

CALIFORNIA CHILDREN AND FAMILIES COMMISSIONS

Some County Commissions' Contracting Practices Are Lacking, and Both the State and County Commissions Can Improve Their Efforts to Find Funding Partners and Collect Data on Program Performance

Audit Highlights . . .

Our review of the state and five counties' California Children and Families Commissions funded by Proposition 10 tax revenues revealed the following:

- The state commission consistently followed contracting rules applicable to all state agencies, but some county commissions lacked well-defined and documented policies and practices for awarding contracts to service providers.*
- To monitor service providers, county commissions require them to submit quarterly progress reports as a condition of receiving payment.*
- The county commissions maintained significant fund balances as of June 30, 2003, but have earmarked most of these fund balances for specific purposes.*

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The California Children and Families Commission and various county commissions¹ responses as of September 2004

The Joint Legislative Audit Committee (audit committee) requested the Bureau of State Audits to review the California Children and Families Commission (state commission) and a sample of county commissions. Specifically, the audit committee requested us to review and evaluate the policies and procedures the state commission and a sample of county commissions use to collect, deposit, distribute, and spend Proposition 10 tax revenues. In addition, the audit committee requested that we determine whether county commissions have surplus balances and what they intend to do with these funds. Further, we were to determine the extent to which county commissions have periodic internal or external reviews, such as performance or financial audits, of their operations. Also, we were asked to examine county commissions' level of oversight of service providers, including the nature and extent to which service providers have standards and whether they report their progress to the county commissions. Moreover, the audit committee requested that we identify the amount county commissions spend on administration and travel, and determine whether the percentages spent on these activities are appropriate. We were also asked to determine whether county commissions have sought funding partners to leverage local funds through partnerships. Lastly, the audit committee requested that we evaluate the process county commissions use to select their chairpersons.

¹ El Dorado County, Kern County, Los Angeles County, San Diego County, and Santa Clara County.

- ☑ *Although the state and county commissions acknowledge the importance of funding partners, the commissions have received little funding outside their Proposition 10 tax revenues.*
 - ☑ *Some county commissions lack clear policies limiting their administrative spending.*
 - ☑ *State and county commissions have only recently begun to evaluate program effectiveness and so far have mainly reported demographic and service output data rather than performance outcomes.*
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Finding #1: Not all county commissions follow well-defined policies and procedures when allocating funds.

Two of the county commissions we reviewed maintain insufficient records of their funding practices and one lacks well-defined allocation practices. To gain public credibility and confidence, county commissions should consistently follow self-defined allocation practices that are clear and well documented. In spite of this, some county commissions lack necessary documentation to substantiate their allocation procedures, and one county commission's funding policies are poorly defined. In addition, when well-defined policies do exist, another county commission did not always follow them. Lastly, some county commissions did not disclose to the public the noncompetitive nature of their allocations of funds, which could raise concerns about whether service providers are competent and charge a fair price.

To ensure the appropriate use of program funds and instill public confidence, we recommended that the Kern and Santa Clara county commissions adopt and follow well-defined policies to guide their allocation efforts and maintain sufficient documentation to support their allocation decisions.

First 5 Santa Clara Action: Corrective action taken.

According to First 5 Santa Clara, its commission approved an interim purchasing policy that defines the different methods that First 5 Santa Clara may use to select vendors, service providers, and grantees. First 5 Santa Clara also stated it now documents the selection process used and retains such information in its contract files.

First 5 Kern County: Partial corrective action taken.

First 5 Kern stated that it had compared its contracting policy to that of the county, after which it was modeled, and identified no significant differences. First 5 Kern stated that its contracting policy satisfies all legal requirements, meets the needs of the commission, and it does not intend to make any changes. Concerning maintaining adequate documentation, First 5 Kern stated it has implemented an internal form to document the resolution of any weaknesses identified by the independent evaluation committee during its evaluation of proposals, will clearly disclose to the public the nature of any future funding awards it makes in its minutes, and implemented a rating tool using proposal-specific criteria to evaluate future proposals.

Finding #2: Efforts to obtain funding partners have produced little non-state funding.

The California Children and Families Act of 1998 (Act) grants the state commission and each county commission the authority to apply for gifts, grants, and donations to further a program of early childhood development. Although the state and county commissions acknowledge the important role funding partners can play in addressing early childhood development and sustaining ongoing programs, they have received very little funding from sources other than Proposition 10 tax revenues. For fiscal year 2002–03, only one county commission we reviewed had received any grant funding, which represented less than 1 percent of that commission’s total revenue, and the state commission received less than 7 percent of total revenue from contracts and interest on investments.

To address the sustainability of their programs, we recommended that the state and county commissions continue to take action to identify and apply for any available grants, gifts, donations, or other sources of funding.

First 5 Santa Clara Action: Partial corrective action taken

First 5 Santa Clara states it is actively pursuing outside resources and is retaining a consultant to draft a plan to assist it in seeking funding opportunities.

First 5 Kern Action: Partial corrective action taken.

First 5 Kern stated that it would continue to explore opportunities for other sources of funding and mentioned recently receiving a significant monetary award.

First 5 Los Angeles Action: Partial corrective action taken.

First 5 Los Angeles stated it was focused on creating partnerships between the commission and communities, families, and public and private organizations to share the responsibility for mobilizing social and financial capital.

First 5 El Dorado Action: Partial corrective action taken.

First 5 El Dorado stated it had applied for and received a federal grant and will continue to research and apply for additional funding.

First 5 San Diego Action: Partial corrective action taken.

First 5 San Diego stated that the commission had adopted a 20-year financial plan that maintains grant making levels

over the plan's horizon by allocating funds to a sustainability reserve and drawing on those funds to stabilize funding levels as revenues decline. First 5 San Diego also stated it will focus on identifying fund sources that assist the commission to leverage, broaden, and deepen its impact on San Diego's children.

First 5 California Action: Partial corrective action taken.

First 5 California stated it has documented success in receiving significant funding commitments from the community, private and public partners, and state and federal government and will continue its efforts in this area.

Finding #3: Some county commissions lack a clear commitment to limit their administrative spending.

Recognizing that a certain level of funding must be committed to administrative functions, four of the five county commissions we reviewed have expressed a commitment to keep such costs low. For example, in its strategic plan covering the period from fiscal year 2001–02 through fiscal year 2003–04, First 5 Los Angeles promised to spend only 5 percent of its revenues on operational and administrative costs. Additionally, First 5 Kern is limited by county ordinance to spending no more than 8 percent of its annual funding allocation on administrative expenses. Two county commissions, El Dorado and San Diego, neither established an explicit maximum on the amount of administrative costs in their strategic plans nor had a maximum imposed by county ordinance. Moreover, county commissions may not be entirely consistent in the types of costs they consider to be administrative.

Because the Act does not define administrative costs and county commissions define them differently, we developed a working definition in order to compare them. Using our definition, some county commissions spend a larger portion of their revenue or expenses than others on the administration of their programs. However, we recognize that other valid definitions exist.

To demonstrate its commitment to keeping administrative costs low, we recommended that each county commission, which has not already done so, define what constitutes its administrative costs, set a limit on the amount of funding it will spend on such costs, and annually track expenditures against this self-imposed limit.

First 5 Santa Clara Action: Pending.

First 5 Santa Clara stated it is working with the Government Finance Officers Association (association) to develop a standard definition of administrative costs for use by county commissions. First 5 Santa Clara will review the association's recommendations and the recommended limit on the percentage of funding First 5 Santa Clara should spend on administrative costs and will forward this information to the commission for approval.

First 5 Los Angeles Action: Corrective action taken.

First 5 Los Angeles stated that its definition of administrative costs is any costs that are not directly a part of an initiative. All staff salaries and direct operating costs are considered administrative. First 5 Los Angeles stated that its practice is to limit administrative costs to no more than 5 percent of total revenue and 10 percent of total expenses.

First 5 El Dorado Action: Pending.

First 5 El Dorado stated that it would develop and adopt administrative cost policies.

First 5 San Diego Action: Pending.

First 5 San Diego will work with the association to construct and adopt a uniform definition of administrative expenses and budgetary reporting categories for county commissions' financial reporting.

Finding #4: According to outside evaluators, some county commissions' service providers have collected little data on performance outcomes.

County commissions have been gathering data from service providers, but service providers have collected scant performance-based outcome data. While one county commission's outside evaluators have focused only on discussing various aspects of programs and have yet to measure program outcomes, other county commissions' outside evaluators have expressed concerns that service providers are not capturing enough information to reasonably gauge program success.

To ensure that county commissions are basing their funding decisions on outcome-based data, as required by the Act, we recommended that they address the concerns expressed by their outside evaluators to ensure that service providers are collecting these data.

First 5 Santa Clara Action: Partial corrective action taken.

First 5 Santa Clara stated that its staff conducted on-site monitoring and prepared quarterly reports throughout the year. In addition, First 5 Santa Clara stated its consultant conducted interviews with service providers and participants, held focus groups, and surveyed grantees and parents. All of these data collection methods contribute to the development of First 5 Santa Clara's evaluation report, which it will send with its six-month response.

First 5 Kern Action: Partial corrective action taken.

First 5 Kern stated it will continue to address the concerns expressed by its independent evaluator, but asserted that its consultant recently stated that significant progress has been made in meeting objectives. The independent evaluator's annual report identified specific program data that demonstrate that sizable numbers of children up to age 5 and their families are better off than they were. First 5 Kern cited outcomes such as increased cognitive scores and the favorable cost benefit of its immunization and dental care programs as examples of the beneficial affect its funding has had in the county.

First 5 Los Angeles Action: Partial corrective action taken.

First 5 Los Angeles stated it is strongly committed to the outcomes-based funding aspects of the Act, and has developed and implemented an accountability framework that is focused on outcomes. Nevertheless, First 5 Los Angeles stated that it is essential to collect and monitor important process and output data in order to understand the relative contributions of its funded initiatives toward changes in selected indicators. First 5 Los Angeles also stated that it has taken several concrete steps that align its accountability efforts with our recommendations. Specifically, it has adopted a more comprehensive and reliable set of overarching indicators, which it intends to track over the next five years.

First 5 El Dorado Action: Pending.

First 5 El Dorado stated that the staff it hired in June 2004 has extensive experience in data collection and interpretation, and it will continue to use the School Readiness Initiative and the statewide Proposition 10 Evaluation Data System to collect program data.

First 5 San Diego Action: Pending.

First 5 San Diego stated that it will work in partnership with the First 5 Association of California to address the recommendation related to outcome reporting through a joint work group proposed to be established on the issue of statewide evaluation. On the local level, First 5 San Diego stated that it currently evaluates its performance through its achievement of the annual implementation plan, which directly supports First 5 San Diego's long-term strategic plan.

Finding #5: Internal and external reviews of county commission operations fail to adequately address performance.

Reviews of county commission operations do not always give a comprehensive and objective look at performance. Although each county commission we visited undergoes an annual independent financial audit of its operations, following well-established and generally accepted standards, similar reviews of the county commissions' performance are not occurring. Instead, the county commissions' annual reports to the state commission consist primarily of self-generated descriptions of their programs, planning efforts, and funding priorities. These reports lack an objective review of how the county commissions are managing their programs and also lack an assessment of how well county commissions are ensuring that they meet the Act's goals and objectives.

To provide a meaningful assessment of annual performance, we recommended that the state commission require each county commission to conduct an annual audit of its performance prior to any future revenue allocations. Such audits should be objective and should follow guidelines designed to critically assess each county commission's performance.

First 5 California: Pending.

First 5 California stated that it is establishing an ad-hoc working group made up of legislative staff, state and local commissioners, and others to review current evaluation design and annual reporting requirements and to suggest changes and enhancements to clarify and strengthen the reporting of performance outcomes and other program data. Based on the recommendations of this group and a joint county/state working group on technical design issues, First 5 California stated it would develop a request for proposals to secure a new evaluation contract.

