1 below illustrates the timeline from the initiation of the Program to the end of the first school year.

Figure 1: Timeline of Events Relative to the PBT and the Start of the PHL Pre-K Program



Prepared by the Office of the City Controller

Purpose of the Audit

Concerned about whether the city was properly accounting for revenues received from the PBT, and if those funds were going toward the expressed purpose of the tax, the Office of the City Controller (Controller's Office) evaluated the current status of the city's PHL Pre-K Initiative, the primary and most frequently publicized objective for levying the tax. We initiated this audit pursuant to Section 6-400(d) of the Home Rule Charter, which authorizes the City Controller to perform audits of the financial affairs of every city department, board or agency, as well as to conduct special audits when, in the Controller's judgment, it appears necessary. Given the controversial nature of the PBT and the rush to implement the PHL Pre-K Program, the Controller believed that a review was necessary at this time in order to identify problematic areas before the program expands further.

Is the City Implementing the Expert Recommendations Offered by the Universal Pre-K Commission?

The plan to expand pre-k educational opportunities for all three- and four-year olds in Philadelphia was never subject to debate. Citizens and public officials agree that it is a well-intentioned program whose time has come, especially when considering the long-term benefits. However, the proposed use of a beverage tax to fund this program has been the subject of vigorous discussion and much controversy, with many Philadelphia residents voicing concerns about who would be most impacted by the tax and how this tax would affect local businesses. Ultimately, the administration promised to be "committed to transparency" so that the public could confidently believe that the benefits associated with the use of PBT collections would outweigh the negative impact of imposing the tax. City officials specifically and repeatedly emphasized that the beverage tax would be used to fund three major objectives, with the foremost being the expansion of quality pre-k for the underserved pre-school children in Philadelphia.

Auditors reviewed the primary objective of the PBT and whether the tax collections were being used as intended. We employed the recommendations made by the expert UPK Commission as the criteria for determining if the city met its responsibility for providing quality pre-k, and consequently, used the PBT collections responsibly. Our observations and findings are based on information we obtained from visits to the 22 providers we tested, as well as from discussions with officials from the Mayor's Office of Education (MOE), the Administrative Intermediary (PHMC), the hubs overseeing the child care providers and the pre-k providers themselves.

While we observed many positive features in the administration and performance of the PHL Pre-K Program, there were several items that are problematic and diminish the commitment to transparency promised for the program and the use of PBT revenues that fund it. Specifically, we noted that:

- Forty-four percent of the provider agencies participating in the first year of the program (i.e. 39 of original 88 sites) joined at or below STAR level 2 and therefore, did not meet the quality standards recommended by the UPK Commission. Twenty percent (or 18 providers) still have not achieved these standards.
- MOE would not provide us with the initial site inspection reports prepared prior to the selection of the sites, one of which had

obvious visual health and safety deficiencies at the time of our visit.

- Despite asserting that program officials reviewed the state's website for health and safety violations reported against the first contingent of child care providers, our testing found that many of these facilities had several repeated deficiencies indicating that the providers' plans for corrective action were not implemented. While some of the inspection findings were minor, others were more egregious, such as the lack of teacher background checks.
- The city has not yet established a written policy for removing pre-k providers who have not yet reached the required 3 or 4 STARS quality rating after their initial 18 months in the program.
- Providers overbilled the PHL Pre-K Program $102,350 for children that were adequately vetted to meet the program's eligibility requirements, but never attended.
- Since policy decisions for dis-enrolling children who are chronically absent rests with the provider, the program runs the risk that the provider will continue to bill for a child even if another child is on the waiting list.
- The Administrative Intermediary for the PHL Pre-K Program also functions as the Commonwealth of Pennsylvania's Southeast Regional Key. This presents a potential conflict of interest between its duties for implementing the quality standards to increase the STAR ratings for the PHL Pre-K Program and assessing the providers' STAR ratings for the state's Keystone STARS program.
- The city has not yet prepared a detailed written implementation plan that would address future expansion of the PHL Pre-K Program, as recommended by the UPK Commission.
- Collection of PBT revenues are currently included in the city's General Fund and not a Special Revenue Fund, a deviation from generally accepted accounting principles as applied to governments. Consequently, revenues could be used for purposes other than intended.
- Projections for the future use of the PBT show a budget surplus of approximately $117 million that has not been allocated to any project or publicly discussed.
- Many providers participating in the PHL Pre-K Program are not current regarding payment of business and wage taxes.

The UPK Commission offered seventeen recommendations to the city administration to be used as the standard for providing quality pre-kindergarten in Philadelphia. Each of their recommendations is noted

below, followed by our observations and testing results. Our suggestions for city officials to improve implementation of the PHL Pre-K Program are noted on page 30.

Quality Expectations

UPK Commission Recommendation #1: Philadelphia's Pre-K Program should be delivered in settings that meet rigorous quality standards or are growing into quality, are monitored for quality by external observers, conduct regular child assessments, and report on outcomes.

As part of our testing, we chose 22 of the initial 88 child care sites selected by the city to participate in the PHL Pre-K program. Forty-nine of the original 88 sites were previously designated as "quality" providers (i.e. meeting the 3 or 4 STAR designation defined by the state's Keystone STARS program, or the other quality criteria so noted on page 1). The UPK Commission reports that 52% of the 1,900 child care providers in Philadelphia participate in Keystone STARS and since the STARS system is aligned with quality standards used by Head Start, NAEYC, and NAFCC, STARS would offer an objective means to assess providers' staff qualifications, ongoing professional development, curriculum, and learning environment. However, over 44% (i.e. 39 of 88) of the sites participating in the program joined at or below STAR level 2, and did not meet these standards.

Per discussions with hub officials and some pre-k providers, the enrollment of lower quality providers was due to the city's rush to get the program started soon after the PBT was passed. Some 3 and 4 STAR providers in designated "at risk" areas could not add more seats to their sites without physically expanding their location, and they were not permitted to migrate families already receiving services into the PHL Pre-K program. As such, they could not take on additional children until they had the space to do so. The city then selected other area providers, even those not participating in the Keystone STARS program[2], in an effort to keep the funding in the areas of greater need. These providers were permitted to migrate current students into the PHL Pre-K Program. This policy decision was implemented because children in the lower-rated facilities were included in the statistics of underserved children.

Use of lower rated providers did not always present a significant deviation from the UPK's recommendation since quality of the site as a whole did not necessarily mean that the children were not receiving adequate care and educational services. In some cases, advancement to a higher STAR level

[2] However, the child care provider had to be enrolled in Keystone STARS by the time the contract was executed.

was hindered only by the providers' inability to meet certain requirements associated with a higher rating, such as paying their teachers higher wages. In other instances, while the site may have had a lower STARS rating, the standards established for the PHL Pre-K curriculum, program monitoring, etc. created an environment where the PHL Pre-K children were required to receive a "quality" educational experience, even if other programs at that site were not yet at the same level. Furthermore, the administrative and technical assistance from their designated hub, helped to ensure that city PHL Pre-K children were receiving the same or superior educational opportunities afforded to children enrolled in other sites.

However, in a few cases, the lower level STAR rating would have offered a valuable insight into other aspects of quality care that should have been considered when selecting providers to participate in the program. In one of the sites we visited, we were able to walk through the facility without being questioned as to the reason for our presence or requested to show identification, passing two (non-PHL Pre-K) classrooms along the way. Furthermore, we observed mice that scurried by, walls and floors that were very dirty, gaping holes inside and outside of the premises, and several other obvious safety deficiencies. While the PHL Pre-K children were being schooled in a new trailer located in the back of the property, the children's schoolbags and personal items were stored in the facility and their snacks and meals were prepared there as well. Officials from MOE informed us that all initial sites were inspected by an paid consultant prior to the sites' selection for the PHL Pre-K program, however, MOE would not provide the inspection reports or other evidence of a prior site visit to us. See Figures 2 through 11 below for photographs taken at this location.

Figure 2: Photograph of Pantry Window Area

Figure 3: Photograph of Pantry Area

Knife on Windowsill

Figure 4: Photograph of Exposed Fruit

Figure 5: Photograph of Exit - From Office to Back of Property

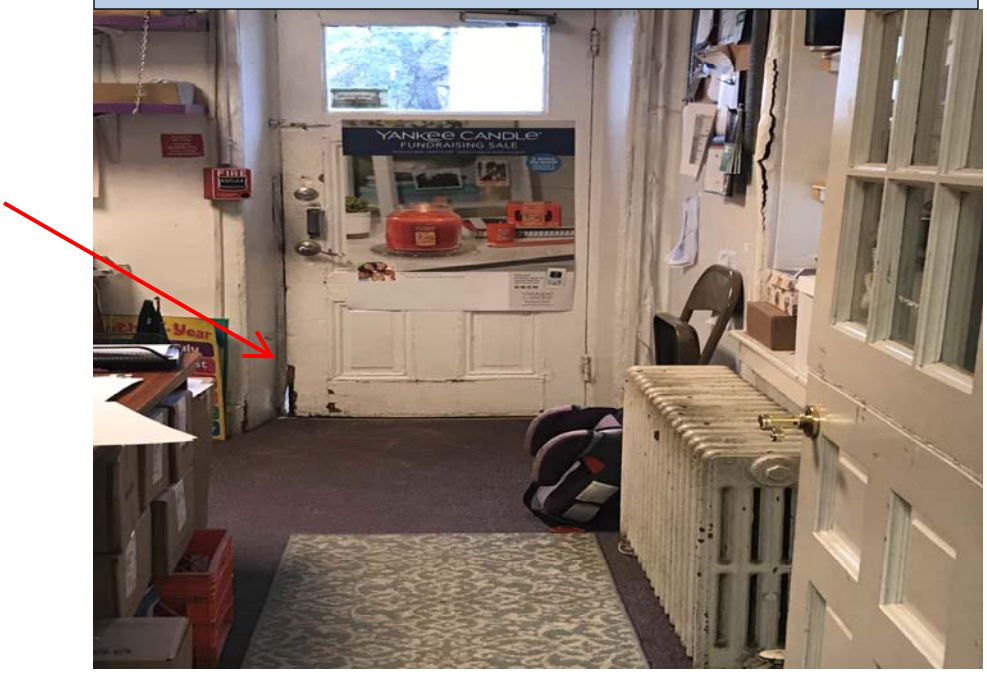


Figure 6: Photograph of Hole in Wall Above Refrigerator

Figure 7: Photograph of Outlet Without Faceplate

Figure 8: Photograph of Dirty Floor

Figure 9: Photograph of Front Foyer – From Office to Front Door

Figure 10: Photograph of Side Alley

Figure 11: Photograph of Side Alley

We were also informed that the city has not yet established a written policy for removing pre-k providers who have not reached a 3 or 4 STARS rating after their initial 18 months in the program. Nineteen of the 39 sites that originally joined the program at a lower quality level have reached the higher standards required in the UPK recommendations. Eighteen have not. With only six months remaining before the 18 month deadline for compliance is met, MOE has not yet formulated a policy for determining whether to extend the time allowed for pre-k providers to advance to higher quality standards or procedures for transferring the slots previously allocated to them.

Mixed Delivery System

UPK Commission Recommendation #2: The PHL Pre-K Program should be developed using a mixed-delivery system that partners with community-based child care centers, group, family, and school-based programs that meet quality standards or are growing into quality programs.

As shown in Table 1 on page 4, the PHL Pre-K program does employ a mixed-delivery system, as community-based child care centers, group, family, and school-based locations were all chosen to participate in the program. For clarity, the type of delivery system is usually defined by the occupancy limits of the site. Specifically:

- Community-based Centers – care for seven or more children and have multiple classrooms
- Group Centers – care for seven to twelve children in either a private home or other facility
- Family Centers – care for four to six unrelated children in a private home
- School-based Programs – similar to community or group-based locations but run by the School District of Philadelphia

The use of a diverse group of providers, from both for-profit businesses and non-profit organizations, allows parents the capability to find the best site to meet their family's needs. We also found that by designating the hubs to oversee a single type of provider, the hub could focus on the issues unique to that type of service delivery, and the providers could grow more readily. For example, auditors found that five of the six lower rated providers, initially assigned to the 1199C hub, were able to advance to STAR level 3 and 4 by June 2017, because the program monitor was able to concentrate her efforts on the needs and problems encountered for the family-based setting.

Population Served

UPK Commission Recommendation #3: Expanded Pre-K is available to all three- and four- year olds in Philadelphia, with priority given to children in neighborhoods with the highest concentrations of poverty or at highest risk of poor academic and life outcomes, and areas with a shortage of quality pre-k slots.

As long as litigation involving the PBT continues, pre-kindergarten in Philadelphia will not be expanded beyond the 2,000 seats currently allocated. At the present time, all 2,000 seats are filled and a waiting list has been established.

In the event that dedicated funding for the PHL Pre-K Program was not yet firmly established, and with limited seat capacity available, the Commission recommended that areas of poverty and risk be targeted first, with an eye toward locations that meet the cost, convenience and cultural needs of the community.

We found that the city is doing a commendable job addressing this recommendation. Our testing has shown that there is a clear correlation between the location of initial participants and the areas of greatest need as defined by MOE.

Furthermore, among the 22 providers we visited, 13 of the sites employ bilingual teachers who were able to communicate with children in English as well as Spanish, Polish, and American Sign Language. Additionally, many of the sites could accommodate children with physical handicaps, while others met special cultural needs of the Muslim and Jewish communities.

We also noted that, in contrast to other cities we contacted, the PHL Pre-K Program recruits three year-old children, along with four- year olds, to participate in the program. Pre-K programs in other cities such as New York, Boston and San Antonio, as well as the state of Rhode Island enroll only four year-olds since they more narrowly define pre-k to the year immediately preceding kindergarten. We spoke with several child care specialists who agree that, in reality, it takes two years to fully prepare children for kindergarten. We commend the city for following the Commission's expert-based recommendation.

Universal System

UPK Commission Recommendation #4: A universal plan for pre-k that begins with a targeted approach.

Currently, the city does not yet have a plan in place to provide for universal pre-k nor have they addressed the possibility of charging parents for pre-k services based on a sliding income scale, as recommended by the UPK Commission. This is largely due to the unresolved status of future funding, in the event that the lawsuit challenging the beverage tax goes against the city's interests. However, as discussed above, the city is complying with the portion of the recommendation that seeks to ensure that children at-risk or living in poverty are prioritized.

Dosage

UPK Commission Recommendation #5: The city should oversee the creation of an expanded pre-k program that would enable subsidy-eligible children to participate all day (eight hours or more per day) throughout the year (260 days a year).

The UPK Commission concluded that full day pre-k services prepare children for better long-term academic outcomes than half-day programs. However, presently, the PHL Pre-K program only funds a 5 ½ hour school day and roughly 180 school days a year. Families in need of additional pre-k hours and/or additional funding for before or after care are directed to apply to the state's Child Care Information Services (CCIS) program. All providers in the PHL Pre-K Program are required to contract with CCIS to offer families this added benefit. We observed that the CCIS program was offered at every site we visited.

Child Care Settings

UPK Commission Recommendation #6: Philadelphia Pre-K program should include a variety of child-care models, including center-based, group, family, and school-based settings that meet or are moving to embrace the standard for quality.

Once again, we need to state that the first group of providers included 39 sites that did not meet the Keystone STARS definition of quality (i.e. 3 or 4 STAR ratings). Eighteen of the sites are still below the 3 STAR quality standard and seven have shown no progress in twelve months. As previously noted, there is no plan to remove the providers who fail to comply with the quality requirement. With the current school year ending in approximately six months, a plan will be needed to relocate remaining PHL Pre-K children to other sites.

We also questioned whether the site shown in photographs on pages 9 through 14 was properly vetted prior to selection. With conditions as they appeared at the time of our visit, it does not look as if MOE performed its due diligence in selecting this, and other sites, to participate in the PHL Pre-K Program. This particular provider had several visual deficiencies that could not have been missed if a site visit was properly performed. Other providers we tested showed multiple health and safety deficiencies as recorded in the state's COMPASS[3] system. MOE stated that they reviewed inspection findings and corrective action plans in the COMPASS system prior to the initial selection of provider agencies. However, many of these facilities had several repeated deficiencies indicating that the providers plans for corrective action were not implemented. While not all the issues cited as deficiencies are of major significance, others are egregious, such as the lack of teacher background checks. A review of the COMPASS website for providers we did not visit showed one provider with only a provisional Certificate of Compliance[4] until January 2018, in violation of the program requirement for a full Certificate of Compliance. The continued reporting of health and safety deficiencies in COMPASS for some of the PHL Pre-K sites raises concern that the impact of these deficiencies could have a negative effect on the providers' ability to achieve not only quality status but also on their ability to ensure the welfare of the children in their care.

[3] COMPASS is an acronym for the Commonwealth of Pennsylvania Access to Social Services Program. It is the system used to document and report on the results of reviews conducted by the state's Department of Human Services.

[4] A full Certificate of Compliance is issued to child care agencies operating in accordance with the laws of the Commonwealth of Pennsylvania and with the rules and regulations of the state's Department of Human Services, and other state and federal statutes.

Layered Funding

UPK Commission Recommendation #7: The city should leverage, streamline, and organize resources to enable providers to layer funding from more than one public source (Head Start, Pre-K Counts, local Pre-K funding, CCIS).

The UPK Commission believed that providers could become more economically stable by obtaining funding from multiple public sources as opposed to a single source. Layered funding also allows parents to keep their children in a full day program while helping their families make ends meet. Most of the providers we visited receive funding from multiple sources.

However, we found that while the ability to collect from multiple public funding sources helps the providers financially, it could negatively impact the programmatic structure of their sites. The Commission noted that lower-income and at risk children learn best when in classrooms with children from other economic and social backgrounds. The major sources of funding – Head Start and Pre-K Counts—have programmatic and reporting requirements that are different from what is expected for the PHL Pre-K Program. Therefore, children associated with different funding sources are often placed in separate classrooms to accommodate the provider's ability to meet the requirements of each grantor agency. During our site visits, we frequently observed this to be the case. The inability to group children from mixed-incomes in one classroom does not meet the standards recommended by the UPK Commission. However, the situation was not caused solely by the creation of the PHL Pre-K Program and cannot be resolved without cooperation from federal and state agencies providing public funding.

Curriculum

UPK Commission Recommendation #8: Philadelphia's Pre-K system use curricula that has been approved by the Office of Child Development and Early Learning (OCDEL) that meet the Pennsylvania Early Learning Standards.

Pennsylvania Early Learning Standards include these and other educational components: language and literacy, scientific and mathematical thinking, social studies, the arts, interpersonal skills, social and emotional development and health, wellness, and physical development. We observed that the pre-k providers we visited frequently used Creative Curriculum, which was provided by PHMC and meets the OCDEL's curriculum requirements. We also observed that the children at these

locations were fully engaged and freely participating in the learning experience.

Child Outcomes and Assessments

UPK Commission Recommendation #9: Philadelphia's Pre-K plan should tie child assessment and outcome reporting to Pennsylvania's existing system and avoid duplication of efforts by providers and monitors. It should also work with OCDEL to streamline assessment and reporting requirements across all quality Pre-K programs regardless of funding source.

Per discussions with MOE and PHMC officials, tracking of child assessments and outcomes is not yet tied into Pennsylvania's existing system. Program leadership meet regularly with officials from OCDEL and the School District of Philadelphia to discuss future options for streamlining assessment and reporting requirements.

Program Monitoring

UPK Commission Recommendation #10: Philadelphia's Pre-K program should use the monitoring system that exists for Pre-K Counts. The city should explore with OCDEL whether it is possible to use Pre-K Counts program monitors for the locally funded cohort. This should entail receiving regular monitoring reports from the state.

Currently, there is no sharing of monitoring data with the state's Pre-K Counts Program. MOE still uses PHMC and hub employees to monitor the activities of the PHL Pre-K providers. While this is a duplication of effort and an added expense to the PHL Pre-K Program, program monitors are necessary to the ensure that the hubs and the providers are using financial resources prudently, properly implementing programmatic requirements, and most importantly, maintaining a safe and nurturing environment for the children in their care.

We reviewed the monitoring reports for the 22 providers that we tested. Most of the reports were detailed, timely, and addressed all the factors that were required by the Administrative Intermediary overseeing the program. Additionally, the monitoring reports indicate that the hubs are working closely with the providers to meet the program's objectives and ensure that the children are fully involved in the learning experience. We tested the accuracy of the monitoring reports by reviewing some of the same information requested by the monitors during their visits, such as teacher certifications, background checks, criminal clearances, approved curriculum, learning assessments, as well as noting the overall cleanliness

and safety of the center or family home. The results of our testing can be found in Table 2 below.

Table 2: Test Results of Provider Audits

Provider	Certificate of Compliance	Educational Certifications	Criminal Clearance	Child Abuse Clearance	Approved Curriculum	Child Learning Assessments	Cleanliness & Safety
1	Y	Y	Y	Y	Y	Y	Y
2	Y	No	Y	Y	Y	Y	Y
3	Y	Y	Y	Y	Y	Y	Y
4	Y	Y	Y	Y	Y	Y	Y
5	Y	Y	Y	Y	Y	Y	Y
6	Y	Y	Y	Y	Y	Y	Y
7	Y	Y	Y	Y	Y	Y	Y
8	Y	No	No	Y	Y	Y	No
9	Y	Y	Y	Y	Y	Y	Y
10	Y	Y	Y	Y	Y	Y	Y
11	Y	Y	Y	Y	Y	Y	Y
12	Y	Y	Y	Y	Y	Y	Y
13	Y	Y	Y	Y	Y	No	Y
14	Y	No	No	No	Y	Y	Y
15	Y	Y	Y	Y	Y	No	Y
16	Y	Y	Y	Y	Y	Y	Y
17	Y	Y	Y	Y	Y	No	Y
18	Y	No	Y	Y	Y	Y	Y
19	Y	Y	Y	Y	Y	Y	Y
20	Y	Y	Y	Y	Y	Y	Y
21	Y	No	Y	Y	Y	Y	Y
22	Y	Y	Y	Y	Y	Y	Y

Prepared by the Office of the City Controller

Y = Yes

The table shows that most providers are complying with the PHL Pre-K Program requirements. Furthermore, most of the discrepancies between the findings above and the monitoring reports we obtained from the hubs were easily explained by timing differences. For example, provider #14 informed us that the file containing the educational (teaching) certificate, criminal clearance, and background check for one employee was missing because the file was inadvertently given to the employee upon her separation from the facility. The monitoring report was prepared prior to

the the employee leaving. In the case of the findings relating to the three child learning assessments noted above, we found that that the assessments had been completed, but they were not timely, i.e. within the first 45 days of enrollment, as required by the PHL Pre-K criteria.

However, we found cause to question whether monitoring at one of the sites we visited was performed with due diligence. Specifically, for provider #8 (the site identified in our photographs on page 9 through 14), we noted that none of the three monitoring reports prepared by a UAC employee during the spring of 2017, made any mention of the conditions we observed at the site nor included recommendations to address the problems in the site's "Quality Improvement Plan". When we brought this matter to the attention of the PHMC official who accompanied us on our visits, she concurred that the conditions should have been reported. We also noted discrepancies between our findings and the monitoring report relating to the observation of the teaching certificates and criminal clearances for two of the site's three employees.

Additionally, we observed a flaw in the procedures employed by PHMC to invoice for students enrolled in the program. Currently, the hub (PHMC in this case) sends a list of students approved for enrollment in the program to the applicable providers. The providers were instructed to use that list to verify that only children who had pre-approval (i.e. a child age 3 or 4, and a resident of Philadelphia) were participating in the program, and therefore eligible to be included in the invoice requesting payment from the hub for the services rendered. However, we found several instances where the number of children and the names of the children authorized for enrollment per the hub's records did not completely agree with the names and number of students actually enrolled (per the attendance records) by the child care provider. Consequently, the program was overbilled by a total of $102,350, representing inconsistencies in four of the five PHMC sites from which we were able to obtain both authorized enrollment lists and actual attendance records. This situation could be occurring at other sites, which were not included in our sample.

Also, payment is tied to monthly enrollment not attendance. Current policy states that as long as the provider has a monthly attendance rate of 85% (e.g. 17 of 20 children enrolled at a site), the PHL Pre-K Program will continue to pay for the slot. The PHL Pre-K Program cannot stop paying for absent children since the provider hires their teaching staff based on the anticipated number of children enrolled. However, program management needs to create an overarching plan for dis-enrolling children

who are not taking full advantage of the program benefits and replace them with someone waiting for the slot. With this policy decision currently at the provider level, there is an inherent risk that a provider will not address chronic absenteeism and continue to bill for the child if they don't expect to fill the slot in the near future.

In one final item related to monitoring, we noted that PHMC, the Administrative Intermediary responsible for implementing the quality standards required for the PHL Pre-K Program, also functions as the Commonwealth of Pennsylvania's Southeast Regional Key, assessing the STAR rating of child care providers for the Keystone STARS program. While we found no evidence of any irregularities affecting the movement of providers enrolled in the PHL Pre-K Program, it does appear that these duties present a conflict of interest that diminishes the administration's attempts to make the program fully transparent to the public it serves.

Quality Improvement

UPK Commission Recommendation #11: The city's Implementation Plan for pre-k should direct significant city resources, leverage existing support programs, and work with philanthropy and higher education institutions to make new investments to expand quality improvement resources to increase the number of providers in STARS and for providers to move up the ladder. Additionally, after changes are made to streamline Keystone STARS, the city should work with state partners to look at requiring all programs that receive federal, state, and local investment to participate in Keystone STARS.

Currently, resources to assist lower rated providers move up in the Keystone STAR rating ladder appear to come primarily from PBT collections and not through city funding or grants from area foundations, as recommended by the UPK Commission. We found that during the 2016-2017 school year , the UAC and 1199C hubs oversaw the 39 lower rated sites that were selected in lieu of the higher-rated quality centers that could not quickly meet expansion requirements when the program was first rolled-out in October 2016.

The UAC and 1199C hubs, both funded by the PHL Pre-K Program, worked closely with the providers to offer them the technical, administrative, and programmatic assistance that would allow them to meet the 3- or 4- STAR provider requirements as measured and verified by Keystone STARS. Specifically, five of the six sites under the 1199C hub that were not meeting quality standards have moved up to quality within the first six months of the program. The remaining site entered with no STARS and now has

earned a 2 STAR rating. UAC has helped 14 sites advance to the required 3 and 4 STARS.

We also noted that there are other sources which the providers can look to for quality improvement assistance. PHL Pre-K providers can participate in the United Way's "Success by Six" program that helps child care providers improve their quality standards. They can also apply for grants from the city and the William Penn Foundation that offer facility improvement funding for local child care providers. The city's grant, offered through the Office of Opportunity and Empowerment, provided up to $20,000 in city funding (depending on size of the family home or group center) to providers for new appliances, site repairs or improvements. Eleven of the PHL Pre-K program providers have taken advantage of these grants.

While we commend the city for connecting providers to these quality assistance programs, and consequently assisting them in their quest for a quality STARS rating, it can be argued that the city itself should not be in the business of giving money to a for-profit business venture, which many of the providers are. Doing so may give the appearance that the city is actively helping select businesses improve their bottom line.

Kindergarten Transition

UPK Commission Recommendation #12: The city should encourage the development and adoption of an equitable and comprehensive approach to kindergarten transition that delineates clear expectations for all Pre-K providers, K-3 schools, and other organizations to support children making a successful transition to kindergarten.

Per discussions with MOE and School District officials, the development and adoption of a comprehensive approach to kindergarten transition is currently in progress. Providers in the PHL Pre-K Program must develop a transition plan for each child that helps to ensure that the child is academically and socially ready to move into the kindergarten environment. The plan should also help families understand what would be expected of their children as they move to larger classes and socialize with new children from different backgrounds. MOE is currently working with the School District to help make the kindergarten transition an easy process for both children and their families.

Workforce Development

UPK Commission Recommendation #13: In order to adequately develop its early childhood workforce, the PHL Pre-K Program should (1) work to increase utilization of existing academic advisors by child care professionals; (2) provide teachers with appropriate compensation; (3)

work with OCDEL to allow teachers working to obtain required degrees serve in quality child care programs; (4) work with institutions of higher education and child care advocates to ensure that teacher preparation programs provide the necessary skills for practitioners to become effective teachers.

Again, this recommendation of the UPK Commission is in progress. Per information received from MOE, review of contract information, and discussions with PHMC officials, auditors have learned that various forms of professional development are being offered to the PHL Pre-K early childhood education workforce. For example, MOE has contracted with the Community College of Philadelphia to offer summer coursework for teachers looking to further their credentials. Training is also provided through the PA Key, a support system to the STARS program, and the Teacher Education Assistance for College and Higher Education (TEACH) program, which helps perspective teachers pay for college in exchange for a career in a high-need field, such as early childhood education.

MOE has also informed us that a preliminary compensation scale has been created and offered to early childhood education professionals for feedback. Their suggestions and comments will help establish a fair and adequate compensation plan necessary to attract and retain quality teachers, while also helping them afford the costs associated with obtaining their certifications.

The city also requires businesses that contract with them to pay their employees according to minimum wage requirements established by the "Philadelphia 21st Century Minimum Wage Standard" issued by Councilmatic Ordinance in May 2005. This standard requires employers to pay each employee an hourly wage, excluding benefits, at least 150% of the federal or state minimum wage, whichever is higher.

As part of our provider testing, we reviewed salaries paid to the teaching staff at the sites we selected. Many of the sites paid viable wages to their employees. In other instances, when staff was paid less than the 21st Century Standards, we were informed that the provider requested a waiver from the city's Office of Labor Standards, due to the economic hardship associated with meeting the wage requirement.

Finally, in an effort to address the final part of this recommendation that looks for the PHL Pre-K Program to work with institutions of higher learning, pre-k providers, and other advocates to provide the necessary

skills for practitioners to become effective teachers, MOE has informed us that they have submitted a grant application to the PA Department of Labor and Industry to establish an early education industry partnership. This partnership will bring together all necessary parties and public partners to address the needs of the early childhood education workforce. We acknowledge the actions taken so far on this UPK recommendation.

Governance and Organizational Structure

UPK Commission Recommendation #14: The creation of a governance board to oversee the Pre-K program's receipt and distribution of funding to providers and oversee the implementation of Philadelphia's Pre-K program to ensure a fair and equitable system.

The UPK Commission recommended the creation of a governance board, with set term limits, that would provide guidance and oversight for the PHL Pre-K program, advising program management on the enrollment process, monitoring of providers, adherence to quality standards, and other matters. The Commission suggested that members of the board include representatives of city government and the School District of Philadelphia, local businesses, health care, labor, higher education and of course, early childhood education.

In January 2017, the mayor signed Executive Order No 1-17 creating the Pre-K Advisory Board, which was comprised of 13 members, seven appointed by the mayor, and six appointed by City Council. The executive order set a two-year term limit for members to serve, and established that the Advisory Board should submit an annual report that covers measurable goals and child and program outcomes by July 15th of each year beginning in July 2018.

Since the timing of our audit was earlier than the expected due date for the issuance of the Advisory Board's annual report to the mayor and City Council, we limited our review of this recommendation to determining if the board was created as intended, and if the members did indeed represent the diversity and interests recommended above by the Commission. We found that the city complied with this recommendation.

Local Pre-K Funding Model

UPK Commission Recommendation #15: The city should fund quality pre-k slots for the traditional six-hour school day and 180-day school year at $8,500 per slot. This proposed per child rate should match the state Pre-K Counts rate.

Starting in September 2017, the PHL Pre-K program funds a 5 ½ hour school day and a 180-day school year at a cost of $8,500 per slot. This rate is in alignment with the costs incurred by the Commonwealth of Pennsylvania for the Pre-K Counts Program.

Revenue to Fund Pre-K

UPK Commission Recommendation #16: City Council and the mayor should consider the following options as potential funding sources for the PHL Pre-K program: Property Tax, Wage Tax, Sales Tax, Use & Occupancy Tax, Cigarette Tax, Liquor Tax, Parking Tax, and Sugary Drink Tax. The Commission also recommends that the mayor and City Council work together to identify sufficient funding to support the Pre-K program, regardless of the funding source.

In their final recommendations report to the mayor and City Council, the UPK Commission stated that the majority of the commission (13 of 17 members, with one abstention) supported the PBT as a possible funding source for the PHL Pre-K Program. However, in the event the legal challenge to the tax is successful, the Commission recommends finding alternate resources to provide these services.

Since the PBT is currently the funding source for the PHL Pre-K Program, and the mayor wanted the use of PBT collections to be as transparent as possible, we reviewed how the city was accounting for these revenues. We found that proceeds from the monthly collection of PBT revenues are currently included in the city's General Fund and not a Special Revenue Fund, established exclusively for the tax, as would be required under generally accepted accounting principles as applied to governments. Monies are commonly accounted for in the General Fund when financial resources are collected for the normal operations of the government and are not more accurately reported elsewhere. The General Fund reflects collections from varied sources, such as property and other local taxes taxes, license and permit fees, fines, rental fees, and interest, - all of which could be used to finance the city's daily operations. As such, matching specific expenditures against the proceeds of any one of these funding sources is nearly impossible. The only exception would be if the city's accounting records specifically identify a funding source or grant code, as is typically done with expenditures associated with a federal or state government grant. However, since expenditures for the Pre-K program do not include this type of added information, there is no way to determine whether the funds appropriated by City Council to MOE are directly associated with PBT revenues.

By contrast, a Special Revenue Fund is "used to account for and report the proceeds of a specific revenue source that is restricted or committed to expenditure for specified purposes other than debt service or capital projects."[5] Frequently, the use of a special fund is imposed on government by legislation (such as a City Council Ordinance) or external parties (e.g. grant regulations). In the absence of these conditions, the government entity must meet the criteria that the revenue proceeds are derived from a specific source and the expenditure of those proceeds are for a specified purpose. The Council Ordinance creating the PBT did not address creating a separate fund to account for the tax proceeds. However, when the city administration suggested the idea of a tax on sugar-sweetened beverages pay for an early education initiative and then fervently worked to send that message to city residents, it could be reasonably argued that a specific revenue source (i.e. the PBT) was created for a specified purpose (primarily the PHL Pre-K program), and by failing to record the PBT in a separate fund, transparency is sacrificed.

Furthermore, the creation of a special revenue fund to account for a distinct funding source is not an anomaly within the city's accounting structure. The city's finance office has established, and continues to use, special revenue funds in it's day-to-day operations. For example:

- County Liquid Fuels Tax Fund – used to account for the revenue derived from the state tax on liquid fuels that, in turn are used for the maintenance and repair of streets, roads and bridges for which the city is responsible.
- Special Gasoline Tax Fund – established to account for taxes on the sale of gasoline and is used to make improvements to Pennsylvania highways and bridges and also to help fund mass transit systems.
- The Hotel Room Tax Fund – used to account for the tax levied on hotel stays to fund the promotion of tourism in Philadelphia.

The city's Finance Office, however, takes a different view. Despite numerous and city sanctioned media accounts linking the PBT to the Pre-K program, Finance officials have stated that the PBT is not a dedicated tax. Rather, the tax was "tied" to the PHL Pre-K program and the other aforementioned projects, but never intended to be dedicated. They further noted that if a Special Revenue Fund was used, there would be no flexibility for use of the tax proceeds, which bond rating agencies prefer to see when determining the city's creditworthiness. This argument appears to further support the view that the PBT tax proceeds could be used for other purposes.

[5] Governmental fund types as defined by Governmental Accounting, Auditing, and Financial Reporting Guide

The city administration's position on the use of the PBT funding leads us to our next observation. Specifically, the city's projections for the use of the PBT over the next five years indicate a budget surplus of $117 million that has not been specifically allocated to any current or anticipated project, nor publicly unveiled for future discussion. While the current legal challenge to the PBT continues, there are no expected changes to the use of the tax. However, if the court ruling provides an outcome favorable to the city, the administration anticipates that between fiscal years 2018 and 2022, the city will collect approximately $92 million a year in PBT revenue and spend between $42 million and $70 million per year for the PHL Pre-K and community schools programs. Furthermore, repayment of the debt service associated with bonds issued to fund the Rebuild program will cost the city an additional $9 million to $26 million during the five years noted, resulting in a surplus of $117 million. When questioned about this, Finance officials stated that there was never a plan to have a surplus, but that over time, any residual funds would cover increased program costs. Refer to Table 3 below for auditors' projection of the PBT budget surplus.

Table 3: Budget Projection for the Collection and Uses of PBT Funds (*presented in thousands of dollars)*

	Fiscal 2017 (Actual)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Totals
Estimated Revenues	$32,549	$92,412	$92,499	$92,575	$92,147	$91,866	$494,048
Less: Estimated Expenditures	$10,098	$42,552	$50,128	$56,565	$69,305	$69,305	$297,953
Less: Debt Service (Rebuild)	$0	$8,720	$8,716	$17,438	$17,438	$26,155	$78,467
Estimated Fund Balance	$22,451	$41,140	$33,655	$18,572	$5,404	($3,594)	**$117,628**

Prepared by the Office of the City Controller using data provided in the Five-Year Plan and in the Annual Mayor's Operating Budget

It should be noted that in a letter to the Pennsylvania Intergovernmental Cooperation Authority (PICA) addressing the projections in the Five Year Plan, the Controller's Office questioned the validity of the city's PBT revenue estimates, believing them to be too high. Actual collections to date show PBT revenue at $6.7 million per month, or roughly $80 million a year. While this decrease in revenue projections ($11 million per year) would lower the estimated fund balance after five years to $62 million, the anticipated surplus is still significant enough to warrant a more public and open discussion as to its intended future use.

Process for Developing the Implementation Plan

UPK Commission Recommendation #17: The Mayor's Office of Education should develop a detailed implementation plan guided by the Commission's recommendations for expanded Pre-K, pending the concurrence of City Council. The plan should be developed transparently and in partnership with child care providers including directors, staff, and parents, to then be presented to the wider community for public feedback.

We found that MOE does not have a implementation plan in place that provides realistic goals for the program and specific steps for how these goals would be achieved. The UPK Commission recommended that MOE, in conjunction with child care providers adopt a policy to address such elements as how the pre-k providers are selected, what programmatic elements are used, and what supports are in place for teacher professional development. This plan would also publicly promote the objectives of the program and offer an open and clear blueprint for public review. The Commission believed that public input played a significant role in the recommendations they proposed, and fully expected that the public would again participate in plans for the expansion of the program, and offer feedback for possible revisions, if necessary.

Prior to appearing before City Council to discuss their operating budget for the 2017 fiscal year, MOE presented councilmembers with the "Mayor's Proposal for Expanded Quality Pre-K", a preliminary version of the implementation plan recommended by the UPK Commission. The proposal outlined the need for expanded pre-k in Philadelphia and offered a brief summary of the major components of the program (such as fiscal governance and administration, the process for enrollment, and use of a quality rating system). However, it lacked specifics on such key items as the criteria used for selection of the providers, frequency and standards to which providers would be monitored to ensure compliance with program requirements, and the extent of cooperation with federal and state agencies offering similar services. To date, no update to the implementation plan has been developed for public review and feedback.

Other Matter

Providers Not Compliant with City Tax Obligations

As part of their initial screening process, the city required that all potential provider applicants prepare a Philadelphia Tax and Regulatory Status Clearance Statement, which certifies that the applicant has all required licenses and permits, and is current, or has made arrangements with the city to become current, with respect to the payment of city taxes or other indebtedness owed to the city.

Our testing of all 88 providers participating in the PHL Pre-K Program found that many are not current regarding the payment of their business or wage taxes. Our review found that twenty-eight of the 63 active Business Income and Receipts Tax (BIRT) accounts on file have not made tax payments within the last 12 months. The BIRT is required for any organization (even a not-for-profit entity) engaging in a for-profit business in the City of Philadelphia. Child care providers are subject to this tax, but our testing found that an additional twenty-five providers do not have an active BIRT account on record, which indicates that the tax was never paid. A similar situation occurs for wage taxes, as we found seven providers who have not made payments within the last twelve months and seventeen others who have not yet appeared to have established a wage tax account with the city.

Conclusions & Recommendations

If the PHL Pre-K program is permitted to expand through use of PBT funds, then program management must ensure that a publicized and detailed implementation plan is made available for city residents, parents, early childhood care providers, and other interested parties to offer their insights and concerns, while also providing feedback for management consideration. Additionally, provider sites should be thoroughly vetted in advance of child enrollment, sites selected should meet the quality requirements designated by the UPK Commission, and controls over program monitoring at all levels should be strengthened. Finally, if the use of the PBT revenue is to become more transparent to the public, the city should account for these funds separately from General Fund revenues to ensure that the specific PBT collections can be clearly matched against designated expenditures. This would also ensure that any anticipated surplus would then be used toward purposes for which the tax was intended.

Therefore, to ensure that the City has an effective system in place to properly account for the revenues received from the PBT and fully demonstrate that the funds are being used to fund the expansion of pre-k programs for underserved three- and four-year-old children of Philadelphia, we recommend that the city and program management:

- Establish a written policy for removing pre-k providers who have not reached a 3 or 4 STARS rating after their initial 18 months in the program. Such a policy would ensure that the children are receiving the best overall care and educational opportunities available [206618.01].

- Thoroughly research and verify the qualifications of providers who wish to participate in the PHL Pre-K Program. This review should be personally conducted by MOE and the Administrative Intermediary to ensure that sites not meeting cleanliness or safety concerns are removed from consideration immediately. We also recommend that program management document their review of the state's COMPASS findings to ensure that health and safety matters affecting the care of children are not overlooked [206618.02].
- Conduct random checks of provider sites to ensure that monitoring reports are prepared accurately and reflect the actual status of the provider's ability to implement the programmatic goals of the program, while also offering a healthy and safe environment for the children enrolled there [206618.03].
- Verify the accuracy of the invoices from the providers to ensure that the program is only paying for children who have been screened to meet the requirements for participating in the program [206618.04].
- Continue to work with the state to: (1) explore future options for streamlining child assessment and reporting requirements, as well as program monitoring requirements, and (2) establish an early education industry partnership that will bring together all necessary parties (including public officials, child care providers, school officials, and institutions of higher learning) to address the needs of the early childhood education workforce. [206618.05].
- Continue to work with the School District of Philadelphia to improve the process for kindergarten transition [206618.06].
- Establish a written implementation plan to provide for universal pre-kindergarten that addresses the possibility of charging parents for pre-k services based on a sliding income scale, as recommended by the UPK Commission. The implementation plan should also be made publicly available to parents, educators, child care providers and others who may wish to offer feedback for possible revisions [206618.07].

We also recommend that the city's Finance Office:

- Immediately start depositing the proceeds of the tax into a special revenue fund that would provide the transparency necessary to ensure that PBT collections are being used to only fund the designated and publicized intentions of the tax [206618.08].
- Work with the Revenue Department to collect outstanding BIRT and wage taxes from providers not complying with their tax obligations [206618.09]. Furthermore, we recommend that MOE provide child

care providers with all the necessary information they need to understand their current and future financial obligations to the city [206618.10].

This appendix provides information on the scope of work and methodology we used to ascertain whether the PBT is being used to increase enrollment in early pre-school education, whether MOE is effectively managing the funds and monitoring the services provided by its Administrative Intermediary, and whether the education providers are in compliance with regulatory and financial obligations associated with the services they provide.

To accomplish our objectives we performed the following:

Obtained background information on the creation of the PBT and how the city intended to use the proceeds of the tax. We also reviewed the recommendations of the Universal Pre-K Commission, along with newspaper accounts documenting the implementation of the program.

Reviewed the current state of pre-k availability in the Philadelphia region and the criteria/methods used by the Commonwealth of Pennsylvania to ensure that the homes, centers, and educational facilities used to teach three- and four- year olds are licensed and accredited to provide this service.

Obtained the city's Request for Proposal that initiated the process for selecting an Administrative Intermediary to oversee the PHL Pre-K Program. We also reviewed the conformed contract with the Intermediary, as well as invoices and monitoring reports prepared by the agency. We interviewed officials involved in the program and obtained their assistance in scheduling and meeting with a select number of educational child care providers.

Selected a sample size of 22 early education providers (25% percent) to review in further detail. We selected our samples from each of the four agencies (or "hubs") subcontracted to provide monitoring services for the Administrative Intermediary. At these locations, we reviewed teacher credentials and clearances, salary information, curriculum used for instruction, and overall appearance and cleanliness of the site.

We performed our work from September 2017 through November 2017 in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States. 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.

CITY OF PHILADELPHIA

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December 18, 2017

Mr. Alan Butkovitz, City Controller
Office of the Controller
1230 Municipal Services Building
1401 John F. Kennedy Blvd.
Philadelphia, PA 19102-1679

Dear Mr. Butkovitz:

The attached document contains the Mayor's Office of Education's formal response to the issues raised in the Controller's report on the City of Philadelphia's new pre-K initiative, PHLpreK.

We welcome the opportunity to review progress to date for a program that has created 250 jobs, helped 50 women and minority-owned small business grow, provided free quality pre-K to 1,000 families living below the poverty line, and earned 97 percent satisfaction rating from parents.

Sincerely,

Otis Hackney
Chief Education Officer
City of Philadelphia

Response to the City Controller's Report on the City of Philadelphia's PHLpreK initiative

As noted in the exit conference on December 14, 2017, there are several points of clarification, as well as modifications that I want to address from the bulleted items on pages 6-7 of the report:

Bullet #1 indicates that forty-four percent of the provider agencies joined at or below STAR level 2 and therefore, did not meet the quality standards recommended by the UPK Commission" (page 6).
This is incorrect. In the second recommendation outlined in the report by the UPK Commission, it was suggested that the Philadelphia Pre-K program be delivered in settings that meet rigorous quality standards or are *"growing into quality"*. Furthermore, the UPK Commission noted that there were high need areas throughout the city that lacked quality pre-K programs. As a result, the City made the decision to strategically partner with existing quality providers that had the ability to expand, as well as providers that were STAR 2 or below, with the intention of assisting those providers in growing to quality.

The report suggests that partnering with lower-quality pre-K centers was due to a "rush" to implement PHLpreK. This is simply not the case. The City was always transparent about its quality improvement strategy, even going so far as to issue two separate, public contracting opportunities in June of 2016 - one for programs already rated quality and one for programs committed to achieving a quality rating within 18-24 months.

This strategic investment has already resulted in the elimination of five "pre-K deserts" and, as of December 8th, 2017, 21 of these providers have moved to quality.

Bullet #2 claims that MOE would not provide your office with "initial site inspection records prepared prior to the selection of a site."
This is incorrect. These records were not site inspections, but rather program assessments based on the Early Childhood Environment Rating Scale -Revised (ECERS-R) tool. MOE is willing to share this information, however it's been our previous experience that doing so requires consent from the childcare providers assessed prior to sharing with a third party.

Bullet #3 claims that the City selected providers that were non-compliant in completing corrective actions plans.

This is incorrect. Non-compliance would result in a downgrade of the provider's state DHS license. Furthermore, there was a thorough vetting process of PHLpreK providers which included:

1.) Convening a committee of expert reviewers to review applications for qualifications including, but not limited to:

2

- Staff Qualifications including requisite credentials and experience
- Background checks (Criminal, child abuse, and FBI)
- Use of an Approved Proven Curriculum aligned to PA Early Learning Standards
- Program location against neighborhood need/supply of quality pre-K
- Fiscal Practices and plans for expansion

2.) Checked state DHS records in COMPASS to ensure full licensure and reviewed inspection reports to ensure that correction plans were followed in instances where infractions had occurred.

3.) Site visits for Growth providers by a PQAS certified evaluator. The site visit included an assessment of each facility using the The Early Childhood Environment Rating Scale -Revised (ECERS-R). The ECERS-R is designed to rate the quality of group child care programs through classroom observation and staff interview. The ECERS-R assesses the following domains: Space and Furnishings; Personal Care Routines; Language Reasoning; Activities; Interaction; Program Structure; and Parents and Staff.

We excluded programs that received low site visit scores, did not meet licensing requirements, did not have realistic plans to expand, lacked the appropriate staffing credentials, and/or were not located in high-need areas.

Bullet #4 claims that the City has not yet established a written policy for removing pre-K providers who have not yet reached the required 3 or 4 STARS quality rating after their initial 18 months in the program.
In our contracts with providers, we do note that they are expected to reach STAR 3 or 4 designation within the first 18 months. At the end of the 2017-2018 school year, we intend to assess providers' continued participation in PHLpreK on a case-by-case basis and will only continue to partner with those that have a demonstrated a commitment to improving the quality of their program. We will remove providers from PHLpreK that have not shown growth in key areas. I am proud to report that 21 out of 38 "Growth" providers improved their quality designation in less than 12 months of participation in PHLpreK, and all participating programs are now rated STAR 2 or above. We will continue supporting the remaining STAR 2 programs as they strive for STAR 3 and STAR 4 quality designation.

Bullet #5 claims that providers overbilled $102,350 for children that were adequately vetted to meet the program's eligibility requirements, but never attended.
The Controller's Office did not provide us with the names of these providers, so we did not have the opportunity to fully address this claim. Unlike other federal and state-funded pre-K programs that pay providers upfront for an entire school year of instruction, PHLpreK requires providers to bill monthly based on actual enrollments. This ensures that any invoicing issues tied to enrollment can be resolved quickly and prevent overbilling from occuring.

Bullet #6 claims that the program runs the risk of being overbilled since policy decisions for dis-enrolling children who are chronically absent rests with the provider.
This is incorrect. A child that is not regularly attending the program after 30 days must be disenrolled. This policy ensures that a provider does not bill for a child that is chronically absent for more than one month.

Bullet #7 claims that there is a potential conflict of interest stemming the PHLpreK Intermediary's role as the Commonwealth of Pennsylvania's Southeast Regional Key.

The City selected PHMC and Urban Affairs Coalition (UAC) to serve as the Intermediary through a Request for Proposals posted on eContract Philly. Acknowledging the need to avoid potential conflicts of interest in the future, the City addressed this issue in the contract with PHMC in Exhibit PA-4:

EXHIBIT PA-4

CONFLICTS OF INTEREST

*The City, UAC and PHMC recognize the importance of transparency and the fact and appearance of propriety in connection with this initiative. They recognize that actual or potential conflicts of interest could arise. The City, UAC and PHMC address them as follows (UAC by incorporating this Exhibit in its contract with PHMC):**

* * *

c. SERK

(i) *The Conflict.* PHMC currently serves as the Southeast Regional Key ("SERK") under contract with OCDEL, pursuant to which PHMC works in partnership with OCDEL to develop and implement an integrated and coordinated system of program quality improvements and professional development supports for Early Childhood Education and School-Age Care programs in Philadelphia and surrounding counties that are funded by State and Federal funds. In this capacity, PHMC is paid to interact with many of the same PHLpreK providers with which it will be contracting under the PHLpreK initiative. The City intends to ensure that City funds do not support activities designated for State funding supported via the SERK.

(ii) *Resolution.* The City and PHMC will confer in good faith with each other and with OCDEL concerning any issues that may arise in regard to PHMC's dual service as the SERK and as the City's Administrative Intermediary. PHMC will confer in good faith with the City and OCDEL regarding anticipated potential impact on PHLpreK of OCDEL defined changes in the SERK scope of services. If the City anticipates that OCDEL defined changes in the SERK scope of services are likely to have an effect of shifting to the City any costs that would otherwise be borne by the Commonwealth, including OCDEL, the City will confer and seek resolution with OCDEL. PHMC will not shift costs to the City independent of action by OCDEL that would require PHMC to take on new activities to meet the deliverables of this contract. PHMC will provide documentation to demonstrate that no State-funded activities were supported by City funding; these documents may include program organizational charts, third party contracts, and samples from the general ledger. PHMC will notify and confer with the City

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if contract terms with the OCDEL change in such a way that may impact its role as the City Administrative Intermediary.

*For their FY 2018 contract, the City and PHMC amended the language of the introductory paragraph to Exhibit PA-4 to include the School District and District 1199C as well as UAC, collectively "Hub Agencies," as follows:

The City, PHMC, and the Hub Agencies recognize the importance of transparency and the fact and appearance of propriety in connection with this initiative. They recognize that actual or potential conflicts of interest could arise. The City, PHMC, and the Hub Agencies address them as follows (Hub Agencies by incorporating this Exhibit in their contracts with PHMC):

Bullet #8 claims that the city has not yet prepared a detailed written implementation plan that would address future expansion of the PHL Pre-K Program, as recommended by the UPK commission.

The City has not finalized a detailed implementation plan due to the ongoing litigation challenging the Philadelphia Beverage Tax, which has left PHLpreK in a holding pattern serving 2,000 students per year instead of ramping up to 6,500 seats as previously planned. We will have a full implementation plan and share it with our PHLpreK Advisory Board for input once the lawsuit challenging PBT is resolved.

Bullet #9 addresses that collection of PBT revenues are currently included in the city's General Fund and not a Special Revenue Fund, a deviation from generally accepted government accounting principles. Consequently, revenues could be used for purposes other than intended.

Based on Government Accounting Standards Board 54 (GASB), which covers Fund Balance Reporting and Governmental Fund Type Definitions, revenues of this type should be recognized in the general fund, not a special revenue fund. When the PBT was established, the City clearly laid out that these revenues would be used for Rebuild and Community Schools in addition to PHLpreK.

Bullet #10 claims that projections for the future use of the PBT show a budget surplus of approximately $117 million that has not been allocated to any project or publicly discussed.

As stated above in response to Issue #9, the City has clearly laid out how the PBT revenues will be used. The City has also been clear about the fact that in the first few years of the tax, as the new programs funded by the tax are being implemented, the expenditures associated with these programs will be less than the total revenue from the tax, resulting in a projected surplus of $72 million over the life of the FY18-22 Five Year Plan. However, this surplus will only exist as the programs are "scaling up" and, by FY21 and each year thereafter, the expenditures are projected to be greater than the revenue generated by the tax.

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Bullet #11 claims that many providers participating in PHLpreK are not current regarding payment of business and wage taxes.

On a monthly basis, all providers are automatically checked for tax compliance and a report is provided by the Department of Revenue to the Mayor's Office of Education as a part of an effort to ensure continuing compliance and alert these community-based (typically women or minority owned businesses) to issues with their accounts. Based on the December 12, 2017 report, of 73 entities checked (note: some operate multiple PHLpreK sites), three had delinquent payments or missing returns and four were not registered or had an issue with their registration that needed to be resolved. The Mayor's Office of Education is working with the provider hubs to notify these seven businesses of their outstanding issues so they can be addressed.

All City taxes are included in the compliance checks, including the Wage Tax and Business Income & Receipts Tax (BIRT). However, many providers are non-profits and not liable for BIRT (they would only be liable if they had income unrelated to their non-profit status). While the Controller's Office found that many providers did not have a registered BIRT account, this is not necessarily an indicator of non-compliance as many do not owe BIRT.

With more than 90% of the providers compliant, this group of businesses is consistent with all Philadelphia taxpayers; who 9 times out of 10 pay their taxes on time. The Department of Revenue works with pre-K providers and all businesses to improve the on-time collection rate and get those who have fallen behind into compliance by either paying in full or entering into a payment agreement.

In addition to these bulleted items, I'd like to clarify additional issues identified in the report:

- **Photographs represented:** While the images included in the report on pages 9-13 are cause for concern, they do not represent the PHLpreK site where PHLpreK students are served. Instead, they depict an independent private elementary school adjacent to the PHLpreK program. PHLpreK students' food is not prepared there, contrary to what the report suggests.

- **State Licensure Requirement:** On page 17, the report claims that one provider only had a provisional Certificate of Compliance. During the first round of contracting, providers were also eligible to apply to become a PHLpreK provider if they held a "Private Academic License" issued by the Pennsylvania Department of Education. The provider referenced on page 17 possessed a Private Academic License and has a proven history of delivering educational programming, with a special emphasis on serving children with Special Needs. Additionally, this provider operates two Head Start locations which further demonstrated its ability to implement and expand quality pre-K.

It is the policy of the Controller's Office to comment on a department's response where we believe the department has misunderstood our report or where we disagree with the department's characterization of facts or circumstances. Our evaluation of MOE's response is discussed in the sections that follow.

Bullet #1 - Quality Expectations

While the UPK Commission report allowed for the selection of providers who were "growing into quality," the recommendation specifically stated that this would include Keystone 3 and 4 programs and STAR 2 programs that are identified as "STAR 3 Ready". Several of the STAR 2 providers have not shown movement within the first year of the program, thereby indicating that they were not "STAR 3 Ready" when the city first contracted with them.

Bullet #2 - Quality Expectations

By the written agreement between the Mayor's Office and the consultant who performed pre-selection program assessments of the initial providers, ownership of all reports, documents, and other materials prepared by the consultant in performance of the agreement become the property of the city. Such reports and documentation are subject to review since this service was performed using taxpayer dollars, and in accordance with Section 6-400 of the Philadelphia Home Rule Charter, the City Controller is authorized to audit any entity (i.e. MOE) that receives funding from the city. The unitary contract between the provider and its designated hub also contain a similar clause, which further states that the city may audit "all aspects of its (the provider's) performance" and that its "books, records, reports and other materials shall be subject to audit by the city."

Bullet #3 - Child Care Settings

As stated in our report, our testing showed that many of the initial providers participating in the PHL Pre-K Program showed deficiencies in COMPASS that were cited in the current and preceding years. While the providers may have addressed these findings in their corrective action plans, the continued citing of the same deficiencies appears to indicate that corrective procedures were not adequately implemented.

Bullet #4 - Child Care Settings

MOE acknowledges that they will consider removing early education providers who have not "demonstrated a commitment to improving quality." However, these providers have contractual compliance obligations to attain STAR 3 status within 18 months. Furthermore, their policy will need to address how it intends to work with families to relocate currently enrolled PHL Pre-K children to other sites, should a site not comply with this requirement.

Bullet #5 - Program Monitoring

We provided MOE with the identity of the hub showing flaws in their billing procedures. While MOE states that the PHL Pre-K Program requires providers to bill monthly based on actual enrollments, it does not address what is happening when there is no verification that the students approved for enrollment are receiving services at those sites. Our testing found several instances were children were listed as enrolled per the hub records, but not shown as enrolled per the sites' actual records.

Bullet #6 - Program Monitoring

Hub administrators have confirmed that there is no overarching policy for the disenrollment of chronically absent children, specifying that disenrollment decisions are made at the provider level.

Bullet #7 - Program Monitoring

The contract between PHMC and the city does address this apparent conflict of interest, stating that the city and PHMC will "confer in good faith with each other and with OCDEL concerning any issues that may arise in regard to PHMC's dual service as the SERK and the city's Administrative Intermediary." This resolution falls short of transparency goals as it does not publicly disclose this relationship or any subsequent matters that may arise.

Bullet #8 - Process for Developing the Implementation Plan

The UPK Commission's recommendation for a detailed implementation plan that was to be developed transparently and in partnership with community stakeholders should have been created prior to the inception of the PHL Pre-K program.

Bullet #9 - Revenue to Fund Pre-K – Collection of PBT Not Recorded in a Special Revenue Fund

GASB 54 does specifically address revenues of this type, namely taxes on sugar-sweetened beverages. Rather, it states that special revenue funds are to be used to account for and report the proceeds of specific revenue sources that are committed to expenditure for specified purposes. Since MOE states in their response that the city clearly laid out that these revenues would be used for Rebuild, Community Schools and PHL Pre-K, this supports our position that the PBT proceeds should be reported in a Special Revenue Fund.

Photographs Represented

We acknowledge, and have stated in the report, that the building in question is not currently used to provide educational services to PHL Pre-K children. However, the PHL Pre-K program does contract with the independent school provider to offer the PHL Pre-K services in a trailer on the property.