

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**IMPROVEMENTS NEEDED IN ADMINISTERING
STATE-FUNDED CHILD CARE PROGRAMS**

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

098

IMPROVEMENTS NEEDED IN ADMINISTERING
STATE-FUNDED CHILD CARE PROGRAMS

SEPTEMBER 1982



California Legislature

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September 1, 1982

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

098

Members of the Legislature:

Transmitted herewith is the Auditor General's report on the State Funded Child Care Programs. The State Department of Education administers \$230 million in child care and development funds. The programs are operated by local public and private agencies which provide services for children from infancy to age fourteen.

The auditors found that overpayments are made to agencies because of procedures or reporting deficiencies or delays in processing audit reports. The issuance of new or renewal licenses to provide child care services has not been timely. The investigation of complaints against agencies operating the program were not being properly documented or accomplished within the ten days required in the statutes.

The present methods of allocating funds to the agencies under the provisions of the Education Code reimburses agencies based on average daily enrollment. This requires further study as the actual attendance may be substantially less than the enrollment.

The Department of Education reports that the audit findings reflect conditions which existed up to March 1982. Since that time, they have made progress to clear up the deficiencies and improve their administration and oversight of the program.

Respectfully submitted,

WALTER M. INGALLS
 Chairman, Joint Legislative
 Audit Committee

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SUMMARY

The Office of Child Development (OCD), within the State Department of Education, administers approximately \$230 million in child care and development funds. The OCD oversees a variety of programs operated by public and private agencies that offer a full range of services in centers and family child-care homes for children from infancy to age fourteen.

Our audit identified a number of weaknesses in the OCD's administration of child care and development programs. The cumulative impact of these weaknesses is that the OCD has not optimized the use of child care and development funds. This occurs when the statewide demand for child care and development services exceeds their availability. Thus, additional children who could be served through the programs sponsored by the OCD are not being served.

The OCD's management of state funds for child care and development programs contains three major deficiencies. First, because the OCD has not considered agencies' previous expenditures, the OCD has not effectively determined the amount of funds that agencies should receive. Consequently, the OCD has contracted with some agencies for more funds than they are

capable of earning. Because the OCD does not have sufficient monitoring procedures and because the OCD has not followed existing procedures for adjusting payments made to agencies, the OCD made an estimated \$2.3 million in overpayments to agencies in fiscal year 1981-82.

Second, the OCD does not make accurate, timely, and complete determinations of agencies' earnings based on agencies' year-end audit reports. Consequently, the OCD's effectiveness in contracting with agencies is impaired, and delays occur in identifying overpayments and underpayments and in collecting funds owed the State. The OCD and the State Department of Education's Audit Bureau have not followed existing guidelines for reviewing agency audit reports, nor have they thoroughly reviewed agency audit reports. Thus, we identified approximately \$307,000 in funds owed the State which the OCD has failed to recover. We also identified 38 agencies that had received approximately \$4.3 million in fiscal years 1978-79 and 1979-80 whose audit reports had not been reviewed or processed. The OCD has not determined how much these agencies have been overpaid or underpaid. Furthermore, due to a lack of planning and scheduling in the audit review process and unnecessary duplication of effort, the State Department of Education's Audit Bureau and the OCD take approximately 17 months to process an agency's audit report and determine if an agency owes money to the State.

Since the current audit standards used in conducting audits of child care and development programs operated by school districts, community colleges, and county offices of education do not provide the OCD with sufficient information to calculate an agency's earnings, approximately half the funds that the OCD currently administers are not fully audited. Furthermore, the OCD has not reviewed the use of approximately \$132.3 million in funds paid to local educational agencies for the period between fiscal years 1978-79 and 1980-81. Of the funds that the OCD has reviewed, the net amount due the State is approximately one percent of the funds paid to these agencies.

The third major deficiency is that the OCD has not adhered to its policy for enforcing repayment agreements with agencies that owe the State funds. The OCD has allowed half of the agencies that have signed repayment agreements with the OCD to be delinquent in their payments as of March 1982. Moreover, the OCD has continued to pay some of these agencies for current services.

In fiscal year 1981-82, the OCD initiated action to address some of its problems in managing state child care and development funds. It revised its procedures for monitoring and adjusting payments to agencies, and it established procedures to ensure that the State Department of Education's

Audit Bureau receives more complete information with which to review agency audit reports. Although the OCD has begun to address its fiscal management problems, it needs to take additional action.

The OCD's administration of its licensing responsibilities also contains three major deficiencies. First, due to transition problems associated with a major reorganization in the OCD in July 1980, and the lack of an adequate management information system, the OCD has not issued licenses to new facilities and has not renewed licenses of existing facilities in a timely manner. Approximately 1,100, or 77 percent, of the child care and development facilities funded by the OCD were unlicensed or had an unknown licensing status as of January 1982. In February 1982, during the course of our review, the OCD initiated procedures to eliminate the severe licensing backlog. These procedures included committing additional resources on an interim basis to handle licensing responsibilities. As a result of this effort, OCD officials reported that nearly 23 percent of its facilities were still unlicensed as of June 1982.

Second, although the OCD has the authority to apply sanctions to agencies that fail to conform with state licensing requirements, the OCD has not established a policy for carrying

out this authority. Consequently, the OCD has not sanctioned agencies that have failed to conform with state law and correct serious licensing violations within a reasonable amount of time. At the time of our review, we identified licensing violations cited at facilities that had gone uncorrected for as long as 10 months.

Third, because the OCD has not followed existing policies, the OCD is not properly processing and investigating complaints against agencies operating state-funded child care and development programs. Consequently, we could not determine if approximately two-thirds of the 96 complaints received by the OCD in the period between January 1981 and February 1982 had been properly investigated. Furthermore, 74 percent of the complaints received by the OCD were not investigated within 10 days as provided in state law. Moreover, we could not determine if 31 percent of the complaints had been investigated within 30 days.

As a result of the OCD's problems in administering its licensing responsibilities, some children enrolled in state-subsidized child care and development programs are receiving services in facilities that do not meet state health and safety standards.

Further, since the current law requires the OCD to reimburse agencies based on average daily enrollment, the present method of funding child care and development programs does not optimize the use of the State's funds. We found that actual attendance in child care and development programs is significantly below enrollment in some programs. Consequently, the State is paying for children who are enrolled in child care and development programs, even though these children are often not in attendance.

Finally, due to the reimbursement standard developed by the OCD, a disparity exists between the reimbursements that the OCD makes to agencies and the amount of child care and development services that agencies actually provide. This disparity occurs because under the current reimbursement standard, agencies are reimbursed at two separate fixed rates, one for part-time and another for full-time enrollment. We found considerable variation between the amount of service an agency provides and the amount of service for which the agency is reimbursed. Thus, the OCD provides the same amount of reimbursement to agencies that provide different amounts of child care and development services.

In this report, we provide specific recommendations directed at improving the effectiveness of the OCD's administration of child care and development programs. We also

recommend that the Legislature consider adopting a different method of funding child care and development programs to optimize the use of state funds.

INTRODUCTION

In response to a request by the Joint Legislative Audit Committee, we have reviewed the operations of the State Department of Education's Office of Child Development. We conducted this audit under the authority vested in the Auditor General by Sections 10527 through 10528 of the Government Code.

BACKGROUND

The State Department of Education, through its Office of Child Development (OCD), administers the State's subsidized child care and development programs. The OCD administers a variety of programs operated by public and private agencies, including general child care, campus child care, migrant child care, and school-age parenting and infant development programs.* These programs offer a full range of services in centers and family child-care homes for children from infancy to age fourteen. The OCD also is responsible for administering that portion of the State Preschool Program which funds private and nonprofit agencies. In addition, the OCD administers resource and referral programs that provide parents with information about existing child care services.

* Appendix A provides a complete listing and description of the child care and development programs administered by the OCD.

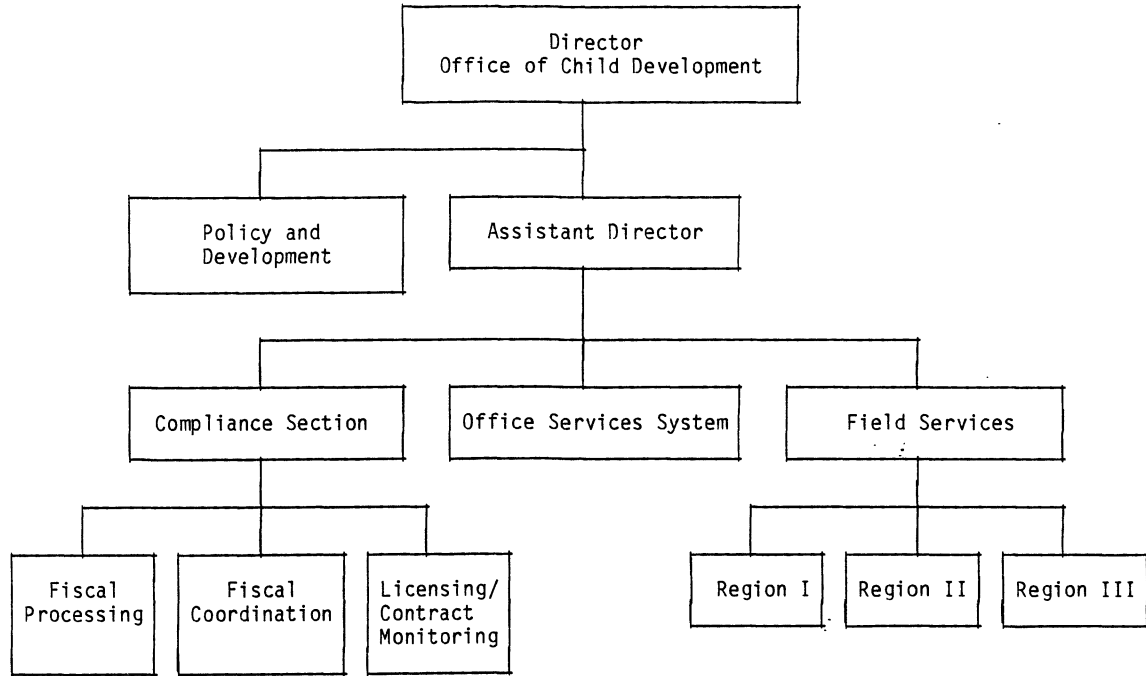
In fiscal year 1981-82, the OCD was responsible for a total budget of approximately \$230 million. About \$217 million was budgeted for child care and development programs, while nearly \$13 million was used to fund preschool programs operated by private and nonprofit agencies. Approximately \$5.4 million of the OCD's \$230 million budget was spent for the OCD's operations.

According to the Governor's budget, the OCD funded 684 child care and development programs in fiscal year 1981-82. These programs served an estimated 146,000 children who comprised an average daily enrollment of approximately 54,000 children. The OCD also administered 76 preschool programs in private, nonprofit agencies, and institutions of higher education that provided services to approximately 8,000 children. In addition, the OCD subsidized 53 resource and referral programs statewide that provided parents with information about available child care services.

Table 1 on the following page shows the OCD's current organizational structure.

TABLE 1

ORGANIZATION CHART
STATE DEPARTMENT OF EDUCATION
OFFICE OF CHILD DEVELOPMENT



As shown in Table 1, the Field Services, Compliance, and Policy and Development sections are responsible for major functions of the OCD. The Field Services Section provides program support to child care and development as well as to preschool programs. It is composed of three teams that serve different regions within the State. Each team is staffed by child development specialists who assist agencies with program and curriculum development and provide technical assistance. The Compliance Section monitors licensing and contracting for agencies that

the OCD funds. It is also responsible for processing fiscal documents and for coordinating fiscal matters with state control agencies and with other units within the State Department of Education. The Policy and Development Section helps develop guidelines and procedures for agencies funded by the OCD. It also develops procedures and conducts special projects for the OCD.

SCOPE AND METHODOLOGY

We reviewed the OCD's systems and procedures for managing and administering its fiscal and licensing responsibilities. As part of our review of the fiscal operations, we analyzed the OCD's methods for determining the amount of funding an agency should receive and its procedures for making payments to programs. We also reviewed the OCD's processing of agencies' year-end audit reports, and we analyzed the OCD's procedures for identifying funds owed to the State.

In our review of the OCD's administration of its licensing responsibilities, we analyzed its licensing of facilities operated by state-subsidized child care and development agencies. We also reviewed the OCD's system for collecting and maintaining information on the facilities that

it licenses. In addition, we examined the system for handling complaints about child care and development agencies that the State funds.

We collected and reviewed statutory requirements and State Department of Education policies and procedures pertaining to the fiscal and licensing functions. In the State Department of Education and the Office of Child Development, we interviewed staff responsible for managing and administering child care and development activities. In addition, we met with staff from other state agencies who work with the OCD, including staff from the Department of Social Services and the State Board of Control.

We also analyzed various records maintained by the OCD, including agency fiscal records, licensing files, case histories of investigated complaints, agency audit reports, and agency repayment agreements. Finally, at eight child care and development agencies we reviewed attendance and fiscal records and determined to what extent they complied with various requirements; we also collected information about patterns of attendance. (Appendix B lists the eight agencies we visited.)

We did not review the OCD's program development and support activities, such as curriculum development and technical assistance to programs.

CHAPTER I

THE OFFICE OF CHILD DEVELOPMENT NEEDS TO IMPROVE ITS MANAGEMENT OF STATE CHILD CARE AND DEVELOPMENT FUNDS

The Office of Child Development (OCD) is responsible for managing approximately \$230 million in funds for state-subsidized child care and development programs. In administering these programs, the OCD contracts with public and private agencies to provide services. The OCD makes periodic payments to these agencies, makes a final determination of their earnings based on year-end audit reports, and administers repayment agreements with agencies that have been overreimbursed. Our review of the OCD's fiscal management system revealed deficiencies in each of these three administrative functions.

Because it has not monitored and adjusted payments adequately, the OCD made an estimated \$2.3 million in overpayments to agencies in fiscal year 1981-82. Further, because it does not promptly, accurately, and completely determine agencies' earnings based on their year-end audit reports, the OCD takes an average of 17 months to process audit reports, has not collected from agencies approximately \$307,000 owed the State, and paid \$4.3 million to 38 agencies in fiscal years 1978-79 and 1979-80 without fully reviewing the

appropriateness of these payments. Additionally, because the current audit standards used for child care and development programs operated by local educational agencies are not sufficiently detailed, the OCD has been unable to audit completely the funds spent by these agencies. Finally, half of the agencies that have signed agreements to repay money owed the State have been delinquent in their payments because of weaknesses in the OCD's administration of the repayment agreements.

THE OCD NEEDS TO IMPROVE ITS
PROCEDURES FOR ESTABLISHING FUNDING
LIMITS AND FOR MONITORING PAYMENTS

The OCD needs to improve its methods for determining the amount of state funds an agency should receive. It also needs to improve its methods for monitoring and adjusting payments made to agencies. The OCD has not considered an agency's previous expenditures when determining the amount of an agency's funding. As a result for agencies we reviewed, the OCD contracted for 36 percent more funds in fiscal year 1979-80 than the agencies spent in fiscal year 1978-79. Similarly, in fiscal year 1980-81 the OCD contracted with agencies for 18 percent more funds than the agencies spent in the preceding fiscal year. Although these higher contract amounts can be partially attributed to increased service levels and cost-of-living allowances, the agencies' previous expenditures still did not justify the full amount of these increases.

In addition, because the OCD does not have sufficient procedures for monitoring monthly fiscal reports submitted by agencies, and because the OCD has not followed existing procedures for adjusting payments made to agencies, the OCD made an estimated \$2.3 million in overpayments to agencies in fiscal year 1981-82. Moreover, funds for additional child care and development services are not being fully utilized.

The OCD's Method for
Establishing Funding Limits

Every fiscal year, the OCD contracts with agencies for child care and development programs. Some agencies offer more than one program and thus have more than one contract with the OCD. An agency's contract establishes the maximum amount of state funds it can earn and the service level that the agency must maintain to earn this maximum amount.* Before contracting with an agency, the OCD determines the amount of funding by reviewing the agency's anticipated operating budget and service level. In the years following the initial contract, the OCD generally funds an agency for the amount of its previous year's contract plus any cost-of-living adjustments that the Legislature has granted. While the OCD has reduced the contract amounts for some agencies, it has not routinely reviewed agencies' expenditures from previous years, nor has it reduced the contract amounts or withheld increases in contract amounts for agencies whose previous expenditures did not meet the amount of their contracts. Consequently, the

* The OCD contracts with an agency to provide a specified level of services at a maximum contract amount. The specified level of services is based on the average number of children served and the days of operation. The OCD reimburses the agency based on the lesser of the agency's actual expenditures or its maximum contract amount.

OCD is contracting with agencies for amounts that exceed the expenditure levels that these agencies have demonstrated an ability to earn.

In the sample of the 28 contracts we reviewed for fiscal years 1978-79 through 1980-81, the OCD did not routinely consider the expenditures of previous years in determining an agency's contract amount. For example, the OCD contracted with the 28 agencies for \$5,235,000 in fiscal year 1979-80, an amount that is approximately \$1,382,000 (36 percent) greater than the agencies' expenditures for fiscal year 1978-79 (\$3,853,000). Although the expenditures of many agencies were not equal to the amounts specified in their previous year's contracts, the OCD still increased their contract amounts. For instance, 17 of the 28 agencies (61 percent) did not incur expenditures in fiscal year 1978-79 that equaled their contract amounts for that year. Yet, the OCD increased their contract amounts for the next fiscal year, 1979-80. Although the increases in the contract amounts can be partially attributed to increased service levels and cost-of-living allowances, the agencies' previous expenditures still did not warrant the full amount of these increases.

Our review of the 28 sample agencies for the subsequent fiscal year produced similar results. The OCD contracted with these agencies for \$5,904,000 in fiscal year

1980-81, but agency expenditures were \$4,987,000 in fiscal year 1979-80. The contracted amount was approximately \$917,000 (18 percent) greater than the total amount of expenditures for the previous year. In fiscal year 1979-80, 17 of the 28 agencies did not attain the maximum amount of expenditures specified in their contracts; still, the OCD increased the amounts of their contracts for fiscal year 1980-81.

In one instance, the OCD contracted with an agency for approximately \$51,900 in fiscal year 1978-79. Although the agency's expenditures for that year totaled \$38,700, the OCD increased the agency's contract amount to \$55,000 in fiscal year 1979-80. In fiscal year 1979-80, the agency's expenditures were \$44,300, some \$10,700 (19 percent) less than its contract amount. In fiscal year 1980-81, the OCD increased the agency's funding to \$60,000 or \$15,700 over its expenditures for the previous year, even though the agency did not increase its level of service. At the time of our review, the OCD had not processed the agency's audit report and determined the agency's expenditures for fiscal year 1980-81.

According to OCD officials, the OCD has not considered the expenditure information from agency audit reports because this information has not been available at the time the OCD renews its contract with an agency. As we discuss

later in this chapter, delays in processing the agency audit reports cause this information to not be available. However, these processing delays can be overcome.

Monitoring and Adjusting Payments

The OCD has overreimbursed some agencies because it has not adequately monitored and adjusted the monthly payments to these agencies. Under its current procedures, the OCD generally makes equal monthly payments to agencies. In total, these payments are equivalent to the maximum amount set by the contract. The OCD monitors each agency's earnings and service level by requiring each agency to submit a monthly fiscal report. The monthly report includes key fiscal data necessary for the OCD to determine if the agency is being reimbursed at a proper rate. The monthly report contains information about the number of days the program has operated, the number of children enrolled, and the income and expenditures of the agency. By reviewing an agency's monthly fiscal report, the OCD can determine if the agency is providing its contracted level of service and if it is entitled to reimbursement in proportion to its maximum contract amount. If an agency is not providing its contracted level of service and is being overpaid, the OCD can reduce the monthly payment to the amount that the agency is entitled to receive.

In fiscal year 1981-82, the OCD improved its procedures for monitoring and adjusting payments made to agencies. However, we identified two problems in the OCD's monitoring of agencies' earnings. First, the OCD does not ensure that all agencies submit monthly fiscal reports as required. Therefore, the OCD has been unable to monitor the service levels and expenditures of those agencies not submitting reports. For example, in March 1982, the OCD did not receive 86 of the 817 (10.5 percent) monthly fiscal reports from agencies. The OCD uses the March report as the basis for adjusting an agency's final payment in June, but because it did not receive the March reports from 86 agencies, it could not determine if these 86 agencies should receive full payment. Furthermore, although the OCD's policy was to withhold payments in June 1982 to agencies that had not submitted their March 1982 fiscal reports, it nevertheless made June payments totaling \$562,400 to 40 of the 86 agencies that failed to submit the March reports.

The second problem is that the OCD does not ensure that agencies submit accurate monthly fiscal reports. As a result, the OCD may be overreimbursing agencies. For example, the OCD has not established procedures for verifying certain information that it receives from agencies. We visited eight agencies and examined the accuracy of the January 1982 fiscal reports that these agencies submitted to the OCD. Inaccuracies

appeared in each of the agencies' fiscal reports. Five of the eight agencies failed to report income from outside sources. One agency did not report to the OCD approximately \$50,600 in food subsidy income. As a result, the OCD overpaid this agency \$30,400 for April 1982. Although the OCD has the capacity to periodically verify food income payments made to agencies, the OCD has not established a procedure for verifying such information.

In addition to not receiving timely and accurate agency reports, the OCD is not using the information provided in these reports to reduce payments to agencies whose expenditures or service levels indicate that they are being overreimbursed. Based on the projections made by OCD fiscal analysts, using the agencies' March fiscal reports, we found that the OCD had overreimbursed 154 of the 817 (19 percent) of the agency programs in fiscal year 1981-82. In total, the OCD overreimbursed these agencies by an estimated \$2.3 million. Moreover, through its fiscal report monitoring process, the OCD had identified that 53 of the 154 agencies had been overreimbursed as of May 1982 by approximately \$1,035,000. Yet, the OCD still made June payments totaling \$753,000 to 40 of the 53 agencies that had been overreimbursed.

For example, one agency with a \$405,900 contract in fiscal year 1981-82 had received \$296,300 from the OCD through May 1982. Based on the agency's March fiscal report, however, the OCD projected that the agency would be entitled to a total of \$233,500 for the entire fiscal year, \$62,800 less than it had already received. Still, the OCD paid the agency an additional \$109,600 in June 1982. As a result, the OCD will overreimburse the agency by an estimated \$172,400 for the fiscal year.

Similarly, the OCD contracted with another agency for \$1,062,900 in fiscal year 1981-82. Based on the agency's March fiscal report, the OCD projected that the agency would be entitled to \$988,500 at the end of the fiscal year. However, since the OCD did not rely on its projection of the agency's earnings, the OCD paid the agency its full contract amount. Thus, the OCD has overpaid the agency an estimated \$74,400 in fiscal year 1981-82.

THE OCD IS NOT EFFECTIVELY
IDENTIFYING FUNDS OWED THE STATE

The OCD's current process for reviewing audit reports and determining an agency's year-end earnings is not accurate, timely, or complete. Because the OCD and the State Department of Education's (SDE) Audit Bureau did not adhere to guidelines for processing audit reports, we identified approximately \$307,000 in funds owed the State that the OCD has not collected from agencies. In addition, the OCD paid \$4.3 million to 38 agencies in fiscal years 1978-79 and 1979-80 without fully reviewing the appropriateness of the payments, and the OCD has not determined how much these agencies owe the State.

Further, due to a lack of planning and scheduling in the audit review process and unnecessary duplication of effort, the OCD and the SDE's Audit Bureau take an average of 17 months to complete audit reviews and to determine if underpayments or overpayments have been made.

Finally, because the current audit standards for local educational agencies do not contain sufficient detail, the OCD is unable to process fully the audit reports for these agencies that currently receive over half of all child care and development funds. Furthermore, the OCD has not reviewed approximately \$132.3 million paid to local educational agencies

between fiscal years 1978-79 and 1980-81. Consequently, the OCD has not determined if any of these funds are owed the State.

Auditing Requirements

As specified in the Education Code, Sections 33420 and 41020, agencies contracting to receive state child care and development funds must submit audit reports to the State Department of Education. The SDE uses these audit reports as the last step in determining whether the \$230 million in child care and development funds that the OCD administers have been used correctly by recipient agencies. These audit reports are also the final means to identify and recover overpayments made to agencies or to identify and reimburse agencies that have been underpaid.

All child development agencies under contract to the State are required to submit audit reports prepared by an independent certified public accountant or a public accountant. Audit reports for the majority of child care contracts must conform with the Audit Guide for Auditors of Child Development

Programs developed by the SDE's Audit Bureau.* These guidelines direct private agencies to submit detailed reporting of agency income, expenditures, and attendance, and a calculation of whether the agency has been overpaid or underpaid. The audit report is due in the Audit Bureau no later than September 30, following the end of the fiscal year.

Staff of the SDE's Audit Bureau examine each agency's audit report, review income, expenditures, and attendance figures, and verify agency data using additional information. The staff then compute whether the OCD has overpaid or underpaid an agency. Based on this calculation, the Audit Bureau recommends that an agency either be billed for the amount of any overpayment or be paid any amount that the State owes the agency.

After the Audit Bureau's review, analysts in the OCD's Fiscal Compliance Section repeat the Audit Bureau's review and calculations and validate or modify the Audit Bureau's recommendations. Using information from their own files, the OCD Field Service Section's consultants and regional administrators then consider the Audit Bureau's and the

* Local educational agencies such as school districts, county offices of education, and community colleges submit audit reports based on different standards developed by the Department of Finance. We discuss the review of local educational agency audit reports beginning on page 27.

Compliance Section's recommendations. After these reviews, the OCD directs the SDE's Accounting Office to bill the agencies if they have been overpaid, or pay them if they have been underpaid.

Agencies may justify changes in billings by sending supplementary information to the OCD; the OCD may then reduce or cancel an agency's bill based on the additional information. In certain circumstances, agencies may also request a formal hearing, under Chapter 1061, Statutes of 1981, to appeal the OCD's fiscal decisions.

To evaluate the accuracy of the processing of agency audit reports, we selected a sample of 124 agency audit reports for fiscal years 1975-76 through 1979-80. We examined agency files maintained at the SDE's Audit Bureau and Accounting Office, at the Office of Child Nutrition Services, and at the OCD. At these offices, we collected information regarding an agency's income, expenditures, and fiscal operations. Of these 124 audit reports, the OCD had not completely processed 38 reports, and we were thus not able to evaluate processing inaccuracies and timeliness for these reports. Therefore, our review is based on a sample of 86 audit reports.

The SDE Audit Bureau and
the OCD Are Not Processing
Audit Reports Accurately

We identified three major problems in the processing of audit reports by the State Department of Education's Audit Bureau and the OCD: insufficient audit review policies and procedures, lack of complete information, and not tracking report processing. Overall, in the 86 audit reports that the OCD processed, there was approximately \$307,000 in funds owed the State that the OCD has not recovered.

One problem is that the SDE's Audit Bureau does not always adhere to audit guidelines. In one instance, the Audit Bureau inaccurately calculated agency expenses and income because the Audit Bureau did not properly allocate income. Because of the inaccuracy, the OCD did not collect \$17,897 in overpayments. In another instance, the Audit Bureau incorrectly reviewed an agency's audit report and again did not allocate income and expenses properly. As a result, the OCD incorrectly billed the agency for \$114,113.

The OCD also does not accurately review agency audit reports because it lacks sufficient audit review policies and procedures. For example, the OCD reduced the amount it billed an agency by \$17,857 because it accepted from the agency information that was incomplete and that did not conform with

audit review guidelines. Without explanation, this information showed additional program expenditures that had not been reported in the agency's original audit report submitted two years earlier.

The second major problem in audit report processing is that the SDE's Audit Bureau and the OCD do not always use complete information in reviewing these reports. The OCD erroneously billed 32 of the 86 agencies we reviewed because the Audit Bureau and the OCD had not gathered complete information for use in reviewing audit reports. Consequently, the OCD had to correct approximately \$426,000 in overbillings.

In one of the cases included in our sample, the OCD incorrectly billed an agency for \$42,738 because the SDE's Audit Bureau disallowed certain agency expenditures. The OCD had approved the expenditures, but the OCD did not use this information in determining the amount the agency should be billed. Consequently, the OCD had to reduce the agency's bill after the agency submitted copies of the OCD's approvals. Had the OCD used the information available and had the SDE's Audit Bureau been aware of the approvals at the time of its review, the OCD could have avoided the incorrect billing. In another instance, the OCD incorrectly reduced an agency's bill by

\$7,989 because the OCD used inaccurate income information provided by the agency instead of using more accurate records that are available within the State Department of Education.

The third major problem with the OCD's audit report processing is the lack of a sufficient tracking system for monitoring the processing of agency audit reports. Because of this lack of monitoring, the OCD has not processed some audit reports or billed some agencies. Six agencies in our sample had not been billed because the OCD misplaced the agencies' audit reports as well as other relevant information. These agencies owed the State an estimated \$162,800. In one of these cases, the OCD transferred the agency's audit report file to the State Department of Education's Legal Office for review in July 1981. This audit report file included bills and recommended bills totaling \$89,755. At the time of our review (March 1982), neither the OCD nor the SDE's Legal Office was aware of the status or whereabouts of this agency's audit reports.

In our sample of 124 agency audit reports, we also identified 38 agencies that had received approximately \$4.3 million from the OCD, but whose audit reports have not been reviewed or processed. One agency had submitted audits for fiscal years 1977-78, 1978-79, and 1979-80 in which the certified public accountant was unable to review the agency's

income, expenditures, and attendance information completely. For each of these years, the Audit Bureau gave the responsibility for resolving the incomplete audits to the OCD. Our review showed that the OCD has not taken action toward resolving this agency's audits. The agency has been funded for each of the fiscal years since fiscal year 1977-78, and it has a fiscal year 1981-82 funding limit of \$179,794 in spite of the unresolved audit reports.

The OCD's insufficient monitoring of agency audit reports delays action on some audit reports. For example, the audit reports of two agencies that received a total of \$117,297 in fiscal year 1978-79 were incomplete when initially submitted for review. These agencies subsequently sent complete information to the OCD in April and May of 1981; however, in April 1982, the OCD was not aware that the information had been sent and had not finished processing the audit reports.

In fiscal year 1981-82, the OCD initiated procedures to ensure that the SDE's Audit Bureau has sufficient information with which to review agency audit reports. Under these procedures, the OCD now provides the Audit Bureau with current data on an agency's fiscal status.

Excessive Delay in
Processing Audit Reports

The OCD and the SDE's Audit Bureau are not processing audit reports in a timely manner because the Audit Bureau does not schedule and plan audit reviews and because the OCD staff unnecessarily duplicate reviews. The OCD uses the agency audit review process to identify underpayments and recover overpayments made to agencies. Delays in the processing of an audit report reduce the potential for the State to recover funds that child care and development agencies owe. As a result of the untimely audit process, the OCD is unable to consider a child care and development agency's previous expenditures when contracting with that agency for a new fiscal year.

Although OCD officials partially attribute the delays in processing agency audit reports to agencies' failure to submit audit reports on time, our review of 86 agency audit reports for fiscal years 1975-76 through 1979-80 processed by the OCD showed that it still took an average of 17 months from the time audits were due until the audit review process was completed and agencies were billed for overpayments. The length of time ranged from 8 to 45 months. We also observed instances where an additional 6 to 45 months was added to the processing time when some of the agencies contested their

bills. As of March 1982, 11 of the 86 agencies had not been billed for overpayments. The OCD has, however, continued to contract with some of these agencies.

The SDE's Audit Bureau and the OCD do not schedule and plan the processing of audits, thus lengthening the audit review process. Although the Audit Bureau has no standards regarding the time needed to review an audit, Audit Bureau staff said that a complete examination of an agency audit report requires approximately two hours. Based on this figure, we estimate that it would take three months for two auditors working full-time on agency reports to complete a review of the approximately 375 annual audits of child care and development contractors, excluding local educational agencies. However, the SDE's Audit Bureau, using two auditors assigned to reviewing these reports, took an average of twelve months to process the agency audit reports from one fiscal year. The OCD sometimes contracts with an agency for two successive fiscal years before the Audit Bureau sends its recommendation and before it notifies the OCD about the agency's service levels and any fiscal problems identified during the audit review process.

In addition, it took the OCD an average of three months to process agency audit reports. The OCD fiscal analysts, agency consultants, and regional administrators

review the Audit Bureau's recommendations and verify the calculations of agency service levels. The OCD claims that the purpose for the review process is to verify the Audit Bureau's recommendations. However, the OCD changed only 8 of the Audit Bureau's 74 recommendations; 5 of the 8 changes were incorrect.

As a result of the OCD's and the Audit Bureau's lengthy audit review process, the OCD is not promptly identifying money that it has overpaid or underpaid to agencies. One of the eight child care and development agencies we visited recognized that it owed the State \$11,190 from fiscal year 1979-80. At the time of our review, the OCD had not processed the agency's audit or determined the actual amount that the agency had been overpaid, and the OCD had not collected the money owed.

Education Code Section 8278, added by Chapter 209, Statutes of 1982, requires that unspent child care and development funds must be carried over into the successive fiscal year to fund services. However, because the lengthy audit review process results in delays in identifying overpayments, the OCD will have difficulty fulfilling the requirements of this statute.

If either the OCD or the Audit Bureau were solely responsible for processing agency audit reports and if unnecessary duplication were eliminated, the review process for one fiscal year could be completed by the end of the next fiscal year. If the two staff persons in the Audit Bureau were assigned full-time to reviewing agency audit reports, one fiscal year's set of audit reports could be reviewed in approximately three months. If, instead of the Audit Bureau's reviewing reports, the six analysts within the OCD reviewed agency reports, a review of one fiscal year's audit reports would require approximately six weeks to complete. Under either of these circumstances, the majority of the agency audit reports would be processed by the end of the next fiscal year. In either case, the OCD's overpayments and underpayments could be identified and billed more promptly, and the OCD would have information sooner for making decisions about agencies' contracts.

The OCD Is Unable to Review
Fully Local Educational Agency
Audits and to Calculate Earnings

The OCD is unable to review the audits of school districts, county offices of education, and community colleges because the audits of these agencies do not contain sufficiently detailed information necessary to calculate exactly how much funding these agencies earned. Consequently,

the OCD has been unable to complete reviews of funds paid to local educational agencies from fiscal years 1978-79 through 1980-81 and determine overpayments and underpayments. During our review, the OCD began to review the use of these funds using unaudited data. While the OCD has partially reviewed these funds, the OCD still has not reviewed the use of \$132.3 million paid to local educational agencies. Of the funds the OCD had reviewed, the net amount due the State is approximately one percent of the funds paid to these agencies.

Over half of the OCD's 1981-82 funding for child care and development services goes to school districts, county offices of education, and community college districts. Section 41020 of the Education Code requires that these local educational agencies submit to the OCD annual audit reports on the use of funds received from state and local sources. The Education Code gives responsibility for establishing audit guidelines to the State Department of Finance in cooperation with the Department of Education and the Office of the Auditor General. Local educational agencies are subject to the Standards and Procedures for Audits of California Local Educational Agencies, which direct agencies to submit an audit of combined statements of income and expenditures and show a combined balance sheet of all funds under an agency's control. The agency's child development fund is one element of the audit review.

Although local educational agencies that receive funding from the OCD submit audit reports to fulfill the contractual requirement for annual audits, these audit reports do not contain sufficient detail for the OCD's audit review process. Consequently, the OCD is unable to review adequately a local educational agency's use of child care and development funds. In addition, the OCD and the SDE's Audit Bureau are unable to determine an agency's income, expenditures, and attendance, and therefore are unable to calculate underpayments or overpayments made to an agency.

Corrective Action Taken

In April 1982, during the course of our review, the OCD began reviewing local educational agency contracts for fiscal years 1979-80 and 1980-81. The OCD used the unaudited data contained in an agency's monthly reports to calculate whether the OCD had correctly paid that agency. The SDE Audit Bureau has reviewed the OCD's recommendations for billing or reimbursing the local educational agencies for incorrect payments. Table 2 on the following page shows the results of our review of the OCD's recommendations.

TABLE 2

ANALYSIS OF THE RESULTS
OF THE OCD'S PARTIAL REVIEW OF LOCAL
EDUCATIONAL AGENCY MONTHLY REPORTS

<u>Fiscal Year</u>	<u>Number of Contracts</u>	<u>Number of Contracts Reviewed</u>	<u>Total Contracts Reviewed (Percent)</u>	<u>Amount to be Billed</u>	<u>Amount to be Paid</u>	<u>Net Amount Owed the State</u>
1979-80	242	96	40%	\$ 523,425	\$355,707	\$ 167,718
1980-81	<u>249</u>	<u>144</u>	58%	<u>1,755,065</u>	<u>370,199</u>	<u>1,384,866</u>
Totals	<u>491</u>	<u>240</u>	49%	<u>\$2,278,490</u>	<u>\$725,906</u>	<u>\$1,552,584</u>

The \$1,552,584 in net overpayments that the OCD had identified as being due the State did not include the funds owed by all local educational agencies. As Table 2 shows, the OCD reviewed only 49 percent of the total number of contracts for fiscal years 1979-80 and 1980-81. The OCD did not review 251 of 491 local educational agency contracts that accounted for approximately \$59.8 million of the OCD's funding in fiscal years 1979-80 and 1980-81. In addition, for fiscal year 1978-79, the OCD did not review any of the 227 local educational agency contracts, which totaled approximately \$72.5 million. In all, the OCD has not reviewed \$132.3 million paid to local educational agencies for fiscal years 1978-79 through 1980-81. Of the funds that the OCD had reviewed, the net amount due the State is approximately one percent of the funds paid to these agencies.

THE OCD NEEDS TO STRENGTHEN
ITS MONITORING AND CONTROLLING
OF REPAYMENT AGREEMENTS

Since the OCD has not adhered to its policy for enforcing repayment agreements, the OCD has not adequately monitored and controlled agencies' adherence to repayment agreements, nor has it taken prompt administrative action with agencies that do not meet their repayment terms. As of March 1982, the OCD had entered into 28 repayment agreements with agencies that owed the State approximately \$393,000. At that time, agencies were delinquent in making repayments in 14 of the 28 agreements. In total, as of March 1982, 216 agencies owe the State approximately \$4.7 million. Any of these agencies which the OCD determines are unable to immediately repay funds owed to the State could enter into future repayment agreements with the OCD.

During our review, the OCD initiated administrative action against agencies that were not meeting their repayment agreements. According to the OCD, as of June 30, 1982, some agencies have made payments that were overdue. In addition, the OCD is not contracting in fiscal year 1982-83 with two agencies that had defaulted on their repayment plans. However, the OCD could not provide a complete status report on repayment

agreements at this time because of problems in receiving accurate reports from the State Department of Education's Accounting Office.

In November 1980, the OCD instituted a policy that allows agencies that have received overpayments from the OCD and that are unable to immediately repay the funds owed to sign agreements allowing the agencies up to 36 months for repayment. The OCD's staff negotiates these repayment agreements; the agreements must be approved by the Associate Superintendent of the Division of Child Development and Nutrition Services.

The State Department of Education's Accounting Office receives a copy of approved repayment agreements and collects payments from agencies. The SDE's Accounting Office is also responsible for notifying the OCD if an agency is delinquent in making repayments. At the time of our review, the SDE's Accounting Office was providing the OCD with a semi-monthly listing showing the status of all accounts receivable. Analysts in the OCD's Fiscal Processing Unit are responsible for reviewing this listing and monitoring the status of agencies' repayment agreements. When the OCD receives notification that an agency is delinquent, the OCD, according to policy, contacts the delinquent agency. The OCD may eventually terminate an agency's funding.

The OCD has not thoroughly tracked repayments and monitored each agency's progress in meeting its repayment agreement. For example, during the first half of fiscal year 1981-82, the OCD did not maintain a status report on agencies' payments. Furthermore, although analysts within the OCD's Fiscal Processing Unit received semi-monthly listings from the SDE's Accounting Office, we found no evidence that these status reports were used to monitor and control agencies' repayments or to initiate follow-up action against agencies not adhering to their repayment schedules. Not until February 1982 did the OCD begin preparing a monthly repayment report that summarized the status of agency repayment agreements. Furthermore, our review of the March 1982 repayment report indicated that the OCD had not thoroughly monitored all agencies having repayment agreements. We identified four agencies that owed approximately \$34,000 and that were not monitored or listed on the monthly report.

In one instance, an agency that owed the State approximately \$8,900 did not have a written repayment agreement. However, this agency had made three payments totaling \$2,500 over a three-month period. Because the SDE's Accounting Office had not been notified that this agency had made the payments, the semi-monthly status report regarding this agency was not accurate. Our investigation of this account revealed that a consultant responsible for this agency

had been holding the payments in violation of the requirement in the State Administrative Manual for depositing payments no later than the end of the working day.

In addition to not thoroughly monitoring agency repayment agreements, the OCD has also not taken appropriate action against agencies that do not make repayments. The OCD policy regarding repayments provides follow-up action through a five-step process. First, the OCD is required to send a "late" notice to an agency after it is 30 days delinquent and again after it is 60 days delinquent. Second, the OCD staff must contact the agency's manager by telephone or by certified letter if the agency has not responded to the 60-day "late" notice. Third, the OCD must notify offices within the Child Development and Nutrition Services Division regarding the OCD's actions. Fourth, if after 75 days a satisfactory settlement has not been reached, "a case conference" of division representatives is held to determine appropriate administrative action. Finally, if an agency has not paid its accounts receivable within 90 days, the OCD's policy requires that the agency be notified that its funding is being terminated. The OCD has not implemented this five-step process, however. Before March 1982, the OCD had not taken any administrative action against agencies delinquent in making repayments, such as mailing of "late notices," holding case conferences, or notifying agencies that their funding would be terminated.

Our review identified agencies that were delinquent in making payments; however, the OCD had not taken the appropriate action to secure repayment. One agency that owed the State more than \$98,000 did not make its payments between November 1981 and March 1982. During this period, the OCD had not issued any late notices to the agency, scheduled a case conference, or sent a notice to the agency indicating a termination of funding. In a similar instance, an agency owed the State more than \$10,000 and had not repaid any funds between September 1981 and March 1982. The OCD had sent this agency no late notices, nor had the OCD scheduled a case conference.

After our initial inquiry, the OCD began taking corrective action. The Division of Child Development and Nutrition Services held a case conference on March 23, 1982, concerning agencies that were delinquent in their repayments. As a result of this case conference, the OCD mailed letters to five agencies, notifying the agencies that they were in violation of their repayment agreements.

CONCLUSION

The Office of Child Development needs to improve its financial management of child care and development programs. The OCD has not established and

implemented adequate procedures for determining the amount of funds that agencies should receive and for making payments to the agencies. Furthermore, the OCD's process for reviewing audit reports of agencies is neither effective nor efficient. The OCD is not accurate or prompt in recalculating the amounts that agencies have been underpaid or overpaid. In addition, the OCD is not adequately monitoring repayment agreements with agencies that owe the State funds. Because of these deficiencies, the OCD has overpaid some agencies that operate child care and development programs. In addition, the OCD has not identified overpayments due the State and has not initiated collection actions.

RECOMMENDATION

When renewing an agency's contract and determining the amount of funding that an agency should receive, the Office of Child Development should consider an agency's demonstrated ability to earn the total amount included in its contract. The OCD should specifically consider the agency's actual expenditures and service levels from previous years;

the OCD should not just consider the amount of funding provided for in the agency's contract for the previous year.

To improve control over payments made to agencies operating child care and development programs, the OCD should strengthen and consistently apply existing procedures for adjusting payments made to agencies so that an agency's payments closely match its earnings. Specifically, the OCD should develop stricter requirements for reducing payments if an agency's actual service level is not sufficient to earn the maximum contract amount. Further, the OCD should consistently reduce payments if an agency's actual expenditures do not warrant its being reimbursed for the maximum contract amount.

The OCD should also establish a procedure for periodically verifying an agency's special income from food programs administered by the State Department of Education. The OCD should closely monitor the income and expenditure data submitted by agencies to the OCD in periodic fiscal reports, and it should develop procedures to ensure that agencies submit periodic fiscal reports on time to the OCD.

Finally, the OCD should adhere to a consistent policy for reducing and withholding payments to agencies that do not provide required fiscal reports.

To ensure that the reviews of audit reports are timely and accurate, the State Department of Education should consolidate the review of agency audit reports for child care and development programs in either the OCD or the State Department of Education's Audit Bureau. The unit responsible for reviewing agency audit reports should have primary responsibility for the following functions:

- Acting as a central repository for agencies' fiscal records that are necessary to conduct an audit report review;
- Receiving and processing audit reports;
- Making recommendations to department management to bill or to pay agencies or to close agency accounts; and
- Developing a schedule for processing audit reports, workload standards for reviewing audit reports, and procedures for monitoring the processing of audit reports.

Furthermore, to improve the accuracy of the processing of audit reports, the unit responsible for reviewing agency audit reports should re-examine the requirements and guidelines for determining allowable income and expenditures of agencies and develop specific criteria for making these determinations. The unit should also provide training to staff responsible for processing audit reports to ensure that staff know existing requirements and guidelines and that they know how to apply them. The unit should also establish quality control procedures to verify the accuracy of calculations made in the processing of audit reports.

To ensure that audit reports provide the OCD with the information it needs to determine the earnings of child care and development programs operated by school districts, community colleges, and county offices of education, the State Department of Education should work with the Department of Finance to make changes in the Standards for Audits of Local Educational Agencies. Specifically, the State Department of Education should ensure that the standards require the information that the OCD needs to calculate the amount of funds that each local educational agency is entitled to receive. The

standards should also include a statement of the average daily enrollment of the child care and development programs of local educational agencies. Finally, to ensure that state child care and development funds are properly accounted for, these standards should include sufficiently detailed guidelines for agencies reporting their child care and development expenditures and income.

Finally, we recommend that the State Department of Education strengthen its monitoring and control over repayment agreements. To do this, the State Department of Education should fully implement existing procedures to ensure a prompt and consistent review of agencies that are delinquent in meeting their repayment agreements.

CHAPTER II

THE OFFICE OF CHILD DEVELOPMENT IS NOT ENSURING THAT CHILD CARE AND DEVELOPMENT FACILITIES MEET MINIMUM HEALTH AND SAFETY STANDARDS

The Office of Child Development needs to improve its administration of licensing requirements to ensure that facilities serving children in state-subsidized child care and development programs meet minimum health and safety standards. Currently, the OCD licenses approximately 1,500 facilities. The OCD's licensing activities are its primary means of making sure that the agencies it funds provide a healthy and safe environment.

However, three major deficiencies exist in the OCD's administration of its licensing and complaint-processing responsibilities. First, due to transition problems associated with a major reorganization in the OCD in July 1980, and the lack of an adequate management information system, the OCD has not issued licenses to new facilities and has not renewed licenses of existing facilities in a timely manner. As of January 1982, approximately 77 percent of the child care and development facilities that the OCD funds were unlicensed or had an uncertain licensing status. Second, although the OCD has the authority to apply sanctions to agencies that fail to conform with state licensing requirements, the OCD has not

established a policy for carrying out this authority. Consequently, the OCD has not imposed sanctions against agencies that failed to correct serious licensing violations within a reasonable amount of time, even though at the time of our review, some of the violations cited had gone uncorrected for as long as 10 months. Finally, because the OCD has not followed existing procedures, the OCD is not properly processing and investigating complaints against agencies operating state-funded child care and development programs. We could not determine if approximately two-thirds of the 96 complaints that the OCD has received in the period between January 1981 and February 1982 had been properly investigated.

As a result of these three major deficiencies, some children enrolled in child care and development programs are receiving services in facilities that do not meet state health and safety standards.

In February 1982, during the course of our review, the OCD initiated procedures to eliminate the severe licensing backlog. These procedures included committing additional resources on an interim basis to handle licensing responsibilities. As a result of this effort, the OCD reported that approximately 23 percent of its facilities were still unlicensed as of June 1982.

The OCD's Licensing Responsibilities

State law generally requires that all facilities operated by agencies offering child care and development programs be licensed to ensure that the facilities meet minimum health and safety standards. The Department of Social Services (DSS) is responsible for licensing child care facilities in the State. However, under an interagency agreement with the DSS, the OCD is authorized to license those child care and development facilities that it funds.

The California Community Care Facilities Act, Health and Safety Code Sections 1500 through 1567.9, establishes the statutory requirements for operating nonresidential child care facilities.* These requirements are supplemented by Division 6 of Title 22 of the California Administrative Code, which establishes the licensing provisions relating to day-care facilities. In addition, the interagency agreement between the DSS and the OCD delineates various responsibilities and functions regarding the OCD's licensing of child care facilities.

* Nonresidential child care facilities are facilities that do not provide 24-hour care and services.

In administering its licensing function, the OCD is responsible for issuing licenses to new child care and development facilities and for renewing licenses of existing facilities. To fulfill these responsibilities, the OCD provides information to prospective licensees; receives licensing applications; verifies certain information on applications, such as employee health clearances and facility fire clearances; visits sites to determine if facilities comply with requirements; and makes follow-up visits to determine if an agency has corrected any problems that the OCD had previously identified.* In addition to these basic licensing functions, the OCD is also responsible for periodically evaluating licensed facilities, investigating complaints, and taking legal and administrative actions to seek compliance with requirements or to deny, revoke, or suspend licenses.

The Licensing and Contract Monitoring Unit within the OCD's Compliance Section is responsible for the licensing functions. As of June 1982, this unit had 15 staff persons, including one manager, three program analysts, and 11 licensing analysts performing licensing activities.

* Health clearances certify that employees have had the required health tests. Fire clearances certify the fire safety of a facility.

THE OCD IS NOT LICENSING
FACILITIES IN AN ADEQUATE
OR TIMELY MANNER

Although state law requires facilities operating child care and development programs to be licensed, the OCD has not effectively licensed the facilities that it funds. Due to transition problems associated with a major reorganization within the OCD in July 1980, and due to the lack of an adequate management information system, the OCD has also not identified facilities whose licenses should be reviewed. In addition, the OCD generally has not conducted follow-up activities to ensure that facilities have corrected previously identified licensing violations. As a result of these problems, the OCD has not been able to ensure that agencies meet minimum health and safety standards, nor has it adequately identified health and safety dangers that exist in facilities providing state-subsidized child care and development programs.

Our analysis of the Licensing and Contract Monitoring Unit's records in January 1982 showed that 55 percent of the facilities offering state-subsidized child care and development programs were unlicensed. In addition, the OCD did not know whether an additional 22 percent of the facilities were currently licensed.

According to OCD officials, a major reason for delays in licensing and the licensing backlog was a reorganization within the OCD in July 1980. At that time, the OCD transferred licensing responsibilities from the consultants in the Field Services Section to licensing analysts within the newly established Licensing and Contract Monitoring Unit. From July to December 1980, the OCD assigned two analysts to license facilities, and during this time, the OCD conducted limited licensing activities. In December 1980, the OCD assigned a manager to the Licensing and Contract Monitoring Unit and by the end of January 1981, the OCD had added nine more staff members to the unit. During 1981, the OCD hired additional staff, but a serious backlog of unlicensed facilities had developed by the year's end.

To fulfill its licensing responsibilities, the Licensing and Contract Monitoring Unit's staff must identify agencies that require either licensing reviews or follow-up visits to ensure that violations cited in the licensing reviews are corrected. The staff have not been adequately identifying facilities requiring licensing reviews, however. Furthermore, because OCD licensing analysts have been primarily concerned with eliminating the licensing backlog, they have not been conducting timely follow-up visits at facilities.

A major reason for the staff's failure to identify agencies that require licensing reviews is that the OCD does not have an adequate management information system for collecting and maintaining data on the status of child care and development facilities. Although the OCD has developed a management information system, it is not yet in operation. Consequently, the Licensing and Contract Monitoring Unit either is often unaware of the licensing status of facilities or has incomplete information about facilities. In January 1982, the OCD did not know the licensing status for 22 percent of the facilities that it had licensed and was funding. In addition, the OCD did not know the status of fire clearances for 81 percent of the facilities it licenses. Without such information, the OCD's ability to license facilities is inhibited.

The OCD's interagency agreement with the DSS requires the OCD to visit facilities operated by agencies applying for new licenses to determine if the facilities comply with applicable regulations. The interagency agreement also requires the OCD to conduct site visits within 120 days of license expiration for previously licensed facilities.*

* Chapter 102, Statutes of 1981, amended the requirement for conducting site visits for renewal licensing. If a previously licensed facility has had no complaints registered against it during the previous licensing period, the OCD can grant an automatic license renewal without a site visit.

Furthermore, the interagency agreement requires the OCD to complete an unannounced comprehensive inspection of each facility that the OCD licenses.* If the OCD finds deficiencies during an inspection, the OCD must develop a written plan for correcting the problems. After giving an agency a reasonable amount of time to correct the problems, typically 30 days, the OCD is required to make follow-up visits to determine if deficiencies are actually being addressed.

The OCD's Licensing and Contract Monitoring Unit is not taking timely follow-up action on facilities in which licensing deficiencies have been identified. We analyzed 59 case files to determine how responsive the OCD had been in conducting its follow-up activities at these facilities. The Licensing and Contract Monitoring Unit had reviewed these 59 cases between July 1981 and December 1981; 32 required follow-up action. As of April 1982, however, 16 of these 32 facilities had not received follow-up contact by the OCD. Ten of the 16 facilities (63 percent) that warranted follow-up action had not been contacted within the 30-day period adopted

* Chapter 102, Statutes of 1981, amended the requirement for conducting unannounced random site visits to one-third of all facilities each year. Also, instead of the 30 days previously allowed, agencies now have 60 days to demonstrate compliance with licensing requirements concerning record-keeping.

by the OCD as a reasonable amount of time for facilities to address licensing violations. In fact, 59 percent had not been contacted within the 60 days now required by state law.

The Licensing and Contract Monitoring Unit's ability to meet its responsibilities for follow-up action has been impaired by resource constraints. In fiscal year 1981-82, the travel budget for the Department of Education was reduced by 25 percent, and the OCD's budget was reduced by the same amount. As a result of the reduced travel funds, licensing analysts have been visiting facilities every other week. Furthermore, because of the severe backlog in the licensing of facilities, the OCD management placed a higher priority on initial licensing reviews and renewal licensing visits than on conducting follow-up reviews. Because of these priorities, licensing analysts limited their follow-up visits for evaluating the implementation of corrective action.

Because the OCD has not adequately executed its licensing responsibilities, children are enrolled in unlicensed facilities that pose health and safety dangers. Of the 59 facilities we reviewed in our examination of follow-up activity, 42 percent were cited for general safety violations such as exposed wiring, dangerous chemicals within reach of children, and poisonous edible plants on the playground. Twenty-five percent of the facilities were cited for general

building violations, including broken windows and unsanitary carpets and refrigerators. Furthermore, 25 percent of the facilities had general sanitation violations, such as ant infestation and dirty windows, walls, and floors.

Although the OCD does not currently have a management information system to track and monitor facility licensing information, OCD officials are planning to use two systems. The Facility Information System is designed to maintain licensing information, while the Compliance Assessment, Improvement, and Monitoring System will provide descriptive data on each agency and additional information on an agency's licensing status. Neither of these two systems was operational at the time of our review.

THE OCD HAS NOT EFFECTIVELY
APPLIED SANCTIONS TO AGENCIES THAT
FAIL TO CORRECT LICENSING VIOLATIONS

Under the provisions of the Health and Safety Code and the OCD's interagency agreement with the DSS, the OCD can impose sanctions against agencies that fail to comply with state licensing requirements, but the OCD has not done so. The sanctions available to the OCD include the authority to deny an unlicensed facility a license, to deny a renewal license to a facility, or to withhold part or all of a sponsoring agency's funding while at the same time initiating license-revocation procedures. However, the OCD has rarely imposed sanctions against agencies that have failed to comply with state licensing requirements. In fact, during fiscal year 1981-82, the OCD initiated and completed only one license-revocation action.

Because the OCD has not developed a policy for sanctioning agencies, the OCD has not imposed sanctions against agencies even though these agencies had taken little or no action to correct the licensing violations the OCD had cited as much as ten months earlier. For example, on June 5, 1981, a licensing analyst cited one facility for nine general sanitation and safety related licensing violations. On October 5, 1981, the analyst conducted a pre-licensing visit and cited the facility for six licensing violations, two of

which had been previously cited. These two violations were an unsanitary refrigerator and dirty children's cots. In addition, the analyst cited the facility for not having sufficient staff to supervise the number of children in attendance and for not having health records and health clearances for the staff on duty. A follow-up visit conducted on December 18, 1981, found that the two violations cited during the previous visit had still not been corrected.

On April 19, 1982, the licensing analyst again visited this facility and found that it was still not complying in three areas: sanitation and storage of children's cots; staff-to-child ratios; and staff health records. During the 10-month period between the initial citations and the April 1982 site visits, the OCD did not impose any sanctions against this facility. Further, the OCD continued to fund the facility in full without a license, and it allowed the facility to operate in violation of health and safety requirements. As of June 30, 1982, this facility was still unlicensed and receiving funds, although the OCD had sent a letter to the facility on June 1, 1982, threatening termination within 15 days if the violations remained uncorrected.

In another instance, the OCD again failed to impose sanctions against an agency that did not correct licensing violations. On May 15, 1981, the OCD licensing analysts cited

a facility for 13 separate licensing violations. In a follow-up and pre-licensing visit on August 26, 1981, the licensing analysts again cited the facility for licensing violations in 7 areas, 6 of which had been cited in the earlier visit. The violations cited included inadequate staff-to-child ratios; an absence of staff health records and records of pre-employment physical exams; unavailability of drinking water for children on the playground; an unkempt playground area; insufficient playground equipment; and an absence of statements of teachers' duties. A follow-up visit on December 2, 1982, revealed two uncorrected violations. As of June 30, 1982, the OCD had not licensed this facility but was still funding the agency.

THE OCD IS NOT
PROPERLY PROCESSING AND
INVESTIGATING COMPLAINTS

The OCD has not followed existing policies for processing and investigating complaints against agencies operating state-funded child care and development programs. Consequently, we could not determine if approximately two-thirds of the 96 complaints received by the OCD in the past two years had been properly investigated. Furthermore, 74 percent of the complaints received by the OCD were not investigated within 10 days as provided in state law. Moreover, we could not determine if 31 percent of the complaints had been investigated within 30 days.

The Health and Safety Code and the OCD's interagency agreement with the Department of Social Services contain requirements for processing and investigating complaints that the OCD receives concerning state-subsidized child care and development agencies. Section 1538 of the Health and Safety Code requires investigation of complaints against child care and development agencies within 10 days. It further requires that complainants be notified promptly regarding the proposed course of action that the OCD will pursue in conducting the investigation. The OCD's interagency agreement with the DSS establishes additional procedures for recording and responding to complaints.

In February 1981, the OCD's Licensing and Contract Monitoring Unit established written procedures for processing complaints. These procedures specify how complaints should be recorded, the investigative process and schedules, the actions for closing and completing a complaint case, and the follow-up activities necessary to ensure that confirmed agency problems are corrected.

To determine how well the OCD was processing and investigating complaints, we reviewed the OCD's handling of the 96 complaints received since January 1981. Of these complaints, 39 percent had not been properly recorded by the Licensing and Contract Monitoring Unit. The records for these complaints did not fully indicate the facility named in the complaint, the date on which the complaint was received, the nature of the complaint, the date of the OCD's site visit, and the disposition of the complaint. In addition, the records for 69 percent of the complaints did not indicate that the complainant had been notified about the action the OCD had taken to resolve the complaint.

The OCD has also failed to process complaints properly. For example, the OCD received one complaint on June 4, 1981, concerning general supervision and safety violations at a facility; however, it was not logged in the OCD's records until December 18, 1981, more than six months

later. Another example shows that complaint files do not include sufficient information to indicate that proper action was taken to correct problems. A complaint concerning safety and sanitation violations was filed with the OCD on December 29, 1981. However, at the time of our review, June 30, 1982, the complaint records did not indicate whether the OCD has taken any action to ensure that the violations had been corrected.

Finally, our review of the OCD's complaint process indicated that the OCD has failed to investigate complaints properly. Of the 96 complaints we reviewed, 71 (74 percent) had not been investigated within the 10 days specified in the Health and Safety Code. Furthermore, we could not determine if 31 percent of the complaints had been investigated within thirty days. As a result, delays have occurred in resolving complaints, and children in state-subsidized child care and development facilities may be unnecessarily exposed to potential health and safety dangers. In one instance, the OCD received a complaint about a facility on July 29, 1981, but did not make a site visit to the facility until September 24, 1981, nearly two months later. At that time, the licensing analysts noted six violations of licensing requirements. The facility had not corrected all of the violations by the time the

licensing analysts conducted a follow-up on January 4, 1982. As of June 30, 1982, this facility had still not corrected the violations for which it had been cited.

CONCLUSION

The Office of Child Development has allowed a severe backlog to occur in its licensing of child care and development facilities. While the OCD has reduced the backlog, weaknesses still exist in the OCD's administration of its licensing responsibilities.

The OCD has not issued licenses to new facilities and has not renewed licenses of existing facilities in a timely manner. As a result, in January of 1982 over half of the facilities that the OCD contracted with were unlicensed. In addition, the OCD has not conducted prompt follow-up activities at and imposed sanctions against facilities where licensing violations have been identified but not corrected. Consequently, some violations that pose potential health and safety dangers to children go unaddressed.

Furthermore, the OCD is not properly handling and investigating complaints against licensees, thereby allowing potentially dangerous conditions to persist.

As a result of these deficiencies, some violations of health and safety requirements at facilities serving state-subsidized child care and development programs may go undetected, while others that have been identified have not been corrected.

RECOMMENDATION

The Office of Child Development should continue its efforts to eliminate the backlog of unlicensed child care and development facilities. The OCD should also evaluate its use of staff resources and assure that sufficient staff are committed to licensing responsibilities to prevent a backlog from reoccurring.

In addition, the OCD should implement and maintain an adequate management information system for recording and monitoring licensing information regarding the facilities that it funds. At a minimum, the OCD should maintain a current record of the number of facilities operated by agencies under contract with the OCD; the license expiration date; the date of last licensing visit; and any outstanding licensing deficiencies. The OCD should use this information to

establish a licensing schedule that is consistent with current requirements for licensing facilities and conducting follow-up visits.

The OCD should also fully implement the complaint processing procedures that it has established. The OCD needs to ensure that complaints are properly recorded and referred for investigation. The OCD should also ensure that complaints are reviewed and assessed to determine if inspections are necessary. When inspections are necessary, the OCD should conduct them within 10 days of receipt of complaints. The OCD should also ensure that complaints are appropriately resolved in a timely manner and that the results are communicated to the complainant.

Finally, the OCD should apply sanctions against agencies that fail to comply with serious licensing requirements, such as those cited earlier in this chapter.

CHAPTER III

CHANGES IN FUNDING METHODS COULD OPTIMIZE THE USE OF CHILD CARE AND DEVELOPMENT FUNDS AND ELIMINATE REIMBURSEMENT DISPARITIES

The present method of funding child care and development programs does not encourage the full utilization of services paid for by the State. Under the provisions of the Education Code, the OCD reimburses state-subsidized agencies based on average daily enrollment. However, our review determined that actual attendance at child care and development facilities may be substantially less than recorded enrollment. Actual attendance in the eight agencies we reviewed averaged only 84 percent of the recorded enrollment. As a result, the State is paying for children who are enrolled in child care and development programs, but who are often not actually in attendance.

Furthermore, we found a disparity between the reimbursements that the OCD makes to agencies and the amount of child care and development services actually provided. This disparity occurs because the reimbursement standard that the State Department of Education developed reimburses agencies at two fixed rates, one for part-time and one for full-time enrollment. Because of the structure of these rates, considerable variation can exist between the amount of service

an agency provides and the amount of service for which the agency is reimbursed. As a result, the OCD provides the same amount of reimbursement for different amounts of child care and development services.

Funding Requirements for Child Care and Development Activities

Chapter 1246, Statutes of 1977, established a reimbursement system for child care and development programs based on average daily enrollment (ADE). The State implemented this system in fiscal year 1978-79. Previously, child care and development services were reimbursed based on an hourly reimbursement rate. Under the ADE reimbursement system, the Superintendent of Public Instruction is responsible for implementing a plan that establishes reasonable standards and assigns reimbursement rates for agencies that vary in the length of their program years and in the number of their service hours.

Chapter 798, Statutes of 1980, established a standard reimbursement rate for each unit of ADE and allowed for cost-of-living adjustments as granted by the Legislature. Agencies with existing reimbursement rates above the standard reimbursement rate were to reduce costs on an incremental basis to achieve the standard reimbursement rate. Similarly, the measure allowed for the increase in reimbursement rates for

those agencies having reimbursement rates less than the standard rate. In fiscal year 1981-82, the standard reimbursement rate for each unit of ADE was \$4,070.

Chapter 798, Statutes of 1980, also defined the type of attendance that the OCD may reimburse. According to the statutory definition of "attendance," a child present at a child care and development facility and a child with an excused absence may be claimed for reimbursement. "Excused absences" are defined as children who are absent because they are ill or in quarantine, because of illness or quarantine of the parent, or because of a family emergency. An excused absence may also include time spent with a parent or other relative as required by a court of law or when it is clearly in the best interest of the child.

In implementing the ADE reimbursement system, the State Department of Education's Division of Child Development and Nutrition Services (CDNS) developed additional policies that define types of enrollment and attendance that are allowable for reimbursement. Under the current CDNS policy, for example, an agency may claim reimbursement for full-time enrollment if a child is enrolled for 6.5 or more hours per day. Reimbursement for part-time enrollment may be claimed if a child is enrolled for less than 6.5 hours per day. CDNS

policy also allows an agency to claim full reimbursement if its attendance (actual attendance plus excused absences) is equal to at least 93 percent of its enrollment.

ACTUAL ATTENDANCE AT
CHILD CARE AND DEVELOPMENT
FACILITIES IS SUBSTANTIALLY
LESS THAN ENROLLMENT

Child care and development programs are reimbursed on the basis of average daily enrollment; however, actual attendance may be substantially less than enrollment. While this discrepancy is permissible under current statutory requirements and State Department of Education policies, the State pays for considerably more child care and development services than facilities actually provide. This is occurring at a time when other children in need of child care and development services are unable to receive services.

We visited eight child care and development agencies and compared their enrollment levels to attendance levels for January 1982. Table 3 on the following page shows the results of our attendance study for children enrolled full-time.

TABLE 3

ACTUAL ATTENDANCE AND EXCUSED ABSENCES
FOR CHILDREN ENROLLED FULL-TIME^a

<u>Agency</u>	<u>Average Number of Children Enrolled^b</u>	<u>Actual Attendance (Percent)</u>	<u>Excused Absences (Percent)</u>	<u>Actual Attendance Plus Excused Absences (Percent)</u>
1	170	87.7	12.0	99.7
2	61	63.7	31.4	95.1
3	142	79.6	15.3	94.9
4	89	74.5	23.7	98.2
5	287	87.1	11.5	98.6
6	102	85.0	14.6	99.6
7	82	84.9	15.0	99.9
8	177	90.3	8.2	98.5

^a Based on January 1982 attendance and a sample of eight agencies.

^b Since enrollment in programs fluctuates during the month, average enrollment is used.

Table 3 shows that the actual attendance at these agencies ranged from 63.7 percent to 90.3 percent of enrollment. In five of the eight agencies, actual attendance was 85 percent of enrollment or less. Nevertheless, all of the eight agencies received full funding of their enrollment for the sample month because their actual attendance plus excused absences did not

go below the 93 percent full-funding level allowed by the CDNS. Overall, we computed the weighted average of the actual attendance to be 84 percent for the eight agencies we reviewed.

Table 3 also shows the percentage of excused absences that agencies are claiming. In our sample, the percent of excused absences claimed ranged from 8.2 to 31.4 percent. Furthermore, five of the eight agencies we reviewed had excused absence rates exceeding 14 percent.

The high percentage of excused absences is partly attributable to the definition of the term "excused absence." Presently, Section 8208(d) of the Education Code allows agencies to be reimbursed for excused absences. Agencies may claim as excused those absences that are clearly in the best interest of the child. The statute does not, however, place a limit on the number of these absences that agencies may claim.

Our review showed that agencies may be abusing this provision by claiming excessive numbers of these excused absences. Furthermore, the "excused" status of some claimed absences was questionable. For example, one facility claimed 30 days of excused absences for two children enrolled in the program who were on a family vacation for 15 consecutive days. These absences were considered "in the best interest of the children" and the agency claimed full reimbursement for the

days that the children were vacationing with their parents. Similarly, at another facility, we reviewed excused absences claimed as being "in the best interest of children" for children who stayed home with parents for up to two weeks. In still another instance, a program claimed 19 days of excused absence for a child who was out of town.

Because actual attendance at child care and development programs may be significantly less than enrollment, the State pays for unused child care and development programs at a time when a strong demand for these programs exists. According to OCD studies, the need for child care and development services may be as much as six times greater than the amount of services provided in programs that the OCD funds. Furthermore, OCD officials indicate that the majority of the existing programs maintain waiting lists for children seeking enrollment. Our own review confirmed that a large need exists. For example, seven of the eight agencies we visited had waiting lists for children. At least three agencies reported waiting lists of more than 250 children seeking to enroll, and four agencies reported enrollment delays of at least three months for children on their waiting lists.

A DISPARITY EXISTS
BETWEEN REIMBURSEMENTS AND
THE AMOUNT OF SERVICES PROVIDED
BY CHILD CARE AND DEVELOPMENT PROGRAMS

Under the current policies of the Division of Child Development and Nutrition Services (CDNS), agencies may claim reimbursement for a full-time enrollment for each child enrolled for 6.5 hours or more per day. Agencies may also claim reimbursement for half of a full-time enrollment for each child enrolled for less than 6.5 hours per day. Thus, CDNS policy allows for considerable variation in how much service agencies actually must provide to claim full-time or part-time enrollment.

Our analysis of attendance patterns at the agencies we reviewed showed a considerable variation in the amount of actual time spent in attendance at child care and development programs by children who are enrolled full-time.* Table 4 on the following page shows the results of our review.

* We reviewed eight agencies, but one agency reviewed is a State Preschool Program that operates on a four-hour day. This agency is not included in this part of our analysis.

TABLE 4
 AVERAGE AMOUNT OF TIME
 IN ATTENDANCE BY CHILDREN ENROLLED
FULL-TIME ON A SAMPLE DAY AT SEVEN AGENCIES

<u>Agency</u>	<u>Number of Facilities Reviewed^a</u>	<u>Combined Number of Children in Attendance</u>	<u>Average Amount of Time in Attendance</u>
1	3	76	6 hrs. 32 min.
2	2	28	5 hrs. 50 min.
3	1	41	8 hrs. 17 min.
4	3	71	6 hrs. 37 min.
5	3	252	8 hrs. 39 min.
6	2	88	8 hrs. 3 min.
7	1	55	8 hrs. 19 min.

^a Some agencies operate more than one facility.

Table 4 indicates that the average amount of time in attendance by children enrolled full-time ranged from 5 hours and 50 minutes to 8 hours and 39 minutes. While the children at four agencies had average times in attendance of more than 8 hours, students at one agency (number 2) spent less than the required 6.5 hours of time in attendance. Two other agencies (numbers 1 and 4) barely met the required 6.5 hours of attendance for claiming full-time enrollment.

As Table 4 shows, under the current system, some agencies provide considerably more service than other agencies, yet the agencies providing more service receive no additional reimbursement for their efforts. For example, children were in attendance at one agency (number 5) for an average of 8 hours and 39 minutes. This is 33 percent more time in attendance than the 6.5 hours required under the current policy for claiming full-time enrollment. Although this agency provided 33 percent more service to children, it received no additional reimbursement for its efforts.

We found similar results in our review of the average amount of time spent in attendance by children enrolled part-time. Table 5 on the following page shows the results of our review in the four of eight agencies we visited that had children enrolled part-time.

TABLE 5
AVERAGE AMOUNT OF TIME
IN ATTENDANCE BY CHILDREN ENROLLED
PART-TIME ON A SAMPLE DAY AT FOUR AGENCIES

<u>Agency</u>	<u>Number of Facilities Reviewed^a</u>	<u>Combined Number of Children in Attendance</u>	<u>Average Amount of Time in Attendance</u>
1	2	21	4 hrs. 6 min.
2	1	42	3 hrs. 29 min.
3	3	88	4 hrs. 56 min.
4	2	15	2 hrs. 58 min.

^a Four of eight agencies we reviewed had part-time children at the sites.

Table 5 shows that the average time spent in attendance by children enrolled part-time ranged from 2 hours and 58 minutes to 4 hours and 56 minutes. Thus, a child care and development program can serve children for less than three hours and still claim reimbursement for one-half of a full-time enrollment. The agency that provided an average of 4 hours and 56 minutes of service to its children received the same reimbursement per child as the agency that provided an average of 2 hours and 58 minutes of service.

CONCLUSION

Improvements could be made in the method of funding child care and development programs that would optimize the use of the State's child care and development funds. Using average daily enrollment as a basis for funding child care and development programs results in the State's paying for children who are not in attendance and who are not receiving services. In addition, a disparity exists between the reimbursements that agencies receive and the amount of services they provide. This disparity results from the State Department of Education's procedure for reimbursing agencies at set rates for full-time and part-time enrollment. Under this procedure, the OCD provides the same amount of reimbursement to agencies that provide differing hours of service. Consequently, the OCD does not optimize the use of child care and development funds.

RECOMMENDATION

To encourage greater utilization of state-subsidized child care and development funds, the Legislature should consider adopting a different method of funding for child care and development programs.

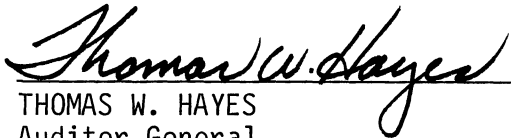
Specifically, the Legislature should base reimbursement on the amount of service that an agency provides.

The Legislature should also consider alternatives to the present definition of "excused absences." In particular, the Legislature may want to place a restriction on the number and types of absences considered to be in the best interest of children.

As long as funding is based on average daily enrollment, the State Department of Education should eliminate the disparity between the amount of reimbursement for child care and development services and the amount of actual services rendered by developing new guidelines for claiming full-time and part-time reimbursement for children in child care and development programs.

Finally, the State Department of Education should reconsider the policy allowing agencies to be reimbursed for full enrollment when their attendance (actual attendance plus excused absences) equals 93 percent of enrollment.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: August 30, 1982

Staff: Eugene T. Potter, Audit Manager
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STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION
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August 19, 1982

Mr. Thomas Hayes
Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

The Department of Education appreciates the opportunity to respond to the draft Audit Report #098 "Improvements Needed in Administering State Funded Child Care Programs".

Following careful review, we do not believe the report adequately describes the "total picture" of each issue. In most instances, the report reflects the situation only as of March. We believe the current status deserves full presentation. We also believe the Department deserves credit for the tremendous progress made in some areas. The progress has occurred in spite of state hiring freezes, reductions in travel budgets imposed by the Legislature and annual expansions of programs which place multiple demands on existing staff. Our response is not intended to detract from your recommendations. Rather, we wish to elaborate on the changes already made and the system already in place to protect and serve the children as well as safeguard the state's funds. We will comment about our herculean effort to rid the state of a backlog of unlicensed and expired facility licenses and our prompt action when children's health or safety are endangered.

California's child care programs receive approximately \$230 million a year, and you reviewed for most purposes the last four years. This means your audit covered approximately \$1 billion of state expenditures. It is significant to note that not one instance of misappropriation or misuse of state funds is cited.

It is important to note that any program which experiences the growth child care has creates significant management problems for any governmental agency and taxes the expertise of public administration people. Some of the problems which emerge are new or revised financial systems, data processing

programs, reorganization and assignment of staff to name a few. To manage growth of this magnitude is a considerable challenge in and of itself, but it becomes an almost insurmountable task during a post Proposition 13 era of hiring freezes and reduced state operations budgets. Your report rightfully identifies some of these problems, and we have been working on appropriate resolutions to each. We believe that significant improvement has been made, and we are committed to sustaining and enhancing the improvement process.

The first issue you cite is OCD's overcommitment of funds to local agencies which results in underutilization of funds for child care purposes. The Department contracts with local agencies and often their expenditure patterns at a given point in time do not reflect whether the full contract amount will be spent by the year's end. It's important to remember we recover any state funds from these agencies which are not supported by their annual expenditure report and documented by their local auditors. It's a question of timeliness; a system is in place to recover funds owed to the state. Only one agency slipped through our "net" and received their 1982-83 child care contract without clearing their prior commitments to the state or having a repayment plan with a clear record. The Department adjusts a local agency's contract if we determine they are serving fewer children or their program is operating for fewer days than the contract amount. We have not adjusted for anticipated expenditures because those are not known until the fiscal year is over. Your report quite appropriately suggests that prior year expenses be used during the contract issuance process. The Department has instituted that policy and it will be used hence forth.

The 17 month average audit closure time cited in your report has been reduced to less than eight months during the past year. All of the 1980-81 audits which were submitted in November 1981 have been reviewed. I hasten to add that not all audits have been closed because in some instances we are waiting for additional documentation from local agencies. Anything under the control of the Department, however, has been processed. The audit activity has been centralized in the Audit Bureau and this will eliminate the bureaucratic duplication your staff identified at the time of your visit. Whether or not we can constrict the timeline to less than six or eight months will depend on state staffing availability which remains an annual budget problem.

Local child care agencies fall basically into two categories: local public education agencies and private agencies. The review of local education agency audits prior to 1980-81 is now complete. The results indicate that of the \$132 million total allocated to local education agencies, they owe the state approximately \$1.8 million and the state owes the local education agencies slightly more than \$700,000 -- a net percentage correction of 8/10 of 1 percent. The Department supports your recommendation for changing the audit guide to school districts, and we will continue our work with the Department of Finance to change that guide. As noted above, the accounts receivable process was brought to-date for the purpose of issuing 1982-83

contracts. Those agencies owing money to the state, because they were either appropriated too much money or they had audit exceptions in prior years, have either entered into an updated repayment plan or have cleared their accounts.

In summary, the Department is in substantial agreement with the recommendations you make to improve further the contract management of child development programs. We've implemented financial management systems which will bring about the results you recommend. It's now our task to make sure these systems operate in a diligent and timely fashion.

The second major area of your report pertains to licensing of approximately 1500 child development facilities. The report only briefly mentions how and when this responsibility came to the Department of Education. The legal responsibility for licensing is the Department of Social Services' (DSS). The DSS contracts with us to perform the licensing function. During negotiation of that interagency agreement a backlog developed. We believe you should have given us more credit for the tremendous effort put forth during the six month period January through June 1982 to eliminate this backlog.

As your staff is well aware, the licensing process by its nature generates a tremendous amount of correspondence between state and local agencies. Still, I can assure you any license violation involving the health or safety of children was given immediate attention. In fact two facilities were closed on the very day the Department received and verified a complaint of a clear and present danger to the children. These two examples are cited to clarify that we move rapidly on health and safety, even though we acknowledge changes are needed in the documentation of our actions and the recording of our total licensing process. We have made considerable effort to insure each facility receives its initial license before any program is implemented. Virtually all of the backlog problem involved license renewal. Every facility with an expiration date on or before July 1982, however, was visited by April of 1982. Six hundred sixty-four licenses were issued in 1981-82 and there are additional license renewals awaiting various items of correspondence between our Department and the local agency.

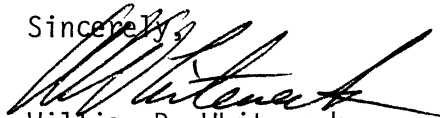
We wish to reiterate that each facility has received an initial visit to determine its adequacy to meet minimum health and safety standards and the issuance of the license is the problem confronting us. The Department will be utilizing, contrary to original legislative intent, some of its consulting staff to work in licensing followup activities. The workload for our licensing staff is just too great to expect the initial visit, followup and necessary correspondence to be completed with so few people. We have recently completed the development of a computer tracking system which will help monitor the status of licenses. This system is compatible with the Department of Social Services' computer tracking system for facility licensing, and we will be able to process documentation for their reporting purposes.

The known complaints which have come to the Department of Education have been investigated and the two examples mentioned earlier are a reflection of our immediate response to potential health and safety dangers. This report highlights the need for better documentation on our part and the appropriate filing of that documentation as a record of the resolution of any complaint situation. Again, it's a question of timeliness and diligence. The system is there for us to use and we are committed to using it in a more timely and complete fashion.

The third area of your report is difficult to comment upon without recounting considerable history. Over the past decade child care has grown from a \$25 million to a \$230 million commitment by the Legislature and the Governor for support of low income families of working parents or parents in training. A complex reimbursement system has emerged from legislative enactment and annual review. This system needs a fundamental reassessment. In 1977, the Legislature reviewed the reimbursement system which then accounted for each hour of attendance. Legislation directed a change because local agencies convinced Legislators they could not "survive" with the uncertainty of hourly reimbursements. Similarly, the need for "the other parent" to have time with his or her child without financial penalty to the child care agency was allowed by the Legislature. Also, the Legislature permitted the agencies more reimbursement from the state depending on children's ages. When you combine all of these factors, you find a complex reimbursement system which tries to meet the needs of parents, set priority of services to children and give financial stability to local agencies. It is almost impossible to accomplish these three objectives and still have any sanity, reasonableness or simplicity in a reimbursement system. Modifying the reimbursement system is a goal the Department has pursued annually. It has been reviewed by advisory committees and was a topic of discussion for the Riles' Child Development Commission. No universally acceptable solution has been found and, for that reason, the Legislature has continued the existing system. The Department supports your recommendation that the Legislature review the current reimbursement system, and we are prepared to participate in those discussions.

Your staff provided our Department with intermittent oral reports on the progress of your review and that process was most appreciated. We do take exception with the tone of some of the statements in your report, and we do not think you gave us enough credit for the progress we've made in our efforts to provide child development programs in a safe and healthy environment. We reiterate our commitment to more diligence in monitoring existing financial and contracting systems, as well as documenting in a timely fashion the problems that arise. If you or members of your staff wish to discuss my comments, please give me a call.

Sincerely,



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

DESCRIPTION OF CHILD CARE AND DEVELOPMENT
PROGRAMS ADMINISTERED BY
THE OFFICE OF CHILD DEVELOPMENT

The Office of Child Development is responsible for administering a portion of the State Preschool Program and six major types of child care and development programs. The following descriptions highlight the general emphasis of these programs.

General Child Development Programs utilize a variety of facilities, including child development centers, family day-care homes, and combinations of both. All of these programs offer similar services that include, but are not limited to, basic supervision, educational experiences, health services, parent education, staff development, nutrition, and limited social services. Although some care is provided for infants, most programs serve preschool-age and school-age children. These programs are operated by a variety of private, nonprofit agencies and public agencies, such as community-based organizations, offices of county superintendents of schools, school districts, county welfare departments, and cities. Some of these programs are funded in part by federal funds.

Migrant Child Development Programs serve children and infants while their parents are employed in fishing, agriculture, or agriculturally related work. The centers are open for varying lengths of time during the year, depending upon harvest activities in the area.

Campus Child Development Programs are intended primarily to care for the 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 or university. These programs are much like the general child development programs described above.

School-age Parenting and Infant Development Programs provide child development services for the children of secondary school-age parents. Located on or near the high school campuses, these programs also provide parent education and career development opportunities for school-age parents while the parents finish their high school program.

Alternative Payment Programs offer an alternative to child care programs that concentrate on center-based care. These programs offer an array of day care arrangements that may include in-home care, family day-care homes, and child development centers. Payment to the licensed provider selected by the family is made by the alternative payment agency as a payment to the provider agency.

Resource and Referral Programs provide information to parents about available child care, and they coordinate community resources for parents and child care providers. Resource and referral programs do not provide child care subsidies.

The State Preschool Program is a partial-day educational program for pre-kindergarten children aged three years to four years and nine months, from low-income families. The program emphasizes parent education and parent involvement. It includes health, nutrition, social services, and staff development components in addition to basic preschool educational activities. The State Preschool Program is state-funded and is administered by the State Department of Education in one of two ways. Either the Office of Child Development contracts with private agencies and offices of county superintendents of schools to provide programs, or the Consolidated Application Program Division administers programs operated by school districts.

ALPHABETICAL LISTING OF THE CHILD CARE
AND DEVELOPMENT PROGRAMS REVIEWED
BY THE AUDITOR GENERAL'S OFFICE

<u>Program Name</u>	<u>Program Type</u>
Community Care and Development Services	State Preschool Program
Community Child Care Program	General Child Development Program
Mexican-American Opportunity Foundation	General Child Development Program
Peralta Community College District	Campus Child Development Program
San Juan Unified School District	School-age Parenting and Infant Development Program
San Ysidro School District	General Child Development Program
Stanislaus County Superintendent of Schools	Migrant Child Development Program
Unbiased, Non-sexist, Interethnic Training and Education	General Child Development Program

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