

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

857.1

IMPROVEMENTS NEEDED IN AWARD AND
MANAGEMENT OF CHILD CARE CONTRACTS

MARCH 1979



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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March 26, 1979

857.1

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 report on the State Department of Education's system of contract award and management for child care services. The Office of Child Development (OCD) within the Department has responsibility for administering child care programs.

The report identifies specific contract management areas that need improvement. Specifically, systematic procedures should be developed by OCD for allocating funds based upon assessment of child care needs. Additionally, procedures are warranted to ensure the purchase of economically sound services. The report also describes other aspects of OCD's contracting system, including procedures for notification and selection of agencies to provide services.

The auditors are Dr. Joan S. Bissell, Supervising Auditor, Eugene T. Potter, Supervising Auditor, Kathleen Herdell and Albert Tamayo. Support staff is Linda Smith and Pam York.

Respectfully submitted,

RICHARD ROBINSON
Assemblyman, 72nd District
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Attachment

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SUMMARY

Publicly subsidized child care services are intended to promote economic self-sufficiency of families as well as provide for the educational development of children. In this review, we examined Department of Education contracting procedures for child development services. The Department contracted with approximately 500 public and private agencies to provide child development services in fiscal year 1977-78. Its Office of Child Development (OCD) administered a \$175 million program in 1977-78.

We found that the Department of Education needs to improve controls for award and management of child development contracts. Because the Department lacks a comprehensive and consistent management system for allocating funds available for child care services, it distributes funds to child care agencies without:

- Consistently analyzing relative needs for child care services throughout the State (page 8)
- Assuring that proposed services are economically sound (page 14).

Currently, funds for child care services are not distributed in relation to needs throughout the State. Additionally, because of weak fiscal control procedures, there is no assurance that available funds are used to provide the maximum services possible.

We recommend that OCD develop and implement a systematic process for assessing child care needs within the State and strengthening fiscal controls in awarding child care contracts. We also describe aspects of the Department's methods for ranking and selecting child care contractor agencies and suggest that these procedures warrant review.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a review of the administration of child development programs by the State Department of Education. The review was conducted under authority vested in the Auditor General by Government Code Section 10527.

The State Department of Education (SDE) is the principal state entity responsible for administration of publicly subsidized child care programs in California.* It is the intent of the Child Development Act, commencing with Section 8200 of the Education Code, that SDE provide services to eligible children to promote both economic self-sufficiency of families and the educational development of children. In 1977-78, SDE served over 110,000 children during the entire year and reported that approximately 70,000 children were enrolled at a given time. (Many children receive services on a part-time basis or for less than the full year).

* Appendix A describes other publicly subsidized child care and development services administered in California.

Federal, state and local sources fund child development programs administered by SDE. Also, an interagency agreement between SDE and the Department of Social Services (DSS) transfers federal Title XX (Social Security Act) funding to SDE. Parents' fees, local district taxes* and charitable donations have supplied funds as well. The following table reflects sources of funding for fiscal year 1977-78.

TABLE 1
 FUNDING SOURCES FOR CHILD CARE PROGRAMS
 ADMINISTERED BY SDE
 FISCAL YEAR 1977-78
 (In Millions)

<u>Source</u>	<u>Total Amount</u>	<u>Percent of Total Funding</u>
State funds	\$ 75.8	43
Federal funds	41.2	23
Local funds*	52.1	30
Parents' fees	6.3	4
Total	<u>\$175.4</u>	<u>100%</u>

* Proposition 13 limited the taxing authority of school districts. As a result, local district ability to fund child care through permissive tax overrides is reduced. Chapter 292, Statutes of 1978 (SB 154) provides state funding to address this matter in 1978-79.

Background

The Office of Child Development (OCD) within SDE is responsible for direct administration of child development services. OCD administers six types of child development programs that include general, campus, migrant and alternative child care, as well as school age parenting and county welfare contracts.* To provide services, OCD enters into contracts with approximately 500 agencies. These include school districts, county superintendents of schools, other public agencies, non-profit agencies and some proprietary agencies.

Scope of the Review

Our review focused on child development programs funded through SDE/OCD. The fieldwork was conducted at the state level. The second phase of this audit will include a substantially larger amount of data collection and review at the local level.

We reviewed SDE procedures for allocating child care funds and contracting with provider agencies. We examined procedures for:

* Appendix A defines these programs.

- Identifying child care needs
- Reviewing agency applications and selecting agencies for funding
- Awarding continuation contracts to previously funded agencies.

AUDIT RESULTS

CHILD CARE NEEDS ASSESSMENT PROCEDURES WARRANT IMPROVEMENT

The Department of Education has allocated child care funds without systematic needs assessment to (1) determine the magnitude of child care needs statewide, (2) compare needs among different regions of the State or (3) verify needs cited by applicant agencies. In addition, potential alternative sources of funding are not considered in allocating state and federal dollars to applicant agencies. As a result, funds distributed throughout the State are not based on relative needs.

Title 45 of the Code of Federal Regulations (CFR) Section 228.31 specifies that the needs of residents of all geographic areas in the State are to be considered when formulating a services plan for allocating federal Title XX Social Security Act funds. Approximately \$44 million of all child care funds to be allocated in fiscal year 1978-79 are federal Title XX monies. Additionally, the Department of Education is responsible for coordinating its efforts with county departments of social service and other agencies to determine the need for child day-care services in each county in the State.

OCD attempts to determine needs in a number of ways. For example, each application for funding indicates an estimate of unmet needs which the applicant agency intends to serve. The Department of Social Services (DSS) provides some additional statistical data regarding the need for child care services. Recently, statewide needs assessment data have also been provided by the Commission to Formulate a State Plan for Child Care and Development Services established by the Superintendent of Public Instruction.

Current procedures, however, have not adequately provided determination of needs and funding. For example, a systematic statewide analysis of child care needs has not been conducted to accurately estimate the need for subsidized child care. Nor has OCD provided applicant agencies with the methodology necessary to develop consistent needs statistics. Instead, agencies report and develop this needs data in several ways which are often incomparable. Some agencies have referred to numbers of families and children below the poverty level in the region or the size of waiting lists for services to estimate those who qualify for subsidized child care. Others simply have indicated that program needs were the same as addressed previously by subsidized services. These various measures are unreliable because they do not consider the services which families presently use. Also, OCD does not verify the accuracy of needs assessment data submitted by local agencies prior to agency funding.

A potential needs indicator that is presently unused is information from the Department of Social Services concerning numbers of Aid to Families with Dependent Children (AFDC) recipients or food stamp recipients. This data could be used to estimate relative needs for child care in counties or regions of the State. Additionally, OCD does not concurrently review needs assessments from applicants in the same region. As a result, a number of public and/or private agencies may report the same unmet needs and may all be funded on the basis of these needs.

Finally, although agencies applying for continuation funding submit needs assessment data, this information is not used to determine priorities. Previously funded agencies routinely receive continuation funding except under unusual circumstances. OCD allocated approximately 94 percent of child care funds (\$116 million) to continuation agencies during 1978-79 without reevaluating the relative need for those services as compared to other child care needs in the State.

We reviewed child care allocations by county and potential needs indicators for Title XX services. Appendix B compares the allocation of 1978-79 child care funds by county with AFDC and food stamp populations. We found that some counties received a large amount of child care funds (according to these potential needs indicators), while others received relatively smaller amounts of child care funds. For example,

Alameda County received 10.8 percent of the total child care funds available, although it accounted for only 5.4 percent of the State's AFDC population (5.2 percent of the food stamp population). San Bernardino County, on the other hand, received only 1.4 percent of the State's child care allocations, yet had 3.9 percent of the State's AFDC population (2.9 percent of the food stamp population). Although AFDC and food stamp population data alone are not sufficient as measures of child care need, they can be used in conjunction with other measures to develop overall needs indicators as is done in other states.*

OCD's needs assessment procedures also do not thoroughly consider alternative sources of funding which could provide funds for additional services. For example:

- Income-eligible parents receiving child care services are required to pay parents' fees for subsidized child care.** Although these fees are to be deducted in calculating agency reimbursements, OCD does not consider them as part of a statewide needs assessment and planning process.

* Effective Management of Social Services: The Tri-State Day Care Management Project, Washington D.C.: REAP Associates, Inc., 1978.

** Parents' fees required for child development programs are based on three variables: family size, amount of time per week that the child is enrolled and families' adjusted gross income. Families receiving welfare benefits and those that are referred for neglect or child abuse prevention pay no fee, nor do families whose gross income, adjusted for family size, is lower than fifty-eight percent of the State's median adjusted gross income.

- There are other sources of funding for child care in addition to the state and federal Title XX funds administered through the Department of Education. These include direct reimbursement for child care to parents through welfare grant adjustments* and funding of services through the Comprehensive Employment and Training Act (CETA) and the Work Incentive Program (WIN). Statewide, \$7.8 million in additional resources could be made available for child care through maximum utilization of direct welfare grant financing alone. Liberated resources could be redirected to financing services for additional families.

The limitations we identified result from the lack of systematic needs assessment procedures. Without such procedures, it is impossible to determine the magnitude of unmet needs for child care, the relative statewide priorities or the level of necessary statewide funding as a basis for effective planning. Furthermore, because OCD's limited needs assessment process does not consider all funding sources, it is unable to maximize available alternative revenues which would provide services to additional eligible families.

* These adjustments are frequently referred to as "income disregard" funding. Child care costs are deducted from employment income before a welfare grant is computed.

CONCLUSION

The Department of Education has not developed systematic processes for determining child care needs and resources among applicant agencies throughout the State. This weakness hinders child care planning, precipitates inequities in funding among areas of the State and results in failure to maximize available resources.

RECOMMENDATION

We recommend that the Department of Education include systematic needs assessments within its procedures for allocating child care funds. Needs assessments should provide for (a) consistent determination of unmet needs statewide and (b) thorough consideration of potential alternative funding sources available to applicant agencies and eligible families.

CHILD CARE CONTRACTS
NEED IMPROVED CONTROLS
FOR COST AND ECONOMY

The Department of Education's award and fiscal management of child care contracts needs improvement. To promote program economy, the Department should ensure that (a) efficiency is a routine consideration in funding new agencies and (b) audit exceptions are corrected and actions are taken to prevent their recurrence before continuation contracts are awarded. Because these activities have not been routinely conducted, there is no guarantee that federal and state child care resources are used to maximize services to eligible children.

Economy Needed in
Funding New Agencies

The Legislature has repeatedly expressed concern for promoting economy in subsidized child care. The interagency agreement between DSS and SDE requires that agencies offer rates competitive with comparable child care services available to the general public. Additionally, the State Administrative Manual requires that state agencies consider cost factors in purchasing service contracts.

However, OCD does not have a systematic process for ensuring economy in allocating child care funds. For example, rating factors for selecting new agencies for funding do not consider overall economy of proposed services.* OCD does not

* The Alternative Child Care Program is an exception.

increase rankings in the routine allocation of funds for agencies which propose to provide quality services at relatively low costs or for agencies that propose financing service components through coordination with other local agencies.

In order to determine funding amounts, OCD has developed program funding schedules based upon statewide average program costs and maximum reimbursement rates per Average Daily Enrollment (ADE). OCD's procedures for negotiating and establishing budgets for agencies receiving new expansion funds state that a budget is acceptable if the proposed amount per ADE falls within predetermined ranges. If the proposed amount per ADE is not within the acceptable range, OCD consultants negotiate the budgets up or down to as close to the statewide average as possible.

This practice does not encourage agency economy because the negotiation process is not based upon sound cost standards. During the funding process, OCD negotiates all agencies' proposals that are below as well as above the predetermined range. In instances in which agencies are below the range and proposals are determined inadequate, OCD either negotiates the budget up and/or reduces the ADE to a point where the amount per ADE falls within the predetermined range and is as close to the relevant statewide average as possible. This adjustment process is not based upon identification of specific additional resources needed to fund unbudgeted or inadequately budgeted items but rather upon statewide average costs.

The following table illustrates proposed and final budgeted amounts for six agencies whose costs were negotiated upward.

TABLE 2
 OCD BUDGET NEGOTIATION
FOR NEW AGENCIES, 1978-79

<u>Agency</u>	<u>Funding Amount Per ADE*</u>		
	<u>Proposed by Agency</u>	<u>Established by OCD</u>	<u>Increase Per Child**</u>
#1	\$1,875	\$2,143	\$268
#2	1,107	1,510	403
#3	1,207	1,450	243
#4	1,904	2,286	382
#5	2,064	2,163	99
#6	1,724	2,174	450

In the case of these six agencies, OCD's negotiation process increased allocations an average of 18 percent or \$292 for a unit of day care.**

* ADE--Average Daily Enrollment replaces hourly reimbursement as unit of earnings during 1978-79. The figure refers to the funding amount per child for full-day child care.

** The unit is Average Daily Enrollment on a yearly basis.

The importance of cost controls is underscored by the fact that the average child care allocation by the State and Federal government for subsidized services in California is estimated at over \$2,000 per child for full-time services during 1978-79. If SB 154 allocations to school districts are added, the average funding is substantially higher.* Costs of subsidized child care have been estimated as approximately 130 percent to twice that of non-subsidized child care in the State. Overall, California's subsidized child care is among the most expensive in the nation.

Need to Assure Correction of
Audit Exceptions Prior to
Continuation Funding

Although OCD is responsible for ensuring correction of audit exceptions identified in agencies that it funds, its present procedures do not ensure that it fully addresses audit exceptions involving inappropriate expenditures before awarding continuation contracts. OCD's continuation funding procedures neither ensure that such deficiencies have been corrected nor require agencies to submit a plan of correction to prevent the recurrence of the same exceptions.

* Proposition 13 bail-out legislation (SB 154--Chapter 292, Statutes of 1978) allocates state funding in 1978-79 for child care programs which were previously supported through local school district taxes.

A number of past reviews by state and federal agencies have cited audit exceptions in programs under contract with OCD. These have included (1) overstating hours of service claimable for reimbursement and (2) uncollected or unreported parents' fees.*

Our review of OCD's contracting procedures indicated that a plan to ensure resolution of audit exceptions is not required of agencies prior to continuation funding.* Such resolution procedures could liberate funds to serve additional children within available resources.

CONCLUSION

The contract award process is not being used as a method for promoting economic allocation of state and federal child care funds. Contracts to new agencies do not reward economy. Furthermore, OCD does not adequately ensure that continuation contracts to previously funded agencies provide for resolution of fiscal audit exceptions.

* The first phase of our review focused on contracting procedures. The second phase will include a detailed examination of areas in which audit exceptions have been reported.

RECOMMENDATION

We recommend that in allocating child care funds, the Office of Child Development include methods for:

- Considering economy in rating applications and negotiating contracts with all agencies without jeopardizing program quality

- Ensuring that agencies correct audit weaknesses and submit a plan to prevent their recurrence before awarding continuation contracts.

ADDITIONAL INFORMATION
REQUESTED BY THE LEGISLATURE

GENERAL PROCEDURES FOR
NOTIFICATION, SELECTION AND
FUNDING OF CHILD CARE AGENCIES

We were asked to address a number of additional issues concerning general procedures for allocating child care funds.

Notification to Potentially
Eligible Agencies

The Office of Child Development announces availability of child care funds to:

- All agencies and individuals who have made written or verbal requests for child care funds or have expressed an interest in providing these services to OCD or legislators in the past three years
- All agencies and organizations with unfunded applications on file at OCD
- All currently funded child care agencies.

Also included are:

- All resource and referral agencies and agencies that provide a wide range of human services

- Publishers of newsletters which contain articles about children, family services, available funds, and other pertinent topics.

These announcements reach a large number of agencies and organizations involved in child care services. Nevertheless, this does not necessarily ensure that all providers of programs which presently constitute other relatively minor portions of the State's subsidized child care system such as rural day-care or family day-care programs learn of these funds.*

Rating New Applicants and
Selecting Agencies for Funding

OCD rates applications and ranks agencies as a basis for awarding contracts to new agencies. Selection for funding is based on a variety of program characteristics. Among the rating criteria are:

- Prior experience in operating child development programs
- Daily schedule of activities
- Adequacy of program components (e.g., facilities, nutritional services, in-service training).

* Family day-care is child care provided on a paid basis in the home of a non-relative.

Although OCD generally funds the highest ranked applicants, it sometimes offers funding to applicants with lower scores when they address funding priorities identified by OCD. For example, in 1978-79 OCD implemented "Project Outreach" which provided funds for low-ranking applicants who proposed to serve certain designated priorities.

Procedures for Funding Continuing Programs

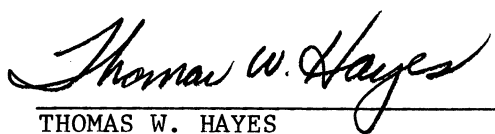
For agencies providing ongoing services, OCD states that annual competition is neither appropriate nor efficient. Instead, before contracts expire, OCD reviews agency programs through quarterly fiscal reviews, biennial compliance checks with basic health and safety standards, annual compliance checks with attendance and enrollment standards and reviews of annual applications. Despite these reviews, external agencies have identified audit exceptions, as described on pages 17 to 19.

Comprehensive Child Care Management Systems

At least three other states have developed comprehensive child care management systems which include integrated procedures for needs assessment, notification and selection of child care agencies for funding, and management of child care contracts. The U.S. Department of Health, Education

and Welfare is sponsoring a dissemination project to encourage states to adopt such comprehensive child care management systems. Limitations in the Department of Education's procedures for award and management of child care contracts suggest the potential advantages of adopting such a comprehensive system.

Respectfully submitted,



THOMAS W. HAYES
Acting Auditor General

Date: March 23, 1979

Staff: Dr. Joan S. Bissell, Supervising Auditor
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STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION

STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

March 21, 1979

Mr. Thomas W. Hayes
Acting Auditor General
Joint Legislative Audit Committee
925 "L" Street, Suite 750
Sacramento, California 95814

Dear Mr. Hayes:

The Department of Education is responding to the Auditor General's report on the award and management of child care contracts.

The Department has reviewed the report carefully and believes that it reflects either a misunderstanding or misinterpretation of how the Office of Child Development functions in assessing child care needs, allocating child care funds, and negotiating child care contracts. Therefore, we believe the recommendations in the report are based on findings and conclusions which are inappropriate.

The following information is submitted to you in support of the position of the Department of Education.

Needs Assessment

The Auditor General's report makes the following recommendation:

"We recommend that the Department of Education include systematic needs assessments within its procedures for allocating child care funds. Needs assessments should provide for (a) consistent determination of unmet needs statewide and (b) thorough consideration of potential alternate funding sources available to applicant agencies and eligible families."

The report also states that

..."funds for child care services are not distributed in relation to needs throughout the state." "The Department of Education has allocated child care funds without systematic needs assessment..." "...AFDC... or food stamp (information)...could be used to estimate relative needs for child care in counties or regions of the state."

The Department of Education agrees with the Auditor General that a comprehensive needs assessment is vital in the allocation of child care funds. Collection of needs assessment data by the Department is an ongoing, comprehensive process which takes into account data from a number of sources, including:

- The Department of Social Services, which provides recipient information, by county, on General Assistance grants, AFDC grants and WIN participants; the Department of Health, which provides information on child health and disability prevention, births, adolescent pregnancies and infant mortality, by regions and counties within the State; and the Federal Health, Education and Welfare Agency, which provides income statistics upon which California bases its annual child care fee schedule.
- California's statewide planning process for the development of the Annual Social Services Plan (CASP) assess child care and other human service needs. The Office of Child Development provides input into the Plan under the direction of the single state agency (Department of Social Services), and has been commended by the agency for its comprehensive and systematic approach to assessing needs and allocating resources for child development services throughout the State.
- The Commission to Formulate a State Plan for Child Care and Development Services, appointed by Wilson Riles in 1978, reported child care and development needs, incorporating data received over a period of eight months from 1) written and oral testimony given by thousands of parents and service providers through a series of public hearings in rural as well as urban areas, 2) State reports (Department of Finance, Bureau of the Census, U. S. Department of Labor, etc.), and Resource and Referral agencies. The Commission identified key ages, geographic areas, and populations in need of services, and prioritized those needs.
- Parent Survey. In November, 1978, staff in the Office of Legislative Analyst and the Office of Child Development discussed how best to determine what kinds of child care arrangements parents made immediately prior to the availability of subsidized child care services, and why subsidized child care services were selected. A survey of parents funded through 1978-79 expansion funds was conducted and reported to the Legislative Analyst, and is scheduled to be conducted on a regular basis hereafter.
- RFP Process. As noted in the Appendix to the Report, the Department of Education provides notice of available expansion funds to every funded agency, every agency which has ever applied for funds, every agency that has contacted the State Department of Education, by phone, mail or in person, regarding providing services, and all Resource and Referral agencies. Notice of the availability of expansion funds is also given in the numerous newsletters published by child-serving agencies and organizations, and in the Office of Child Development's Child Developments publication. The applications which result are another source of information about child care needs, as each application includes a local needs assessment, focusing on priorities established by the Legislature and the State Department of Education.

The magnitude of the unmet need for child care is expressed in the following chart:

Purpose	Dollars Available	Applications Received	Dollars Requested	Ratio of \$ Requested to \$ Available
Alternative Child Care 1976-77	\$9,625,000	534	\$66,000,000	6.8 - 1
Child Care Expansion 1978-79	\$20,400,000	664	\$83,000,000	4 - 1

The Auditor General's report suggests that data showing where AFDC or Food Stamp recipients are located should be used to estimate where child care needs exist.* AFDC and Food Stamp data are two indicators of possible needs for child care, however, for a number of reasons, there does not exist a perfect relationship between number of welfare recipients and need for child care. The authors of the report fail to realize that not all AFDC and Food Stamp recipients have children, or have children in need of child care services, or want subsidized child care. Relatively few of the "working poor" are attached to the AFDC system, AFDC is a better reflection of unemployment than it is of the working poor who need child care to maintain employment. Additionally, it is known that some minority groups disdain, and therefore avoid, the welfare system. Furthermore, specific program types target specific populations for the receipt of child care services. Child care and development programs such as Children's Centers, Migrant Child Care, School-Age Parenting and Infant Development, have addressed a variety of welfare and non-welfare special needs and populations over the years. Programs have provided: child care to enable mothers of school age children to work in war industries; child care to enable welfare dependent mothers to obtain and maintain self-sufficiency; infant care to enable student parents to complete their education; and child care and preschool educational services for migrant families.

In addition to the activities which presently comprise the Office of Child Development's needs and resource assessment process, the Department of Education will be implementing AB 1642, Chapter 1235 beginning January 1, 1980. Assembly Bill 1642 prescribes a social service needs assessment procedure, which will be carried out by each county welfare department, and will include an assessment of child care services needs and prioritization of social service needs in the county. The findings from each county will be reported to the Department of Education. The Department will verify the findings, and the Department of

*The Auditor General's report has been clarified to emphasize our point that these data can be used systematically in conjunction with other needs data (see pages 9 and 10).

of Social Services will use this information to determine what proportion of the Title XX social services funds will be allocated to subsidized child care.

Allocation of New Child Care Funds and Negotiation of Existing Child Care Contracts

The Auditor General's report makes the following recommendations with respect to the Department of Education's contract award process:

"We recommend that in allocating child care funds, the Office of Child Development include methods for: Considering economy in rating applications and negotiating contracts with all agencies without jeopardizing program quality".

The report then describes in an appendix how potentially eligible agencies are notified of funding availability and the Office of Child Development procedures for the review, ranking and selection of new applicants and the funding of continuing programs. The report concludes that:

"The contract award process is not being used as a method for promoting economic allocation of state and federal child care funds", and that "Contracts to new agencies do not reward economy".

The Department of Education respectfully submits the following information:

Fiscal Adjustments.

In establishing the maximum funding amounts per average daily attendance of new agencies, the Office of Child Development takes into consideration two major factors: (1) the already established maximum funding amounts per average daily enrollment of similar on-going agencies; and (2) the efficacy of the proposed budgets of the new agencies.

The Auditor General's report is misleading in stating that "...Office of Child Development will typically increase the budget (of new agencies) toward the statewide average for comparable services. To avoid this budget adjustment, the agency must explain how it can operate for less than comparable agencies." During the 1978-79 expansion funding process funding amounts per ADE* were increased for a total of 9 out of 88 new agencies. In each case where such an adjustment was made, it resulted from a meticulous review of the agency's proposed budget which indicated a budgetary oversight on the agency's part. Typical of such oversights were failure to budget funds for the required independent audit and failure to budget enough funds to hire adequate staff to meet the required staff-child ratios. Even where such oversights were picked up, the agency was contacted to determine if they were perhaps not oversights at all. For instance, an agency may have had access to an auditor free of charge, or adequate unpaid staff to meet the necessary ratio requirements. Only when the suspected budgetary oversights were confirmed as such was the proposed funding amount per ADE increased.

*Average Daily Enrollment

The Auditor General's report exhibits in table form the six largest of such increases in maximum funding amounts per ADE and concludes that "... Office of Child Development's negotiation process increased allocations an average of \$292 for a unit of day care." The report fails to include the fact that during the same 1978-79 expansion process the maximum funding amounts per ADE were reduced for 13 new agencies an average of \$615 per unit.*

In summary, the Department of Education successfully ensures every economy and cost benefit through a careful review of line-item budgets, keeping in mind required child-staff ratios, required health and safety code items, and fiscal accountability.

Utilization of Other Funding Sources

The Department of Education has given due consideration to utilization of other funding sources, and has reported to the Legislature on this topic in oral testimony and written reports. Local agency utilization of alternative and supplemental funding sources are regularly reported to the Office of Child Development, reviewed by the Office of Child Development staff, and filed in the Office of Child Development for public review.

Audit Procedures

Each funded agency is required to submit annually the results of an independent audit. Audits are reported to the Office of Child Development between June 30 and November 30 for the previous year, and are reviewed by Department staff especially trained in such reviews. When audit exceptions are found, plans are required of an agency to correct the finding. If an agency does not correct the finding, the agency is defunded. Both Department staff, and the independent auditors assist the agency on an ongoing basis in the establishment of sound accounting policies and procedures.

Cost Controls

The Auditor General's Report states that "California's subsidized child care is among the most expensive in the nation". (p. 16). It should be remembered and noted in the report, that the state does not now pay, and has not paid for five years, the full cost of child care. The maximum reimbursement rate is considerably less than the actual cost of care to provider agencies.

Further, the footnote excepting the Alternative Child Care programs from the discussion on page 14 of the report failed to include the fact that these programs were funded at an hourly maximum of \$1.14 an hour, and to successfully compete for Alternative Child Care funds, applicant agencies could not afford to request funds in amounts that would be adequate to support true costs of the proposed services. The need for child care was (and still is) so great, that agencies were willing to forego adequate salaries, minimum fringe benefits, and utilize excessive cost cutting in order to compete for limited dollars. This phenomenon has been experienced in California twice, with AB 99 (1972) and AB 3059 (1976).

*The discussion in the Auditor General report has been elaborated on to clarify our concern that the adjustment process is not based upon sound standards of cost (see pages 14 and 15).

It has become evident to other state agencies, the Legislature, and through legislative review and independent evaluations, that agencies could not operate at the budgeted amounts, and had to request funding increases to meet minimum health and safety regulations and minimum wage requirements. The Office of Child Development's Alternative Child Care files will show that by the end of the first year, virtually every "direct" service agency requested and received an increase in its maximum reimbursement rate. The files also show the amount of funds each Alternative Child Care agency received for capital outlay, which, if included in the calculation of agencies' costs, would have revealed significantly less difference between the costs associated with Alternative and General Child Care programs.

Allocations by County

The Auditor General found in its comparison of FY 1978-79 child care funding by county that "some counties received a large amount of child care funds . . . while others received relatively smaller amounts of child care funds".

Some of the reasons for this are that:

- Office of Child Development funds many child care programs which have existed since 1942. Since the original requirements for eligibility were related to employment in war-related industries, most of these programs are located in urban areas and in the small cities which developed around war-related industrial plants, i.e., Richmond.
- Office of Child Development funds center and family child care home programs were formerly funded by county welfare departments. They tend to be located in urban areas because this is where the greatest need existed then, and exists now.
- Office of Child Development funds many private community based agencies which are located in urban areas because citizens are most apt to be organized where population density and access to jobs requiring minimal skills are greatest.
- In some of the most sparsely-populated areas, the existing philosophy opposes government assistance. Standard Agreement funds are offered to all fifty-eight (58) counties. In FY 1978-79 the following counties declined funding and are therefore not providing county sponsored child care services to the fullest extent possible: Amador, Butte, Calaveras, Colusa, Del Norte, El Dorado, Inyo, Kings, Lassen, Mariposa, Modoc, Nevada, Plumas, San Benito, San Francisco, San Luis Obispo, Siskiyou, Solano, Tehama, Trinity, Tuolumne, Ventura.
- To a high degree these counties are the same ones in which there is low correlation between the percent of child care expenditures and AFDC population. The exceptions are Colusa and Inyo. In both, the County Superintendent of Schools sponsors programs. In Colusa County there exist migrant programs. In Inyo County there is an active Indian Tribal Council child care program.

- All fifty-eight (58) counties were offered 1978-79 child care expansion funds. Only eighteen (18) accepted, and of these, one (1) later returned the full amount. The Office of Child Development has and will continue to try to make funding available to every county.

In summary, the Department of Education submits that the Auditor General's Report should have been much more thorough in its treatment of the process for awarding new and continuing child care contracts. We are also curious about an apparent omission of any specific reference in the report to an item discussed at the entrance conference relative to the scope of the audit. It was the Department's understanding that a major part of the audit was a review of the Department's contractual procedures vis-a-vis the Santa Clara County Pilot Study. We are curious to know if the Auditor General found no audit exception or had no opinion regarding those contractual procedures.

Thank you for the opportunity to respond to this report.

Sincerely,



William D. Whiteneck
Deputy Superintendent for Administration
(916) 445-8950

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cc: Don McKinley
Davis Campbell
Barry Griffing
Frances Walker
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AUDITOR GENERAL COMMENTS CONCERNING
DEPARTMENT OF EDUCATION RESPONSE

The Department of Education's response details numerous state-level data collection procedures related to child care as well as many types of information which local agencies must provide prior to receiving child care funds. However, the overriding point of our report is that these data, although collected, are not used in the contracting process to ensure appropriate targeting of funds or economy of services.

Needs Assessment Procedures

Although the Department maintains that a multitude of data exists pertaining to child care needs, such data are not used systematically for ranking, selecting or determining funding amounts to applicant agencies. Additionally, the needs assessment data that the Department does use is characterized by inconsistencies, incompleteness and lack of verification, as described in our report. Complete information concerning alternative sources of funding is not used comprehensively in funding decisions. Finally, although the Department has indicated that needs data will be required to be provided by counties pursuant to AB 1642 (Chapter 1235, Statutes of 1978), it has not indicated how it will use these data in its child care allocation system.

Allocations by County

The Department's response indicates the various reasons that child care allocations to counties are disproportionate. Such factors as patterns of funding going back to 1942 and the decision of some county welfare departments to decline funds do not address the fundamental issue raised in our report. The issue remains that there is no assurance that child care allocations are based upon current needs of families and children throughout the State.

Additionally, the Department expressed concerns about our use of AFDC and food stamp population data as potential child care needs indicators. The point of our report is that such data, in conjunction with other information, can be used as measures of relative needs for allocating funds, as is done in other states.

Economy of Child Care Services

The Department described in detail its procedures for making upward adjustments to child care agency budgets. Our point is that the upwards adjustment process normally provides for increases to statewide averages. When such adjustments are necessary, a better procedure would be to make them based upon reasonable cost standards.

The examples we cited of upward adjustments in funding levels were those identified from a sample of 64 new agencies provided to us by OCD. The fact that some other agencies' budgets were adjusted downward is to be expected since the Legislature has established maximum funding rates.

The Department's statement that the State's share of child care costs is considerably less than the actual cost is misleading. Under Chapter 292, Statutes of 1978 (SB 154), state funds have been provided to replace local school district funds which previously supported child care programs. The State share of child care funding has increased substantially and the responsibility for cost control has become even more of a state concern than in the past.

Audit Exceptions

The Department stated that agencies are required to develop plans to correct audit exceptions identified by independent audits which child care agencies must submit annually. Our point was that present procedures do not assure correction of all audit deficiencies, including those identified by various state and federal agencies, prior to continuation contracting.

Santa Clara Pilot Project

The emphasis of our report was on overall procedures for notification, selection and award of child care contracts. Within this review, we examined a number of questions that were raised by some child care providers and parents in Santa Clara County about these procedures, specifically in relation to continuing services for children in the Santa Clara Pilot Project. We were unable to fully confirm or disconfirm the validity of the issues raised by these individuals due to (a) the variety of unusual circumstances which affected the contractual process in this instance* and (b) the contradictory information we received from a variety of sources. Our report, however, addresses the more systemic problems of needs assessments and economy of services which we identified as requiring improvement.

*These included the relatively unusual decision of an agency to withdraw from child care contracting and the short time period available for the award of a new contract.

SUBSIDIZED CHILD CARE AND DEVELOPMENT SERVICES IN CALIFORNIA 1977-78*

Families obtain subsidies through	Administered by	Number children served	Eligibility	Cost in millions	State license or approval
Child Development Program	Department of Education	69,000	Low income, working, training, special needs	\$106	Required
State Preschool		20,000	Low income, circumstantially disadvantaged	25	Required
Income disregard	State Department of Social Services	60,000	Working and on welfare	41	Not required except in mandated training programs
WIN		5,000	In employment or training and on welfare	5	
Head Start	Department of Health, Education and Welfare	23,500	Low income (10% can be above income, 10% handicapped maintained)	50	Required
Tax credits	Internal Revenue Service Franchise Tax Board	Unknown	Working	44 11.7	Not Required

*Unaudited sources: Commission to Formulate a State Plan for Child Care and Development, 1978
 Assembly Office of Research Briefing Paper for Joint Human Resources Subcommittee, 1978.

STATE DEPARTMENT OF EDUCATION

State Preschool Program

The State Preschool Program is an educational program for pre-kindergarten children from low income and disadvantaged families. In 1977-78, approximately 20,000 children were enrolled. Strong emphasis is given to parent education and involvement, health, nutrition, social services and staff development.

State preschool programs are wholly state funded and administered under an interdepartmental agreement (1) through the Office of Child Development, State Department of Education, which contracts with public and private agencies and offices of county superintendents of schools; and (2) through Elementary Field Services, State Department of Education, which administers programs operated by local school districts.

Child Development Programs

Several child development programs are administered by the Office of Child Development, State Department of Education: (1) general child development--federal and state-funded; (2)

* Source: (1) Report of the Commission to Formulate a State Plan for Child Care and Development Services in California, 1978 and (2) Child Care Service Plan for 1978-79, OCD, 1977.

migrant child care; (3) campus child care; (4) school-age parenting and infant development; (5) alternative child care; and (6) standard agreements with county welfare departments.

(1) General Child Development Programs--These programs are funded through federal Title XX funds and state funds. In some cases, funds have been augmented by local school permissive override taxes or other local funds. The child development programs utilize a variety of facilities, including child care centers, family child care homes, and combinations of both. They include basic supervision, an educational component, health services, parent education, nutrition and related social services.

(2) Migrant Child Development Programs--Migrant child development programs are seasonal programs located primarily in government subsidized housing units within the various agricultural counties in California. They are operated at the local level by county superintendents of schools, school districts or private agencies.

(3) Campus Child Development Programs--These programs are intended primarily to care for children of students on two-year and four-year college or university campuses. In addition, they frequently serve as training sites for students enrolled in child development programs at the college.

(4) School-Age Parenting and Infant Development Program--Local agencies are funded to establish programs for the children of secondary school-age parents. Located on or near the high school campuses, these programs provide not only child development services for the infants but also parenting education and career development opportunities for their school age parents while they finish their high school program.

(5) Alternative Child Care Programs--Alternative child care programs are funded to test alternatives which could potentially reduce child care costs, to provide a broad range of choices for parents needing subsidized services, and to address unmet child care needs throughout the State. There are five different alternative child care programs or services: (1) center-based child care programs, (2) family child care home programs, (3) vendor payment programs based on parent choice, (4) resource and referral programs and (5) minor capital outlay projects.

(6) County Welfare Department Contracts--In 1977-78, 4,400 children were served through contracts between SDE and county welfare departments. The welfare departments can use the

funds to provide child care vouchers for parents who are employed or in mandated training programs. The majority of the vouchers are used to purchase service in family child care homes.

DEPARTMENT OF SOCIAL SERVICES

Income Disregard

The State Department of Social Services is responsible for the administration of income disregard payments and for other funds and services provided under Title XX of the Social Security Act. Title XX funds are disbursed through county welfare departments under the Department of Social Services.

In 1977-78 approximately 60,000 children were served under the income disregard system at a cost of about \$41 million. Eligibility is limited to working families who receive Aid to Families with Dependent Children. Under this procedure, AFDC recipients are free to purchase whatever child care they choose and their expenses are allowed as an income deduction in determining the amount of the AFDC grant. The purpose of this subsidy is to enable working parents to become self-supporting.

The Department of Social Services also may provide for purchase of child care as a protective service to prevent children from sustaining abuse and neglect.

WIN

An additional component of welfare-related child care is that provided to approximately 5,000 children of parents enrolled in job training in California through the federal Work Incentive Program (WIN), administered by the U.S. Department of Labor. The states are required to provide child care services to all enrollees who need such services and are entitled to receive 90 percent federal matching funds for WIN child care services. Like the income disregard mechanism, the WIN manpower program provides services as necessary to remove or reduce barriers to employment and to provide job training, counseling, employment and placement to AFDC recipients. WIN child care funds may be used to pay for child care in centers contracting with SDE.

U.S. DEPARTMENT OF HEALTH, EDUCATION AND WELFARE

Head Start

This program for preschool children receives federal funding for up to 80 percent of the cost of Head Start programs. In order to receive funds, the local agency must provide a local match. The U.S. Department of Health, Education and Welfare funds the remainder to the local agencies.

Comprehensive developmental programs are provided. Education, parent participation, nutrition, social services and health services are required components of Head Start programs. In 1977-78 Head Start programs served over 23,000 children in California, the majority of whose family income is below the poverty line.*

FRANCHISE TAX BOARD AND
INTERNAL REVENUE SERVICE

Tax Credits

State and federal income tax credits are available to working families who need child care. Taxpayers with qualified child care expenses may claim a credit against their federal income tax for 20 percent of the expenses incurred up to a maximum of \$2,000 for one dependent and \$4,000 for two or more. A state tax credit not exceeding \$120 per family is also available to working families. There are no licensing restrictions on the child care programs that may be used in order to qualify for a tax credit.

* Federal Head Start funding has recently been increased.

PRIVATE SECTOR: NONSUBSIDIZED CARE

Child care in the private sector consists generally of programs that serve families who have the ability to pay the full cost of care. Private groups or individuals operate the majority of licensed centers and family child care homes in California. In 1977-78 there were 169,000 licensed spaces in the private sector. It is estimated that between 75 and 90 percent of family child care homes are unlicensed.

Although most families pay the full cost of care, assistance is available to families eligible for an income tax credit, eligible for subsidies through a vendor or voucher payment, and who receive scholarships provided by the care giver or private individuals.

TABLE I
 COMPARISON OF CHILD CARE ALLOCATIONS WITH
 AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC)
 POPULATION BY COUNTY

County	Child Care Allocations 1978-79		Percent of AFDC* Population	Percent of Child Care Allocations to AFDC Population
	Dollars	Percent		
Alameda	\$ 13,642,105	10.830%	5.455%	198%
Alpine	2,726	.002	.004	50
Amador	530	.0004	.029	1
Butte	309,166	.245	.427	57
Calaveras	2,783	.002	.057	4
Colusa	118,869	.094	.028	336
Contra Costa	3,845,388	3.052	2.297	133
Del Norte	18,104	.014	.078	18
El Dorado	421,094	.334	.168	199
Fresno	1,782,163	1.415	2.791	51
Glenn	76,958	.061	.051	120
Humboldt	1,054,451	.837	.392	213
Imperial	765,055	.607	.431	141
Inyo	63,600	.050	.037	135
Kern	1,941,234	1.540	1.584	97
Kings	173,782	.138	.411	34
Lake	53,710	.043	.141	30
Lassen	--	--	.054	--
Los Angeles	42,743,184	33.932	42.084	81
Madera	309,535	.246	.318	77
Marin	788,240	.626	.281	223
Mariposa	2,332	.002	.017	12

*Based on January and July 1978 population average.

<u>County</u>	<u>Child Care Allocations 1978-79</u>		<u>Percent of AFDC Population</u>	<u>Percent of Child Care Allocations to AFDC Population</u>
	<u>Dollars</u>	<u>Percent</u>		
Mendocino	\$ 597,451	.474%	.308%	154%
Merced	1,288,117	1.022	.741	138
Modoc	14,000	.011	.025	44
Mono	530	.0004	.014	3
Monterey	1,888,076	1.499	.963	156
Napa	527,609	.419	.232	181
Nevada	17,729	.014	.087	16
Orange	2,449,836	1.945	3.296	59
Placer	135,015	.107	.311	34
Plumas	202	.0002	.042	--
Riverside	2,446,083	1.942	2.656	73
Sacramento	4,017,902	3.190	3.997	80
San Benito	59,549	.047	.070	67
San Bernardino	1,765,423	1.402	3.988	35
San Diego	7,457,246	5.920	5.914	100
San Francisco	10,487,600	8.326	3.130	266
San Joaquin	1,517,351	1.204	2.031	59
San Luis Obispo	460,400	.365	.332	110
San Mateo	3,083,966	2.448	1.233	199
Santa Barbara	1,611,129	1.279	.742	172
Santa Clara	9,427,654	7.484	4.484	167
Santa Cruz	1,776,440	1.410	.543	260
Shasta	474,048	.376	.419	90
Sierra	629	.0005	.007	7

County	Child Care Allocations 1978-79		Percent of AFDC Population	Percent of Child Care Allocations to AFDC Population
	Dollars	Percent		
Siskiyou	\$ --	-- %	.104%	--%
Solano	903,277	.717	.879	81
Sonoma	1,454,730	1.155	.972	118
Stanislaus	871,838	.692	1.165	59
Sutter	199,952	.159	.182	87
Tehama	19,489	.015	.122	12
Trinity	--	--	.038	--
Tulare	1,060,088	.841	1.562	53
Tuolumne	37,649	.030	.076	39
Ventura	1,006,218	.799	1.567	50
Yolo	685,304	.544	.359	151
Yuba	108,343	.086	.278	30
TOTAL	\$125,965,882	100	100	

TABLE II

COMPARISON OF CHILD CARE ALLOCATIONS WITH
FOOD STAMP POPULATION BY COUNTY

County	Child Care Allocations 1978-79		Percent of* Food Stamp Population	Percent of Child Care Allocations to Food Stamp Population
	Dollars	Percent		
Alameda	\$ 13,642,105	10.830%	5.195%	208%
Alpine	2,726	.002	.003	66
Amador	530	.0004	.027	1
Butte	309,166	.245	.462	53
Calaveras	2,783	.002	.070	3
Colusa	118,869	.094	.024	392
Contra Costa	3,845,388	3.052	2.479	123
Del Norte	18,104	.014	.067	21
El Dorado	421,094	.334	.208	160
Fresno	1,782,163	1.415	3.547	39
Glenn	76,958	.061	.047	130
Humboldt	1,054,451	.837	.512	163
Imperial	765,055	.607	.488	124
Inyo	63,600	.050	.043	116
Kern	1,941,234	1.540	1.271	121
Kings	173,782	.138	.266	51
Lake	53,710	.043	.143	30
Lassen	--	--	.044	--
Los Angeles	42,743,184	33.932	39.664	85
Madera	309,535	.246	.280	87
Marin	788,240	.626	.443	140
Mariposa	2,332	.002	.027	7

*Based on average for fiscal year 1977-78.

Child Care Allocations: 1978-79

County	Dollars	Percent	Percent of Foodstamp Population	Percent of Child Care Allocations to Food Stamp Population
Mendocino	\$ 597,451	.474%	.334%	141%
Merced	1,288,117	1.022	.613	167
Modoc	14,000	.011	.037	3
Mono	530	.0004	.022	2
Monterey	1,888,076	1.499	1.130	133
Napa	527,609	.419	.223	188
Nevada	17,729	.014	.128	11
Orange	2,449,836	1.945	3.260	60
Placer	135,015	.107	.388	27
Plumas	202	.0002	.032	--
Riverside	2,446,083	1.942	2.792	69
Sacramento	4,017,902	3.190	4.361	73
San Benito	59,549	.047	.096	49
San Bernardino	1,765,423	1.402	2.986	47
San Diego	7,457,246	5.920	6.029	98
San Francisco	10,487,600	8.326	4.490	185
San Joaquin	1,517,351	1.204	1.668	72
San Luis Obispo	460,400	.365	.434	84
San Mateo	3,083,966	2.448	1.208	202
Santa Barbara	1,611,129	1.279	.853	150
Santa Clara	9,427,654	7.484	5.254	142
Santa Cruz	1,776,440	1.410	.872	162
Shasta	474,048	.376	.499	75
Sierra	629	.0005	.010	5

<u>County</u>	<u>Child Care Allocations 1978-79</u>		<u>Percent of Foodstamp Population</u>	<u>Percent of Child Care Allocations to Food Stamp Population</u>
	<u>Dollars</u>	<u>Percent</u>		
Siskiyou	\$ --	--%	.108%	--
Solano	903,277	.717	.756	95
Sonoma	1,454,730	1.155	1.016	114
Stanislaus	871,838	.692	1.075	64
Sutter	199,952	.159	.152	4
Tehama	19,489	.015	.137	10
Trinity	--	--	.048	--
Tulare	1,060,088	.841	1.448	58
Tuolumne	37,649	.030	.085	35
Ventura	1,006,218	.799	1.383	58
Yolo	685,304	.544	.443	122
Yuba	108,343	.086	.311	27
TOTAL	<u>\$125,965,882</u>	<u>100</u>	<u>100</u>	

Office of the Auditor General

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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