

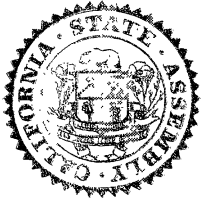
REPORT OF THE
OFFICE OF THE AUDITOR GENERAL

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THE STATE PRESCHOOL PROGRAM

A REVIEW OF FUNDING,
ADMINISTRATION, AND CONTROLS

JANUARY 1978



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



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February 1, 1978

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's review of the funding, administration and controls of the State Preschool Program as requested by the 1977 Budget Act Conference Committee.

The Auditor General's report reflects weaknesses in (1) productivity measurement because of a lack of program and funding standards and (2) compliance with Department of Education guidelines. Competition between private agencies for available funds is also absent unless a contractor terminates. Improvement is unlikely unless the Legislature requires performance.

By copy of this letter, the Department is requested to advise the Joint Legislative Audit Committee within sixty days of the status of implementation of the recommendations of the Auditor General that are within the statutory authority of the Department.

The auditors are Kurt R. Sjoberg, Audit Manager; Steven L. Schutte, William S. Aldrich and Samuel D. Cochran.

Respectfully submitted,

MIKE CULLEN
Chairman

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SUMMARY

The State Preschool Program is a state-supported part-day educational service for prekindergarten age children. The primary purpose of the program is to prepare children of low income or disadvantaged families for success in school. The program is administered by the State Department of Education (SDE). Preschool classes are conducted at the community level by local agencies. In 1975-76, \$22.9 million was made available to 186 local agencies to serve 19,228 children.

We reviewed fund allocation methods and analyzed program costs reported by local agencies. We reviewed local agency audit reports and on-site monitoring efforts by SDE. We selected seven local agencies for audit and tested attendance, enrollment and fiscal procedures for compliance with SDE guidelines. We did not attempt to measure program success because there appears to be no authoritative source for effectiveness measurements. Our audit was performed concurrently with an SDE audit of preschool agencies. We found that:

- The amount of state funds allocated per child to local agencies varies greatly, causing possible inequitable educational opportunities for the children being served. SDE's method of allocating funds to local agencies does not adequately evaluate agency costs or identify areas of greatest need (see page 7)

- SDE's organization to manage the State Preschool Program is uncoordinated and results in inconsistent site monitoring practices, ineffective review of fiscal reports and duplication of effort (see page 17)
- School district audit report requirements are inadequate (see page 25)
- SDE's methods of reviewing financial reports and controlling agency operations are inadequate (see page 25). As a result, local agencies are not complying with SDE program guidelines (see page 30).

We recommend that SDE improve its fund allocation methods by adopting reasonable per capita funding standards, consider a periodic funding cycle and perform a periodic needs assessment. We also recommend that SDE coordinate its management of the State Preschool Program, establish service areas for local agencies, designate fiscal review and control responsibilities and assure that monitoring activities are conforming to policy (see pages 15, 24, and 35).

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have reviewed certain State Preschool Program activities.

The Committee of Conference on the Budget Bill recommended that "the Auditor General in conjunction with the Department of Education, shall conduct an audit of selected preschool programs and master contracts to cover, in particular, grant determination, pupil attendance reporting, and administrative costs." The Budget Act of 1977 declared the Legislature's intent to carry out the recommendations of the Conference Committee.

Education Code Section 8211(f) defines the State Preschool Program as a part-day educational service for prekindergarten age children. The primary purpose of the program is to prepare preschool age children to enter community educational programs when they reach school age. Preschool programs also provide health services, social services, nutritional services, staff development, parent participation and parent education. It is the Legislature's intent that enrollment priority be given to children of low-income and disadvantaged families.

The State Department of Education (SDE) is responsible for administering the State Preschool Program. Preschool funds under SDE's control are available to local agencies from the following state and

federal sources: (1) the State Preschool Program, (2) the Educationally Disadvantaged Youth Program, (3) the Elementary and Secondary Education Act Title I Program, (4) the Child Care Food Program and (5) the National School Lunch Program. We directed our review toward the administration of State Preschool Program funds.

State preschool programs may be operated by either public or private agencies. Eligible public agencies include school districts, offices of county superintendents of schools, community college districts, state colleges and state universities. In fiscal year 1975–76 SDE allocated \$22.9 million in State Preschool Program funds to 186 local agencies to service 19,228 children. Four of these agencies (master contractors) subcontract operational responsibility to approximately 46 delegate agencies.

Education Code Section 8243.5 requires SDE to report annually to the Joint Legislative Budget Committee, documenting the performance of the State Preschool Program. The first report was due November 1, 1977. The report had not been submitted as of January 1, 1978.

Scope of Review

This audit was done concurrently with an SDE preschool audit. SDE audited the Greater Los Angeles Community Action Agency and has issued a separate report dated December 6, 1977. We have audited other preschool agencies and certain SDE administrative practices. We attended various meetings with the SDE audit team and advised SDE

administration of our audit plans. At the time of this report, SDE has selected two other preschool agencies to audit: the dioceses of San Diego and Telegraph Hill Neighborhood Association.

We reviewed SDE's method of determining which preschool agencies will receive funds, the amount of funds agencies will receive and the number of children to be served. We also reviewed the method by which a master contractor suballocates funds to delegate agencies. Expenditure and attendance data reported by agencies for fiscal year 1975-76 were input and analyzed on our in-house computer. We also made various cost comparisons between agencies to identify any operational inconsistencies.

State preschool agencies are audited annually by private accounting firms. SDE periodically monitors agencies for program quality and compliance with state preschool guidelines. We checked the audit reports and on-site evaluation instruments of 59 randomly selected agencies to determine compliance with audit instructions and audit exceptions relating to the State Preschool Program. We also determined whether SDE had taken any follow-up action on problems noted. We reviewed on-site evaluation instruments to identify SDE's monitoring effort and to confirm that monitoring activities conformed to department policy.

We reviewed various preschool program evaluation studies in an attempt to identify how effectively the programs prepare children for school. The studies generally conclude that preschool programs provide

some positive results, but that there is little measurable effect on cognitive abilities or subsequent school progress. The Governor's Advisory Committee on Child Development Programs pointed out a need to obtain total developmental data rather than relying on cognitive achievement scores in measuring program effectiveness. There appears to be no authoritative source for preschool program effectiveness measures. We did not therefore attempt a qualitative evaluation.

We reviewed the preschool programs for compliance with State Preschool Program guidelines at seven local agencies. We evaluated attendance reporting procedures and tested them for accuracy. We reviewed selected expenditures to determine whether program costs reported to SDE were allowable and applicable to the program. In addition, we reviewed administrative costs for reasonableness and consistency with SDE instructions. The seven local agencies are:

<u>Agency</u>	1976-77 Allocation	
	<u>Dollars</u>	<u>Children</u>
Del Paso Heights School District, Sacramento County	\$156,089	120
Golden Day Schools, Inc., Los Angeles County	60,197	45
Human Resources Agency of San Bernardino County, San Bernardino County	716,109	583
Lindsay Unified School District, Tulare County	18,801	30
Marin County Superintendent of Schools, Marin County	75,465	60
Pasadena Community Services Commission, Inc., Los Angeles County	141,040	95
San Diego Unified School District, San Diego County	678,796	705

AUDIT RESULTS

PRESCHOOL FUND ALLOCATION PROCESS
NEEDS IMPROVEMENT

The amount of State Preschool Program funds allocated per child to local agencies varies greatly. This can cause inequitable educational opportunities for the children being served. The State Department of Education (SDE) does not make periodic needs assessments nor perform cost evaluations to ensure that funds are being applied to areas of greatest need at the minimum cost possible. Two of the seven agencies we visited demonstrated questionable need for the level of state funding they were receiving.

Wide Variation in Preschool Funds
Allocated to Agencies

SDE annually allocates State Preschool Program funds to local agencies to provide preschool services for a predetermined number of children. In fiscal year 1975–76 SDE allocated \$22.9 million statewide to serve 19,228 children. The amount allocated statewide to individual agencies, however, varied from a high of \$1,913 per child to a low of \$627 per child.

Various factors can affect the agencies' funding needs. SDE officials indicate that food, rent and transportation costs can justifiably differ from agency to agency. Geographic location can also be a factor contributing to cost variations.

To determine whether program costs varied after these factors were considered, we computed an adjusted cost per child by eliminating food, rent and transportation costs from total preschool program costs reported by individual agencies in fiscal year 1975–76. We then compared the adjusted costs per child and computed the disparity between agencies within the same county.

Of the 29 counties* we analyzed, three had preschool agencies with adjusted cost differences in excess of \$600 per child. Three counties had agencies with adjusted cost differences between \$400 and \$600 per child. Fourteen counties had adjusted cost differences between \$200 and \$400. Nine counties had adjusted cost differences of less than \$200.

State Preschool Program guidelines require agencies to operate between 120 and 180 days during a school year. We also compared agencies with the same approximate number of operating days for any disparity in funding levels.

* It was impossible to compare agencies in 13 counties because these counties had only one state preschool agency.

Following are examples of the greater disparities we found:

<u>Grantee</u>	<u>1975-76 Allocation Dollars</u>	<u>Children</u>	<u>Per Child Allowance</u>	<u>Adjusted Per Child Allowance</u>
<u>Tulare County</u>				
Lindsay Unified School District	\$18,801	30	\$ 627	\$ 580
Palo Verde School District	18,630	15	1,242	1,204
<u>Los Angeles County</u>				
Monrovia Unified School District	76,572	75	1,021	955
Pasadena Community Services Commission, Inc.	141,040	95	1,485	1,347
<u>Riverside County</u>				
Beaumont Preschool Corporation	28,493	30	950	665
Jurupa Unified School District	57,818	45	1,285	1,249

Instructional salaries appear to be the major cause for large adjusted cost differences. For example, Lindsay Unified School District spent only \$411 per child on instructional salaries while Palo Verde School District spent \$976; and the Beaumont Preschool Corporation spent \$329 while Jurupa Unified School District expended \$720 per child.

Instructional salary costs can vary depending on the number of staff, salary rates and number of hours paid. Three agencies we visited conducted three and one-half hour daily class sessions. One of these agencies paid its teachers for eight hours, another paid for seven and another paid for only four. The Department of Finance's 1974 preschool audit reported that some preschool agencies were unnecessarily employing credentialed teachers with generally higher pay scales than teachers with Children's Center permits.

Disparities in funding also exist in categories other than instructional salaries. Jurupa Unified School District, for example, budgeted supplies and equipment amounting to an average of \$189 per child from fiscal year 1974-75 through fiscal year 1976-77. During the same period, the Beaumont Preschool Corporation averaged only \$44 in budgeted supplies and equipment expenditures for these categories.

According to SDE Accounting Office records, the disparity in funding levels between agencies has existed since fiscal year 1971-72. A former SDE official added that the differences in funding levels began in 1965, the first year of the program.

The Supreme Court of the State of California recently ruled that substantial disparities between school districts in per pupil expenditures cause and perpetuate disparities in the quality and availability of educational opportunities. The Court ruled there was a distinct relationship between cost and the quality of opportunities provided. The court opinion addressing the issue of California public school financing in *Serrano v. Priest* (18 C.3d 728) states:

Substantial disparities in expenditures per pupil among school districts cause and perpetuate substantial disparities in the quality and extent of availability of educational opportunities. For this reason the school financing system before the court fails to provide equality of treatment to all the pupils in the state. Although an equal expenditure level per pupil in every district is not educationally sound or desirable because of differing educational needs, equality of educational opportunity requires that all school districts possess an equal ability in terms of revenue to provide students with substantially equal opportunities for learning. The system before the court fails in this respect, for it gives high-wealth districts a substantial advantage in obtaining higher quality staff, program expansion and variety, beneficial teacher-pupil ratios and class sizes, modern equipment and materials, and high-quality buildings.

There is a distinct relationship between cost and the quality of educational opportunities afforded. Quality cannot be defined wholly in terms of performance on statewide achievement tests because such tests do not measure all the benefits and detriments that a child may receive from his educational experience. However, even using pupil output as a measure of the quality of a district's educational program, differences in dollars do produce differences in pupil achievement.

Although the Court's opinion is not directed at the State Preschool Program, it does raise questions about the effect of funding disparities we identified in the preschool program.

SDE recognized disparities existed in the preschool program in fiscal year 1972–73 and attempted to set a per child limit (per capita maximum) on the amount of funds allocated to agencies. SDE staff indicated the per capita maximums were rarely enforced and were dropped in fiscal year 1975–76.

SDE Is Not Performing Cost Evaluations

SDE allocates State Preschool Program funds to agencies based upon the previous year's allocation. There is no evaluation of agency costs. Education Code Sections 8243 and 8251 require that child development programs (including preschool programs) be provided at the minimum cost possible, and that maximum reimbursement rates for the delivery of services be established. SDE has no procedure to assure that minimum cost is being effected, nor have they established maximum reimbursement rates.

Program Need is Not Being Assessed

SDE has generally allocated State Preschool Program funds to the same state preschool agencies year after year. Once its original application is accepted, an agency is virtually assured of being funded in subsequent years. Despite a list of potential applicants, SDE disallows competing for grants unless a recipient leaves the program, thereby creating a vacancy. Of the 166 public and private agencies receiving State Preschool Program funds in fiscal year 1971–72, 145 were still in the program in fiscal year 1976–77.

SDE officials stated that they prefer to fund the same agencies yearly because it takes several years for a preschool program to begin functioning smoothly. To cancel one program in favor of another would cancel the gains made by that program. Further, quality employees would be difficult to keep if they could not be assured of a stable job situation.

The Federal Government's Head Start Program operates under a four-year funding cycle. At the end of the cycle the grantee must reapply for available funds along with those agencies applying for the first time. Priority is given to currently funded agencies only as long as they meet established program and fiscal requirements.

SDE's policy of annually renewing grants for the same applicants does not allow adequate determination of demand for preschool services or availability of other preschool services provided in the same area. Although the federal Head Start Program requires that agencies identify the need for Head Start services in their areas, and the SDE assesses the statewide need for child care services as required by Title XX of the Social Security Act, statewide needs for preschool services are not specifically addressed in the assessment.

Funds for preschool services are available to local agencies through various state and federal programs. In addition to the State Preschool Program, agencies may be receiving funds from: the Head Start

Program, the Elementary and Secondary Education Act Title I Program (Financial Assistance for Educationally Deprived Children of Low Income Families), the Educationally Disadvantaged Youth Program, and the Parent Participation Nursery School Program. Preschool agencies may also be receiving funds for nutrition services through either the Child Care Food Program or the National School Lunch Program. Although SDE administers all but the Head Start Program, data on preschools is not routinely accumulated and made available to State Preschool Program administrators. State Preschool Program funds are therefore allocated to agencies without knowledge of the extent of service or the level of funding provided under the other programs.

Two of the seven preschool grantees we visited demonstrated questionable need for some of the funds that they were allocated. Del Paso Heights School District in Sacramento County did not maintain full child enrollment throughout school year 1976–77, was enrolling 95 percent of its preschool children for more than the recommended one year, did not have a waiting list as required, and was having difficulty finding children to enroll for the current year. The Marin County Superintendent of School's Office was also enrolling approximately 40 percent of its children for more than one year. It too had no waiting list. The Office was recruiting children between the ages of two years nine months and five years to fill its quota. The age limits stipulated by the SDE guidelines are three years to four years nine months, with children between three years nine months and four years nine months receiving priority. SDE files

contain numerous ungranted requests from organizations stating a need for preschool programs in their areas. Thus, some of the funds granted these two agencies might possibly have been used to serve children where the demand is more evident.

CONCLUSION

The wide variation in the amount of State Preschool Program funds allocated to local agencies appears unjustified. Disparity in program funds available to agencies affects the agencies' ability to provide equal opportunities for child development. SDE's method of allocating funds does not adequately evaluate agency costs nor effectively identify needs for services. SDE does not utilize a per capita funding standard, systematically assess program needs or accumulate data on the preschool effort statewide.

RECOMMENDATIONS

We recommend that SDE:

- Develop per capita funding standards for the State Preschool Program. These standards could include a base reimbursement per child that all grantees would be eligible to budget to, but not exceed. Necessary adjustments for rent, transportation, nutrition services and regional differences could be added to the base amount.

- Adopt a periodic funding cycle
- Perform periodic needs assessments
- Establish informational relationships between programs providing funds for preschool services within the State. The information should be coordinated by State Preschool Program administrators and utilized to pinpoint areas of greatest need.

BENEFITS

Per capita standards would ensure that (1) applicant budgets are weighed against a set of measurable standards and (2) more equitable funding is assured to all recipients while still considering their individual needs. A periodic funding cycle would provide SDE a larger number of applicants from which to choose. Thus, SDE could be more selective in evaluating applicants for quality and program cost. A periodic needs assessment would aid SDE in ensuring that preschool funds are being put to the best use.

ORGANIZATION OF STATE PRESCHOOL
PROGRAM MANAGEMENT NEEDS IMPROVEMENT

State Preschool Program administrative responsibilities are divided primarily among four units within SDE. This division of responsibilities and the lack of coordination and control of these units has resulted in inconsistent on-site monitoring, ineffective review of fiscal reports and duplicative effort.

The four units directly involved in administering the State Preschool Program are:

- The Elementary Education Program Management
- The Office of Child Development
- The Consolidated Application and Resources Management
- The SDE Accounting Office.

Although SDE recognizes the need to establish agreement on responsibilities and standardized procedures, the intradepartmental assistance agreement for preschool programs has been in draft form for over a year.

Different Methods of Selecting
Agencies for Site Visits

SDE has two different policies for selecting preschool program agencies for site visits. The Office of Child Development's policy is to visit each of its agencies at least annually to determine compliance with State Preschool Program guidelines. The Elementary Education Unit's policy is to review a preschool program whenever that school is monitored for compliance with state and federal regulations pertaining to other educational programs. In selecting schools to be monitored, the Elementary Education Unit gives priority to schools with new early childhood educational programs.

The two methods of selecting agencies for monitoring resulted in less frequent visits to school district than non-school district preschool programs. We sampled 59 preschool agencies (31 school district and 28 non-school district agencies) to identify site visits by SDE staff during fiscal years 1975–76 and 1976–77.

Preschool programs in only 12 of the 31 school district agencies, or 39 percent, were monitored during this period. In comparison, 26 of the 28 non-school district agencies (or 93 percent) were monitored during this same period. Office of Child Development staff state that all non-school district agencies in our sample were monitored but the records for two had been misplaced or lost.

Different Evaluation Procedures

Compliance screening instruments (checklists) are used during site visits to determine an agency's compliance with State Preschool Program guidelines. The Office of Child Development utilizes a three-phased monitoring system, while the Elementary Education Unit uses a one-phase approach which covers fewer areas.

The Office of Child Development's Phase I consists of reviewing agencies' admission and personnel policies, staff qualifications, staff/child ratios, health practices and facilities. Phase II is a check for completeness of attendance, eligibility determination and fiscal procedures. Phase III is an assessment of program quality.

In fiscal year 1976-77 the Elementary Education Unit's monitoring system consisted of a 16-point checklist broadly covering health practices, staff/child ratios and attendance procedures. School districts' admission and personnel policies, facilities and fiscal procedures are not included in the school site monitoring process. Elementary Education staff stated that a more comprehensive compliance instrument is being developed.

Most school district policy and fiscal procedures are controlled at the district level rather than the school level. As a result, the Elementary Education Unit is able to review categorical aid programs at the district level for compliance with state and federal regulations. Preschool program requirements are not, however, included in this evaluation.

State Preschool Program Administrative Funds
Are Used on Other Programs

School district preschools are monitored less frequently and less comprehensively than non-school district preschools. An Elementary Education official stated that the preschool program is given lower priority than other programs administered by his unit. He claimed that administrative budgets for the other programs were insufficient to give them the attention they required. Consequently, funds appropriated for preschool administration were used in support of non-preschool programs.

Unmonitored High School District Preschool Programs

Two high school districts operating state preschools were not monitored by either the Office of Child Development or the Elementary Education Unit during fiscal year 1976–77. Staff from each unit thought the other had the responsibility. At the time of our audit, the responsibility was still undesignated. An Office of Child Development official indicated that they would voluntarily visit the sites.

Ineffective Review of Monthly Fiscal Reports
and Year-End Reimbursement Claims

Monthly expenditure and attendance reports and year-end reimbursement claims are currently reviewed by SDE Accounting Office staff. They are not reviewed by either the Consolidated Application and Resources Management unit, the Office of Child Development or the

Elementary Education Unit. Since program personnel are not monitoring monthly fiscal and attendance data, problems developing at the agencies may go undetected.

For example, monthly attendance reports of two school districts—Del Paso Heights School District and Long Beach Unified School District—indicated they were not maintaining full enrollment. These two agencies, however, maintained sufficient attendance to receive full reimbursement for the year. (It is SDE policy to fully reimburse agencies if their average daily attendance for the year, including excused absences, exceeds 93 percent of the contracted number of children to be served.) If program personnel had monitored monthly reports, preschool funds could have been more effectively used by adjusting the contracted enrollment of these agencies more in line with their actual attendance. The funds made available could then be reallocated to other preschool agencies.

Year-end reimbursement claims are not being reviewed and approved by SDE administrative units responsible for monitoring the agencies' activities. SDE Accounting Office staff stated they assumed the responsibility to review the claims for compliance with preschool guidelines because they were not confident the job would be done otherwise. We feel the SDE Accounting Office is to be commended for its conscientious efforts to protect the State's interest. These duties, however, are designated staff responsibilities of the other administrative units. For example, the duty statement for Office of Child Development staff consultants indicates approximately seven percent of their time is devoted to reviewing fiscal and attendance reports.

Duplication of Effort

Some preschool programs are receiving State Preschool Program funding directly from SDE and indirectly through other state preschool agencies. This indicates a lack of coordination and a failure to define program target areas by SDE. This situation can cause duplication of effort and inefficient use of funds.

State Preschool Program guidelines do not allow agencies to act as both applicant agencies and delegate agencies. Community Care and Development Services, Inc., however, applies directly to the SDE Office of Child Development for State Preschool Program funds to provide preschool services for 15 children and also receives State Preschool Program funds delegated to it by the Greater Los Angeles Community Action Agency to serve 278 children. This dual funding causes duplication of effort. Specifically, two different funding applications and audit processes are performed rather than just one, and two different Office of Child Development staff members are assigned to one agency to perform the same type of consulting services. SDE staff stated this situation was originally caused by certain federal requirements in effect prior to 1973 when the preschool program was primarily supported by federal funds.

We noted other dual funding arrangements where the potential for duplication of effort exists. For example, preschool classes in four school districts are operated with State Preschool Program funds received directly from SDE and provided indirectly through Los Angeles County

Schools, a delegate of the Greater Los Angeles Community Action Agency. Preschool classes at one Los Angeles County location are operated with State Preschool Program funds provided directly from SDE and indirectly from another state preschool agency. Operating separately funded preschool programs at the same location could lead to a duplication of effort in consulting services and administrative costs. SDE officials were unaware of these funding arrangements prior to our audit.

Previous Preschool Administrative Organization

Prior to 1974 all State Preschool Program agencies were under the control of SDE's Office of Child Development. The California Administrative Code has since required school districts to apply for State Preschool Program funds on an application form consolidating various categorized aid programs. Responsibility for allocating funds to school district applicant agencies was consequently given to the Consolidated Application and Resources Management unit. Program responsibilities were assigned to the Elementary Education unit. Many school districts, however, still indirectly receive State Preschool Program funds from the Office of Child Development through other agencies. As a result, some school districts are still subject to the policies and practices of the Office of Child Development while those who receive their funds directly are subject to the policies and practices of Elementary Education Program Management.

CONCLUSION

SDE's management of the State Preschool Program needs improvement. The division of responsibilities and the lack of centralized direction, control and coordination have resulted in inconsistent monitoring practices, inadequate review of fiscal data and potential duplication of effort.

RECOMMENDATIONS

We recommend that the State Department of Education:

- Establish a preschool management organization under a single administrator responsible for all preschool programs to provide leadership, direction and control. This should include a combination of complementary functions and standardization of policy and procedures. Alternatively, SDE could execute an intradepartmental assistance agreement which delineates responsibilities and authorities, and designates a single program administrator.
- Establish fiscal review and control responsibilities
- Eliminate the duplication of operating sites by establishing service areas for each state preschool applicant agency.

SDE IS NOT EFFECTIVELY CONTROLLING
LOCAL PRESCHOOL AGENCIES

The State Department of Education has not effectively controlled financial and program operations of the State's Preschool Program. As a result, certain local agencies are not in compliance with State Preschool Program guidelines. SDE needs to improve the school district audit guide, follow up on local agency audit exceptions and improve on-site monitoring practices.

School District Audit Guidelines
Need Improvement

The Department of Finance, with the cooperation of the Department of Education,* prescribes the content of school district and county superintendent of schools audit reports filed with the State. School district audit reports are required to contain a positive statement that state preschool fiscal and attendance reports submitted by the district as the basis for state reimbursement were examined for correctness. The audit reports are not required to separately identify preschool program expenditure and attendance data. This type of data is, however, required in audit reports of all non-school district preschool agencies.

* Chapter 936, Statutes of 1977 (effective January 1, 1978), requires the Department of Finance, in cooperation with the Auditor General and the Department of Education, to review existing audit procedures, statements and other information required in audit reports of school districts and county superintendents.

Presently, school district audit reports cannot be utilized by the SDE Accounting Office to verify data on reimbursement claims as is done with non-school district audit reports because they do not contain sufficient information. In addition, SDE cannot be assured that school district auditors are actually reviewing preschool reports. We visited preschool programs operated by three school districts and one county superintendent. Three of these agencies' auditors did not examine the actual report submitted to the State. One school district auditor stated that the positive statement permitted discretion in performing certain audit work.

No Follow-up on School District Audit Reports

Audits of school districts and county superintendents of schools are filed annually with SDE. SDE currently checks the reports for the number and type of audit exceptions. Present follow-up procedures are limited to audit exceptions dealing with regular school attendance or apportionment data and management suggestions. Audit exceptions impacting on preschool programs are not transmitted to the appropriate administering divisions within SDE for follow-up action. Currently, neither SDE nor the Department of Finance checks audit reports for the required minimum content.

We reviewed a sample of 37 school district and county superintendent fiscal year 1975–76 audit reports for audit exceptions impacting on preschool and for the required minimum content. Nine (24 percent) contained general audit exceptions which may affect preschool programs. Two (5 percent) had exceptions pertaining specifically to state preschools. Seventeen (46 percent) were received by SDE after the December 31 deadlines; and nineteen (51 percent) did not contain a required statement certifying the accuracy of preschool financial and attendance reports submitted to the State. In addition, 23 (62 percent) contained no evidence of a Child Development Fund as required by the Education Code; and 20 (54 percent) did not contain a required statement about the disposition of prior audit recommendations.

On December 21, 1977, SDE forwarded guidelines to assist county superintendents in their efforts to correct audit discrepancies relating to local funds. Included in these guidelines is a request that the county superintendents notify SDE of exceptions related to state programs.

Inadequate Follow-up Procedures on
Non-School District Audit Reports

SDE's Office of Child Development staff are responsible for examining recordkeeping procedures, reviewing fiscal and attendance reports and verifying statistical information of non-school district

agencies. Audit reports of these agencies, however, are currently reviewed in only a routine manner by SDE Accounting Office personnel with no systematic follow-up by the Office of Child Development.

Unresolved audit exceptions can lead to long-term uncorrected problems. For example, the annual preschool audit for fiscal year 1974-75 of the Greater Los Angeles Community Action Agency reported improper documentation of excused absences. This problem was never corrected, however, since the recent SDE audit of the agency disclosed that excused absences were improperly documented again in fiscal years 1974-75 and 1975-76.

SDE's Internal Audit Office intends to start reviewing non-school district agency audit reports. The review process, however, has not been defined and follow-up procedures have not been established.

Inadequate Site Monitoring

SDE administrators are ineffectively controlling monitoring activities of subordinates, and some SDE staff are inadequately reviewing local agency operations. SDE's Elementary Education unit monitor and review teams inspect elementary school sites for compliance with federal and state regulations. When the teams visit a school site with a preschool program it is department policy to examine the program for compliance with preschool guidelines. During the two-year period ending June 30, 1977, 41 of 78 elementary school sites (with preschool programs) which we

sampled were visited by monitor and review teams. SDE files indicated that the teams did not examine the preschool programs at 16 of the 41 sites visited. Team supervisors were unaware that some preschools were being overlooked.

Non-school district agencies are reviewed for compliance with preschool guidelines by the Office of Child Development. It is this Office's policy to visit each preschool site annually. We selected a sample of 28 agencies to confirm actual site visits. The site visits were difficult to confirm because (1) agency files were maintained at different locations throughout the office, (2) the files, when found, were sometimes incomplete and (3) office management had no process by which to routinely measure staff activities. Records were in such disarray that it required repeated attempts over a two-month period to locate the necessary documents. Site visits were eventually confirmed in 26 of the 28 agencies sampled. There is no routine record comparing staff activities completed with staff activities planned to help SDE management assure that actions conform to policy. The State Preschool Program supervisor agreed that a central filing system would improve information available to management.

During our review we identified problems at local agencies that were unreported by SDE staff. For example, one agency was not keeping required attendance records, did not have a waiting list, was enrolling children beyond required age limits and did not have two bids for transportation services on file. This agency was monitored approximately one month earlier by the Office of Child Development staff and was found to be compliant in all areas.

Some Local Agencies are Not Complying with Program Guidelines

We reviewed the preschool programs at seven local agencies primarily for compliance with State Preschool Program guidelines. We found items of noncompliance which should have been resolved by SDE through annual audits and site visits.

Attendance reporting

The Education Code requires preschool agencies to record attendance and verify absences in accordance with SDE requirements. Children who are absent because of illness or quarantine are considered to be in regular attendance for the purpose of reporting attendance for state reimbursement. SDE's State Preschool Program guidelines prescribe the attendance reporting requirements. We found the following instances of noncompliance with attendance reporting requirements at the seven agencies we visited:

- Three agencies were not verifying all excused absences with statements signed by either a staff member, parent or doctor
- Two agencies were inconsistently using codes for recording presence, excused absence and unexcused absence
- Four agencies were not maintaining attendance registers with teacher's original signature and a statement of verification by the teacher
- Two agencies were reporting excused absence for reasons other than illness or quarantine.

Enrollment

It is the intent of the Legislature that priority be given to children of low-income and disadvantaged families. State Preschool Program guidelines prescribe standards for determining eligibility and priority of service. The guidelines also specify enrollment procedures to be followed by local agencies. At the seven local agencies visited, we found that:

- Two agencies enrolled children whose enrollment applications were not all certified as low-income or circumstantially disadvantaged by a program administrator
- Three agencies were not verifying the family income of all low-income status children.

State Preschool Program guidelines recommend that priority be given to enrolling children who are from three years, nine months to four years, nine months of age in order to give more children the opportunity for a year of preschool experiences before entering kindergarten. Three of the seven agencies visited were routinely enrolling children to attend preschool classes for two years. As mentioned earlier, SDE files show an unfilled demand for preschool services in California. Consequently, children attending classes for two years are displacing other children in need of preschool services.

Waiting Lists

Preschool guidelines require agencies to maintain waiting lists so that children meeting eligibility standards are readily available to ensure full enrollment. Two of the seven agencies visited did not have waiting lists. Without waiting lists agencies may experience delays in finding replacements. The absence of waiting lists may also indicate a low demand for services in the area or inadequate agency recruitment procedures.

Child Development Fund

The Education Code requires school districts and county superintendents to establish a child development fund for the deposit and disbursement of funds which include State Preschool Program funds. Only state monies appropriated for support of preschool services and federal funds may be expended for preschool services. All three of the school district agencies visited were combining the State Preschool Program funds with their general funds.

Rent

State Preschool Program guidelines do not allow reimbursement for rent of facilities owned by the applicant agency. A notice sent to all preschool agencies in fiscal years 1976–77 and 1977–78 stated:

Expenditures for rent may not be made on a facility that is owned or being acquired by the applicant agency, or by its officers, employees or board members.

One agency visited, a corporation, was reimbursed for rent paid to two private individuals who were also the corporation's president and vice-president. SDE has been aware of this situation for over two years but has failed to take any decisive action. As a result, SDE may be unnecessarily reimbursing the agency for rental charges. Also, such nonenforcement of program requirements against one agency results in inconsistent enforcement of program requirements.

CONCLUSION

School district audit report requirements are inadequate for the needs of State Preschool Program administrators. Auditors should be reporting actual program expenditure and attendance data. SDE has not effectively followed-up on audit report exceptions. Audit reports are not reviewed for conformance with audit guidelines, and audit exceptions affecting the State Preschool Program are not identified and transmitted to the appropriate administering divisions within SDE.

SDE administrators are not effectively controlling local agency monitoring activities of subordinates. There are no processes by which to routinely assure that monitoring activities conform to department policy. In addition, we found that some SDE staff were inadequately reviewing agencies' fiscal and attendance procedures.

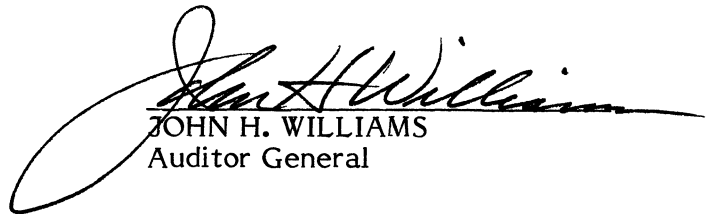
As a result, local preschool agencies are not complying with SDE program guidelines. SDE should have resolved these matters either through annual audits or on-site visits.

RECOMMENDATIONS

We recommend that the State Department of Education:

- Request the Department of Finance to require preschool program expenditures and attendance data in school district audit reports in the interim while awaiting completion of the requirements of Chapter 936, Statutes of 1977 (see footnote, page 25)
- Assure follow-up audit reports by designating responsibility to: (1) ascertain compliance with audit instructions and (2) resolve audit exceptions
- Establish filing systems and other processes by which supervisors can routinely assure that monitoring activities conform to policy.

Respectfully submitted,


JOHN H. WILLIAMS
Auditor General

January 27, 1978

Staff: Kurt R. Sjoberg, Audit Manager
Steven L. Schutte
William S. Aldrich
Samuel D. Cochran



STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION

STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

January 26, 1978

Mr. John H. Williams
Auditor General
Joint Legislative Audit
Committee
925 L Street, Suite 750
Sacramento CA 95814

Dear Mr. Williams:

Thank you for the opportunity to respond to your draft report entitled, "The State Preschool Program, A Review of Funding, Administration, and Controls." The Department of Education is appreciative of the joint Legislative Audit Committee's procedure which allows for our review prior to your official submittal of the report.

The Department of Education believes that many of the findings and recommendations address areas which need strengthening. We will positively respond by implementing changes on those items. We disagree with several of your staff's conclusions and have indicated below our bases in the individual responses to each of your recommendations.

Recommendation #1, page 15 - The Department of Education develop per capita funding standards for the State Preschool Program.

Response - The report identifies variations in local agency allocations from State funds as the basis for this recommendation. The Department of Education agrees that variations exist, and believes that differential levels of funding are appropriate. However, the current range of allocations between the lowest and highest funded agencies is sometimes, but not always, justified. Many of those agencies with continuing funding levels at the lowest end of the range may be receiving inadequate State support because of current budgetary constraints and an erosion of other sources of funding over time. In order to resolve ongoing inequities, the Department will study the contributing factors causing the present situation, seek to reallocate unexpended funds, and estimate the budgetary implications of significantly reducing funding differences by increasing support to the lowest level agencies.

Current discrepancies from agency to agency in levels of funding must be viewed from a historical perspective. The original rates which were funded by Title IV-A of SSA, were established based on applicant agencies' determination of program costs. Variation in these initial funding levels resulted largely from differential costs for food, rent, transportation and unequal access to other supplemental sources of funding. In FY 1973-74 when federal funding ceased to be available, State General Fund monies continued support to the agencies at the existing levels. Since then State Preschool programs have received no significant funding increases. Although they have periodically received minor cost-of-living adjustments, these adjustments have not been equal to the escalation of the cost-of-living. As a result, supplemental support for Preschool programs has become absolutely necessary, and agencies have sought such support at the local level rather than reduce the number of children being served.

The wide variation in the amount of State Preschool funds allocated to local agencies appears to be unjustified primarily when one looks at the State Preschool program in terms of the State's investment in each program. Disparities among agencies are not as great as they would appear when one considers the amount of local support various agencies receive. For example: School districts generally contribute a number of "in kind" services; private agencies often carry on continuous fund-raising efforts; and in co-funded programs (Headstart and State Preschool), the Preschool children receive all of the benefits afforded by the two funding sources. The Department of Education does not adjust agency funding levels according to the amount of supplemental support that is available to each agency because such support is neither predictable in terms of amounts or continuing availability.

The Department is aware of the continuing disparity in amount of State financial support allocated per child to the different provider agencies. It is a problem that must continue to be understood in the context of differing types of services provided by preschool programs, individual needs of children enrolled, fixed agency costs related to salaries, facilities, and transportation, and local financial resources. In addition:

- (1) The State Preschool Program serves a number of handicapped children. Children with neurological defects, including varying degrees of mental retardation, require higher per capita support than other children.
- (2) Salaries and other fixed costs are significantly greater in some programs than in others. The school districts are heavily dependent on State Preschool financial support because of statutory prohibitions against use of General Fund monies or the child development tax.
- (3) Whenever possible, the Department has attempted to provide Preschool funding as a supplement to other local or federal income which could be applied to help support local Preschool programs.

The utilization of per capita funding standards appears premature until there are sufficient State funds to completely support State Preschool program costs. However, the State Department of Education, in the coming fiscal year, will review the fiscal capabilities of each of its funded agencies and seek to determine the extent to which reasonably stable supplementary support is available.

Recommendations #2 and #3, page 16 - The Department of Education adopt a periodic funding cycle; and perform periodic needs assessment.

Response - The report suggests that the Department is not performing cost evaluations and that program need is not being addressed in allocation determinations. The Department, however, has established--over the life of the State Preschool Program--definitive annual procedures for critiquing both need and level of funding requested by each agency administering this program. Such a review may result in budgetary adjustments, program revisions or application rejection.

It is true that most programs have been funded on a continuing basis. They satisfy an ongoing demand for services, have committed substantial investments in sites, facilities and other essentials, and provide the continuity and stability desired in programs dealing with preschoolers. Nevertheless, when agencies do not meet minimum standards they are terminated.

Recommendation #4, page 16 - The Department of Education establish informational relationships between programs providing funds for preschool services within the State.

Response - The Department currently publishes newsletters, bulletins, and other material, routinely disseminated across the State to child development programs. Further, periodic State consultant visitations facilitate communication between agencies. In addition, the Department conducts workshops and provides other opportunities for the exchange of ideas and for program improvement.

Recommendation #5, page 24 - The Department of Education establish a preschool management organization under a single administrator responsible for all preschool programs to provide leadership, direction and control.

Response - An intradepartmental agreement has been drafted and will be finalized in the next month. This agreement establishes a process for assuring needed liaison among all administrative units in the Department of Education which are involved in the administration of preschool programs or preschool-related operations. Responsibilities, authority relationships, and increased consistency in policies and processes will be addressed through this strengthened liaison process.

The Department of Education does not plan to consolidate administration of the Preschool program activities because of our belief in the appropriateness of the present assignments of functions. Community-based preschool organizations deal through the Office of Child Development, along with private child care agencies which have similar operations. School district preschool programs receive guidance from the Department's Elementary Division in order to assure conduct of coordinated and comprehensive programs at each school site between preschool (prekindergarten) and primary level programs (kindergarten through grade three).

Recommendation #6, page 24 - Establish fiscal review and control responsibilities.

Response - Current procedures include review of fiscal documents by both accounting staff through the established reimbursement process, program staff during compliance reviews, and other regular on-site visitations. In addition, preschool attendance and expenditure reports will in the future be evaluated at mid-year to determine if funding amendments are necessary. Greater coordination of fiscal review responsibilities will occur through the implementation of the intradepartmental agreement.

Recommendation #7, page 24 - The Department of Education eliminate the duplication of operating sites by establishing service areas for each state preschool applicant agency.

Response - The audit report cites duplication of effort by the Department in administering select programs. In fact, only two agencies are receiving state preschool funds from the Department through two separate administrative units within the Department. In both cases the funds support separate groups of children and no duplicate payment is involved.

Further state staff assignments generally are made on a regional basis. The incidence of duplicate area assignments is very limited and doesn't warrant reassignment.

Recommendation #8, page 35 - The Department of Education request the Department of Finance to require preschool program expenditures and attendance data in school district audit reports in the interim while awaiting completion of the requirements of Chapter 936, Statutes of 1977.

Response - Section 41020 of the Education Code as amended this year by SB 787 (Chapter 936/77) requires that the annual audit of each school district in the State shall include an audit of school district income and expenditures by source of funds. To achieve this result, and to provide useful, explicit guidance to local auditors, Section 41020.5 of the Education Code directs that updated standards for audits be completed by August 1, 1978. The Department of Finance has responsibility for reviewing existing procedures and for completing the updated standards. The Department of Education and the Auditor General are cooperating in this effort and can seek to include attendance data within future audit reports. The full implementation of these requirements will be reflected in the audit reports for those conducted for fiscal year 1978-79. From a practical standpoint, the Department of Education believes that year's audit would be the first which could include the recommended attendance data for school districts.

January 26, 1978

Recommendation #9, page 35 - The Department of Education assure follow-up on audit reports by designating responsibility to: (1) ascertain compliance with audit instructions and, (2) resolve audit exceptions.

Response - School district audits traditionally have reported on financial and program activities at a districtwide level of aggregation, without detailing individual program findings. As a result, and as the Audit Report points out, little use of this information has been made by individual program managers in the Department of Education. Through implementation of the provisions of Chapter 936/77, cited above, audit reports should contain definitive findings and financial data for each State and federal fund source. At that time, such information will be employed by the Department of Education for fiscal year closeout purposes and for program manager follow-up.


Procedures have been developed to make similar use of Preschool program audit reports dealing with non-public agencies. These activities will include a full review and follow-up on 1976-77 audit reports.

Recommendation #10, page 35 - The Department of Education establish filing systems and other processes by which supervisors can routinely assure that monitoring activities conform to policy.

Response - Agreed

Thank you again for providing us an opportunity to respond to the draft report.

Sincerely,



WILLIAM D. WHITENECK
Deputy Superintendent for Administration
445-8950

WDW:mm

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
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