

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**THE OFFICE OF CHILD DEVELOPMENT:
A LIMITED REVIEW OF FISCAL,
ADMINISTRATIVE, AND PROGRAM ISSUES**

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

P-336

THE OFFICE OF CHILD DEVELOPMENT:
A LIMITED REVIEW OF FISCAL,
ADMINISTRATIVE, AND PROGRAM ISSUES

JANUARY 1984



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January 27, 1984

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Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning certain fiscal, administrative, and program issues related to the administration of Office of Child Development contracts by Continuing Development, Incorporated, and Child Development, Incorporated.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

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SUMMARY

The Office of Child Development (OCD) within the State Department of Education oversees a variety of programs that provide child care and development and preschool services for children from infancy to age fourteen. The OCD contracts with over 560 public and private agencies to operate these programs in child care centers and homes. We were asked to conduct a limited review of the OCD's contracts with Continuing Development, Incorporated, and a related contractor, Child Development, Incorporated, for child care and development and preschool services. Continuing Development is a nonprofit corporation that has six OCD contracts totalling \$2.77 million. Child Development is a private, profit-making corporation with one OCD contract totalling over \$751,000. In addition to administering an OCD contract, Child Development is a subcontractor for the nonprofit Continuing Development, administering five of the latter's six OCD contracts.

Our analysis provides information about ten areas related to the fiscal, administrative, and program operations of these OCD contractors. In seven of the ten areas we examined, we found no problems. In three areas, we found contractor policies that were inconsistent with state policies; none of the inconsistencies was major. Continuing Development reimburses employees for actual travel expenses instead of using the prescribed state per diem rate of \$62. Our sampling of travel reports indicated that the total of actual travel expenses that Continuing Development reimbursed was considerably less than the total

that would have been allowed using the state per diem rate. Also, Continuing Development is inappropriately paying for renovations to a trailer that houses a year-round center for children of migrant workers. Had the owner of the facility made the renovations and charged Continuing Development a higher rent, Continuing Development would not have violated any OCD guidelines. Finally, Continuing Development recorded ineligible children in the 1983 Child Care Food Program at a total cost of approximately \$344.

INTRODUCTION

The Office of Child Development (OCD) within the State Department of Education has responsibility for administering a variety of programs for children, including child care and development and preschool programs. These programs provide services to children from infancy to age fourteen. To deliver the services, the OCD contracts with over 560 public and private agencies to operate OCD programs in licensed child care centers and homes.

To allocate available funds for child care and development programs throughout the State, the OCD invites interested entities to participate in a competitive bid process and to submit applications describing their proposed programs to the OCD. The OCD reviews and scores all applications and awards contracts to the applicants with the highest scores.

For several years, the OCD has awarded contracts to Continuing Development, Incorporated, and to a related contractor, Child Development, Incorporated. Continuing Development, a private, nonprofit corporation, has six OCD contracts in fiscal year 1983-84 to operate a general child care and development program, a preschool program, seasonal and year-round child care and development programs for children of migrant workers, a resource and referral program, and a child care program for the prevention of child neglect, abuse, or exploitation. These contracts total almost \$2.77 million. Continuing Development provides these programs in centers throughout the State.

In fiscal year 1983-84, the OCD awarded a contract to Child Development, a private, profit-making corporation, to administer a program that allows parents to select their own child care provider; this contract totals \$751,573. In addition to administering this OCD program, Child Development is a subcontractor for Continuing Development, administering five of the latter's six OCD contracts.

Child Development also managed five of Continuing Development's OCD contracts in fiscal year 1982-83. Continuing Development's unaudited records for fiscal year 1982-83 show that it paid Child Development a management fee of approximately \$478,600, approximately 19 percent of the total amount of the five contracts. For fiscal year 1983-84, the OCD limited this management fee to 18 percent (approximately \$498,100) of the total amount of the five contracts.

SCOPE AND METHODOLOGY

At the request of the Legislature, we reviewed ten areas related to the fiscal, administrative, and program operations of Continuing Development, Incorporated, and Child Development, Incorporated. In our review of selected fiscal issues, we determined the increase in OCD funding to these two contractors over the past four fiscal years, the contractors' expenditures for travel and for the renovation of a child care center for children of migrant workers, and whether contract funds were used to pay for child care and development services offered to employees as a fringe benefit. Additionally, we

reviewed Continuing Development's policies for soliciting and using parent donations. Finally, we examined lease arrangements for the facility used by Continuing Development for a child care center at South Lake Tahoe.

We were also asked to review certain administrative and program issues related to the operations of Continuing Development. We examined Continuing Development's compliance with state mandates for fair employment and affirmative action and Continuing Development's policies for hiring and terminating staff, and for handling employee grievances. We also reviewed Continuing Development's compliance with OCD policies for curriculum materials used in the seasonal program for children of migrant workers and with OCD policies for parent advisory committees.

Finally, we provide information about an OCD contract with the California State University, Fresno, to conduct a training program for teacher's aides in programs for children of migrant workers.

To provide information on these selected fiscal, administrative, and program issues, we interviewed staff and examined records at the following units within the State Department of Education: the Office of Child Development, the Office of Child Nutrition Services, and the Audit Bureau. We also interviewed staff and examined records at Continuing Development, Incorporated, and Child Development, Incorporated. We visited five centers where Continuing Development operates eight child care and development programs; we interviewed staff

and examined program records at these centers. Three of the centers and six of the programs provide seasonal child care and development services to children of migrant workers.

ANALYSIS

I

FISCAL ISSUES

In this section, we report conclusions based on our review of fiscal issues related to contracts awarded by the Office of Child Development (OCD) to Continuing Development, Incorporated, and Child Development, Incorporated. During the past four fiscal years, OCD contract awards to Continuing Development and Child Development have increased at a rate similar to increases for other contractors. Continuing Development reimburses employees for actual travel expenses instead of using the State's per diem rate of \$62. However, our examination of travel expense reports for fiscal year 1982 showed that the contractor's total actual travel expenses were less than the total of the allowable state per diem expenses. Continuing Development is inappropriately paying costs and interest charges for necessary renovations of a trailer at a center for children of migrant workers. We also report that Continuing Development's fringe benefit of child care for its employees' children does not violate OCD guidelines, but Continuing Development inappropriately claimed some employee children in the Child Care Food Program at a cost of approximately \$344. Finally, Continuing Development does not inappropriately solicit or use parent donations, and Continuing Development's use of a South Lake Tahoe facility owned by the president of Child Development does not violate the OCD contract.

Increase In Funding

Since 1980, OCD contract awards to Continuing Development and to Child Development have increased by 47 percent, from almost \$2.4 million in fiscal year 1980-81 to over \$3.5 million in fiscal year 1983-84. This rate of increase is similar to that of awards to other OCD contractors. Comparatively, awards to four other OCD contractors with OCD contracts of over \$1 million have grown by 21, 56, 585, and 4,168 percent, respectively, over this same four-year period.

Approximately \$332,000 (almost 30 percent) of the increased funding for Continuing Development and Child Development has been due to cost-of-living increases. Approximately \$797,000 (over 70 percent) of the increase has been awarded to expand existing programs and to implement new programs.

Travel Expenses

The OCD's contracts with Continuing Development and Child Development include budgets that detail the contractors' estimated travel and conference expenses. Although the OCD allows contractors to exceed these estimated budgets, the contracts specify that the contractors and subcontractors shall abide by state rules and regulations for travel and per diem expenses.

In fiscal year 1982-83, the OCD's contracts with Continuing Development budgeted travel and conference expenses at \$27,050. As of June 30, 1983, unaudited travel and conference expenses for Continuing Development staff were approximately \$40,960. Expenses for travel were approximately \$26,380, while expenses for conferences were approximately \$14,580.

Child Development incurred approximately \$3,125 in travel and conference expenses related to the administration of its OCD contract in fiscal year 1982-83. Child Development's OCD contract budgeted travel and conference expenses at \$2,100. Child Development incurred approximately \$30,300 for travel and conference expenses for its administration of the five Continuing Development contracts. Approximately \$22,100 of this total was for travel expenses, and approximately \$8,200 was for expenses for conferences. Of the total amount expended for travel, the unaudited travel expenses for the president of Child Development for fiscal year 1982-83 were approximately \$2,800. Travel expenses for Child Development staff are funded by the management fee that Continuing Development pays to Child Development.

State rules and regulations specify mileage and per diem rates allowed for reimbursement of travel expenses. In fiscal year 1982-83, the reimbursement rate for mileage was 20.5 cents per mile. The per diem rate for lodging was \$35 per night, with a reimbursement of \$4.00 for breakfast, \$7.25 for lunch, and \$12.00 for dinner.* Including a \$3.75

*The per diem rate for lodging was \$43 when travel occurred in selected high cost areas of the State.

reimbursement for incidentals, the daily per diem rate totaled \$62. Continuing Development and Child Development, however, do not follow state guidelines: they reimburse employees for mileage expenses at 20 cents per mile (one-half cent lower than the allowable state mileage rate), and they reimburse employees for actual expenses rather than using the specified state per diem rate. According to the president of Child Development, this practice generates a savings when an employee's actual daily expenses are less than the state per diem rate of \$62.

To compare actual travel expenses with the maximum reimbursement possible using the state per diem rate, we examined a sample of 31 travel expense reports at Continuing Development and Child Development for fiscal year 1982-83. We observed two instances in which employee travel expenses exceeded the per diem rate; the total expenses for the two instances exceeded the total of the allowable per diems by \$150. In contrast, we identified 29 instances in which employee travel expenses were less than the allowed state rate. Actual expenses for the 29 instances were \$1,616 less than the allowable per diem expenses. Thus, by paying actual travel expenses rather than the allowable per diem rate, Continuing Development and Child Development saved a net total of \$1,466. Nevertheless, the State Department of Education should, during its final review of contract expenditures, ensure that the contractors do not exceed established travel allowances.

Facility Renovation

The OCD's contracts with Continuing Development provide that contract funds may not be used to improve or renovate buildings used by any OCD-funded child care and development program. Also, the contracts specify that contractors may not use contract funds to pay for interest on borrowed funds.

In 1982, Continuing Development rented four trailers from a private rental company to house a year-round center for children of migrant workers in Fillmore, California. To meet certain licensing requirements, one trailer needed renovations to install kitchen, laundry, and restroom facilities as well as to add office space. Since Continuing Development could not obtain OCD approval to use contract funds for this purpose, Child Development--Continuing Development's subcontractor for management services--made the necessary renovations to the trailer and entered into a three-year lease arrangement with Continuing Development to recover the \$16,940 renovation cost and a \$1,560 interest charge.

According to an OCD administrator, Continuing Development is purchasing the renovations with state and federal contract funds and, therefore, is violating the terms of the OCD contract. Accordingly, during its final reconciliation of the contract with Continuing Development, the State Department of Education should ensure that it does not reimburse Continuing Development for the renovation of facilities or for interest expenses.

The OCD restrictions for renovations are intended to ensure that the State does not pay directly for renovations that will increase the value of privately-owned facilities. However, the OCD guidelines allow the State to pay indirectly for renovations to privately-owned facilities when landlords make improvements and recover the cost of the improvements by charging higher rents to OCD contractors. According to the OCD administrator, if the owner of the trailer had made the necessary renovations and charged Continuing Development a higher rent to recover the cost of the renovations, Continuing Development would not have violated any OCD guidelines.

Child Care as Fringe Benefit

The OCD Child Development Program Guidelines authorize contractors to offer fringe benefits to their employees as long as the contractors develop written policies and the contractors make the benefits available to all employees within the same class. The guidelines do not restrict the fringe benefits that contractors may offer their employees.

According to the president of Child Development, Continuing Development offers child care and development services to employees as a fringe benefit to attract qualified individuals to work in the six-month child care and development program for children of migrant workers. No more than twelve children of Continuing Development employees received this service during the 1982 and 1983 programs. Although these children,

when present, used a state and federally funded facility and its resources, Continuing Development did not receive a state subsidy from the OCD for these children. We examined 1983 records at two of the three centers in which the child care and development services were provided to the employees' children and found that these children were not enrolled in the child care and development program or recorded for reimbursement purposes. Further, because these children were not enrolled in the center, they did not displace eligible children from receiving services; each center enrolled eligible children of migrant workers from waiting lists as openings occurred.

The president of Child Development told us that, as a matter of policy, the number of employees' children present on any given day is restricted to the number of absent children who are enrolled in the program. To determine if the number of employees' children who were present on any day exceeded the number of enrolled children who were absent, we examined attendance records at one center. (The second center did not have these records available.) We found that on seven days during the first five months that the center operated in 1983, the number of employee's children present exceeded the number of enrolled children absent. We also found that on at least one of these days, the ratio of children-to-teachers exceeded the state-mandated limit; however, the ratio of children-to-teachers would have exceeded the state limit even if the employees' children had not been present.

Continuing Development has an agreement with the Office of Child Nutrition Services within the State Department of Education to provide nutritional meals to children enrolled in child care and development programs. In fiscal year 1982-83, the Office of Child Nutrition Services' agreement with Continuing Development was approximately \$281,300. In 1983, Continuing Development inappropriately enrolled children of employees in the Child Care Food Program at one of the two centers where we examined attendance records. According to reimbursement policies of the Office of Child Nutrition Services, reimbursement to Continuing Development for meals served to these children would be approximately \$344. Consequently, prior to making final settlements with Continuing Development for the 1983 food program, the State Department of Education should ensure that it does not provide reimbursement for ineligible children.

Parent Donations

The OCD Child Development Program Guidelines do not restrict a contractor's use of donated funds unless the donations are restricted by the grantor. According to directors of Continuing Development centers and an administrator at Child Development, the center directors are allowed to solicit donations for special projects, but donations are not requested routinely. At four of the five centers we visited, directors reported that they do not solicit donations from parents or other parties.

The director at one seasonal center reported that she requested donations from parents in 1982 to help support a fund-raising carnival for the child care center. The director reported that parent donations were not requested for the 1983 carnival. The director also reported that a portion of the 1982 donations and carnival profits along with the 1983 carnival profits have been spent for center projects and materials recommended by staff and parents. The unspent funds will remain in a savings account for expenditure during the 1984 seasonal program.

Lease of South
Lake Tahoe Facility

The OCD contracts provide that contractors may purchase goods or services from entities that have financial interests in the OCD contract as long as the transactions are fair and reasonable and as long as the contractor could not have purchased the items at a more favorable rate. The president of Child Development leases to Continuing Development a two-story building that he owns in South Lake Tahoe. The first floor of the building is used for a child care center. The second floor has a kitchen, bathroom, and two bedrooms; all of the second floor except one of the bedrooms is used as a resource and referral office and a toy lending library. According to the current and the previous directors of this child care center, the second floor is used only for business purposes. The cost of the lease for this building is less than the rental value, which was determined in 1977 when the building was appraised.

II

ADMINISTRATIVE AND PROGRAM ISSUES

In this section, we report conclusions based on our review of administrative and program issues related to contracts awarded by the Office of Child Development to Continuing Development, Incorporated, and Child Development, Incorporated. Continuing Development and Child Development have followed fair employment and affirmative action policies in their treatment of employees. Continuing Development has integrated some Montessori curriculum materials into its program at seasonal centers for children of migrant workers, and in four of the five centers we reviewed, Continuing Development established parent advisory committees to aid administration of its programs. In this section, we also report that California State University, Fresno, conducted a training program for teacher's aides working in child care and development programs for children of migrant workers.

Personnel Policies

The OCD contracts require contractors and subcontractors to employ fair employment practices and affirmative action to ensure that employees are treated fairly without regard to their race, national origin, sex, and other specified characteristics. Furthermore, OCD Child Development Program Guidelines state that contractors should implement plans for increasing the number of women and racial and ethnic minorities

at all levels of responsibility. The guidelines also require contractors to include employee grievance procedures in their written personnel policies.

We found that Continuing Development and Child Development have implemented guidelines that comply with the OCD's directives; the guidelines contain personnel policies and procedures for hiring, advancing, and terminating staff. They also contain policies for the supervision of employees, including policies for conducting performance evaluations and disciplinary counseling. Further, the guidelines contain employee grievance procedures. Each of the five centers we visited had a copy of the program guidelines available for use by all employees.

During a program-quality review at one Continuing Development migrant center in June 1983, the OCD evaluated Continuing Development's personnel policies and procedures and found them to be acceptable. In addition to the OCD's review, we conducted limited tests of personnel practices and found that Continuing Development uses fair employment practices and follows affirmative action policies in its hiring of employees. Approximately 56 percent of Continuing Development and Child Development employees are Hispanic women, while approximately 32 percent are Caucasian women. Also, all of the directors of the child care centers are women. Further, at 11 of Continuing Development's 13 centers in which at least half of the children are Hispanic or of Spanish-speaking descent, the center directors are also Hispanic or of Spanish-speaking descent. We also examined the staffing patterns of

three migrant centers to determine the percentage of employees who are rehired the subsequent year. At these centers, we found that approximately 75 percent of the 1982 employees were employed again in 1983. Finally, we reviewed an instance in which a director of a Continuing Development center conducted disciplinary counseling and found that the director applied the established procedures.

Program Curriculum

The OCD Child Development Program Guidelines advise contractors to offer educational programs that will ensure each child's continued success and interest in learning. The guidelines suggest both planned and self-directed play activities that allow the children opportunities to develop cognitive and problem-solving skills in language proficiency, numbers, science, and art. The OCD does not specify the materials and toys that contractors should use to accomplish the educational program objective; instead, the OCD allows contractors to use their own discretion in selecting program material. To assess contractor performance, the OCD has developed an instrument to evaluate the quality of a contractor's educational programs.

We reviewed Continuing Development's compliance with these OCD guidelines regarding curriculum materials at three seasonal centers for children of migrant workers. During the 1982 program at three seasonal migrant centers, Continuing Development supplemented its existing curriculum material with some play tools used in Montessori education

centers.* According to the supervisor of the seasonal migrant centers, the play tools are used in Continuing Development's educational program to help children acquire practical life experiences. To ensure that the children could obtain the maximum benefit from the play tools, each center held a training workshop to instruct its staff on the educational advantages of the play-tool design and the proper use of the play tools by children. The supervisor also indicated that the principal concepts of the play tools were included in Continuing Development's 1983 program manual.

Parent Advisory Committees

Although the OCD's program-quality review addresses a contractor's performance in establishing a parent advisory committee, neither the OCD contracts nor the OCD Child Development Program Guidelines or Preschool Program Guidelines require contractors to develop such a committee. Continuing Development's program policy, however, requires each center to establish a parent advisory committee to advise the center's administration on the operation of the program. Four of the five Continuing Development centers we visited had established a parent advisory committee. The director of the center that did not have a committee stated that she had difficulty getting parents to participate in center's operations; however, to keep parents informed of the center's activities, she sent out monthly newsletters.

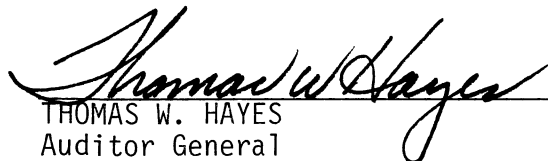
*Dr. Maria Montessori developed an approach to early childhood education that involves the use of special equipment and materials to demonstrate basic educational information and practical life experiences to children.

Training Program

In 1982, the OCD awarded a \$200,000 contract to the California State University, Fresno, to conduct a training program for teachers' aides working in child care and development programs for children of migrant workers. The university executed this contract in conjunction with the Foundation Center for Phenomenological Research, Inc., a private, nonprofit corporation. The Foundation Center for Phenomenological Research, Inc., has five OCD contracts to operate child development programs.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: January 23, 1984

Staff: Eugene T. Potter, Audit Manager
Kathleen A. Herdell



STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION

STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO, CA 95814

January 12, 1984

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

Dear Mr. Hayes:

The Department of Education appreciates the opportunity to respond to the draft Audit Report entitled "The Office of Child Development: A Limited Review of the Fiscal, Administrative, and Program Issues."

We believe the report raises a number of important issues which will be addressed through the contract modifications for fiscal year 1984-85 and through strengthening both our contract monitoring and audit procedures particularly as they relate to management subcontracts and conflicts of interest.

We would like to commend your staff for the professional manner in which the review was conducted. The thorough discussion of issues is most helpful. We want to reiterate our commitment to more diligence in improving the monitoring of our contracting procedures.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert W. Lawrence".

Robert W. Lawrence
Deputy Superintendent of
Field Services

RWL:jpe

cc: Robert A. Cervantes

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