

**Agenda Item 9**
March 2, 2016**DATE:** February 20, 2016**TO:** Children and Families Commission of Orange County**FROM:** Christina Altmayer, Executive Director**SUBJECT:** Public Hearing: First 5 California 2014-2015 Annual Report**ACTION:** Receive the First 5 California 2014-2015 Annual Report and Audit Results Excerpts

SUMMARY:

The Children and Families Act of 1998 requires the State Children and Families Commission (First 5 California) submit an annual report to the Governor and Legislature by January 31 of each year that includes a comprehensive review of its progress and a review and summary of the 58 county commissions. Each county commission is then required to conduct a public hearing on the State Commission's Annual Report and provide opportunities for public comment.

2014-2015 First 5 California Annual Report

Over the past 15 years, county commissions have produced annual reports to document the variety of programs, services, and other accomplishments that have helped ensure the healthy development of young children. These reports are then submitted to First 5 California for analysis and consolidation. First 5 California produces an annual report summary that provides information on both the county and state programs and fiscal data. This year's report, entitled "Lifelong Investments for Lifelong Results", is organized into programmatic sections including: Supporting Healthy Development and School Readiness for Young Children; Serving California's Young Children, Parents, and Teachers; a Focus on: Child Development, Parent Support, and Teacher Effectiveness; and First 5 County Commission Program Result Areas.

Excerpts from the Fiscal Year 2014/15 Annual Report are provided in the Attachments including:

- Message from the Executive Director – The attached Executive Director message highlights recent federal and state actions that have focused on the importance of early childhood education and the work of First 5 California during the past fiscal year. For example, in February 2015, First 5 California hosted its first annual Child Health, Education, and Care Summit in partnership with several California agencies representing preschool, infant/toddler child care, social workers, foster care, military families, higher education, administrators, parents, advocates, philanthropists, and elected officials. In addition, First 5 California's Talk. Read. Sing.® public education and outreach campaign messages reached millions of Californians through television and radio ads, social media, and our Parent Website.
- Serving California's Young Children, Parents, and Teachers – The section, starting on page 10, summarizes the total number of services provided to children and families by First 5 California and the 58 county Commissions, along with expenditures. In Fiscal Year 2014/15, over 1.07 million services were provided to California children and over 1.17 million services provided to adults. Forty-three percent of the \$454 million in expenditures was focused on improved child development, 34% on child health and 23% on improved family functioning.

- Orange County – Each county commission is provided with the opportunity to highlight several significant accomplishments achieved during Fiscal Year 2014/15. Orange County’s section (starting on page 42) describes the countywide administration of the Early Development Index (EDI), Bridges Maternal Child Health Network sustainability efforts, the Pediatric Mobile Vision program, and the Children’s Mental Health Initiative.
- California State Controller/Results of Audit Oversight - The First 5 California’s Annual Report agenda item, filed to their Commission, includes the State Controller’s annual review of the county commissions’ independent audits, consistent with the expanded audit statutes chaptered into law in 2005. The cover letter for that review is included as Attachment 2.

The complete First 5 California 2014-2015 Annual Report and Results of Audit are both on file with the Clerk of the Commission and available on the First 5 California website at: www.cfc.ca.gov (under “Commission”, click on “Annual Report”).

Public Hearing Notice

As required, a public hearing notice for this item was placed in the *Orange County Register* newspaper on February 19, 2016.

STRATEGIC PLAN & FISCAL SUMMARY:

This agenda item does not include a funding request.

PRIOR COMMISSION ACTIONS:

- October 2015– Conducted public hearing on the Children and Families Commission of Orange County’s FY 2014/15 Annual Report and Financial Audit
- March 2015- Conducted public hearing on the First 5 Annual Report for FY 2013/14 as required by California Health and Safety Code Section 130140(H).
- October 2014 – Conducted public hearing on the Children and Families Commission of Orange County’s FY 2013/14 Annual Report and Financial Audit
- March 2014 - Conducted public hearing on the First 5 Annual Report for FY 2012/13 as required by California Health and Safety Code Section 130140(H).

RECOMMENDED ACTIONS:

1. Conduct the Public Hearing
2. Receive and file the First 5 California 2013-2014 Annual Report and Audit Results Excerpts

ATTACHMENTS:

1. First 5 California 2014-15 Annual Report Excerpt
2. California State Controller Results of Audit Oversight Commissions Excerpt

Contact: Sharon Boles

Early Investments for Lifelong Results

2014-15 | First 5 California Annual Report



Message from the Executive Director

It has been another year of significant accomplishments in early learning and health for First 5 California as well as our First 5 county commission partners across the state. More and more parents, policymakers, legislators, and stakeholders have come to recognize the importance of supporting children in their earliest years. They understand the long-term payoff of these necessary investments. And by investments, I'm referring to a variety of ongoing efforts to advance our mission and vision. In addition to funding, there also are the investments of time, hard work, advocacy, outreach, dialogue, and partnerships—all with a focus on nurturing and enriching the earliest years in the lives of our youngest children to foster their success in school and beyond.

A few milestones from the past year deserve special recognition. In February 2015, First 5 California hosted its first annual Child Health, Education, and Care Summit in partnership with several California agencies: Department of Developmental Services, Department of Veterans Affairs, Community Colleges Chancellor's Office, Department of Education, Health and Human Services Agency, Department of Public Health, and Department of Social Services. This Summit welcomed nearly 1,000 attendees representing preschool, infant/toddler child care, social workers, foster care, military families, higher education, administrators, parents, advocates, philanthropists, and elected officials. Participants included county-level teams consisting of representatives from as many of these local groups as possible. The goal was for both county- and state-level networking to be enhanced, and for services to our common target audiences to become better focused and less duplicative.

Our *Talk. Read. Sing.*® public education and outreach campaign messages reached millions of Californians through television and radio ads, social media, and our Parent Website. The campaign, which highlights the importance of early brain development through linguistic interaction and engagement with babies and young children, will be enhanced with additional content and outreach efforts and will continue through the coming year and beyond.

On the program front, two of First 5 California's Signature Programs continued to demonstrate significant results, with the Comprehensive Approaches to Raising Educational Standards (CARES) Plus program

providing professional development for thousands of early educators, and the Child Signature Program (CSP) serving thousands of children statewide in quality early learning programs.

Perhaps our most significant accomplishment to date is the development of First 5 IMPACT (Improve and Maximize Programs so All Children Thrive). With CSP and CARES Plus scheduled to conclude on June 30, 2016, and to build upon their successes, the State Commission in April 2015 approved a five-year investment to support a network of local quality improvement systems to better coordinate, assess, and improve the quality of early learning settings. First 5 IMPACT is an innovative approach that forges partnerships between First 5 California and counties to achieve the goal of helping children ages 0 to 5 and their families thrive by increasing the number of high-quality early learning settings, including supporting and engaging families in the early learning process. Investing in more sites to achieve high-quality standards helps ensure more of California's children enter school with the skills, knowledge, and dispositions necessary to be successful. It provides families the information and support they need to promote and optimize their children's development and learning, both inside and outside the home.

None of this would be possible without the state and local partnerships we continue to develop. We look forward to our ongoing partnership with the 58 First 5 county commissions as we advance our commitment to investing in quality early learning and family resources—all with our collective goal of ensuring our youngest children receive the best start in life and thrive.

Camille Maben

CAMILLE MABEN
EXECUTIVE DIRECTOR, FIRST 5 CALIFORNIA





Serving California's Young Children, Parents, and Teachers

FOUR KEY RESULT AREAS

First 5 California tracks progress in four key result areas to support evidence-based funding decisions, program planning, and policies:

1. Improved Family Functioning
2. Improved Child Development
3. Improved Child Health
4. Improved Systems of Care

These result areas comprise a framework for reporting and assessing early childhood outcome data. Appendix A and B include descriptions of the result areas and services for First 5 California and 57 county commissions.* This data reporting framework provides a statewide overview of the number, type, and costs of services provided to children and adults for a particular fiscal year.

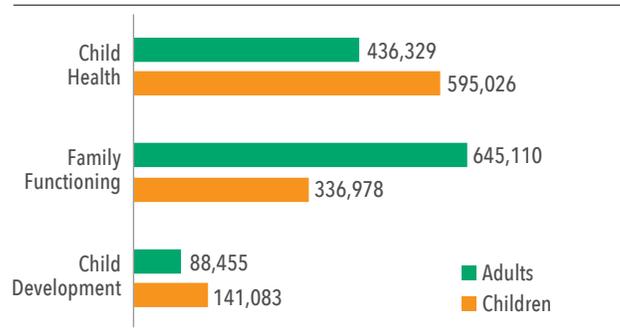
Stakeholders can use this information as one source to determine impact and resource allocation from First 5 statewide. Exhibit 2 contains the total numbers of services provided to children ages 0 to 5 and adults in FY 2014-15 for Improved Family Functioning, Improved Child Development, and Improved Child Health.

The distribution of total expenditures (\$454,347,967) for children ages 0 to 5 and adults receiving services in 2014-15 is presented by result area in Exhibit 3.

*At the time of printing, Colusa County is not included.

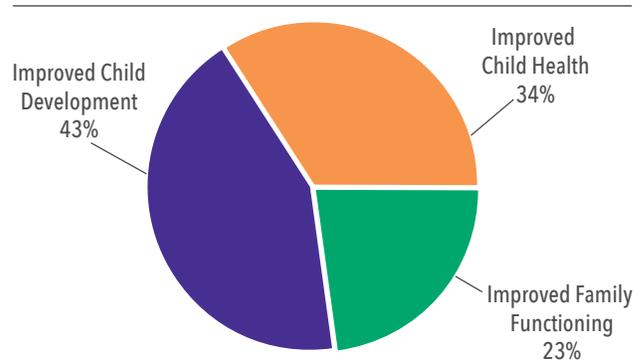
The result area, Improved Systems of Care (\$105,326,568), differs from the others; it consists of programs and initiatives that support program providers in the other three result areas.

Exhibit 2: Total Numbers of Services Provided to Children Ages 0 to 5 and Adults in FY 2014-15 by Result Area



*Totals for Adults include both Adult and Provider counts

Exhibit 3: Total Expenditures for Children Ages 0 to 5 and Adults in FY 2014-15 by Result Area



Source: County Revenue and Expenditure Summary, November 2015



First 5 County Commission Program Result Areas

First 5 county commissions are required to report to First 5 California their annual expenditure and service data on their programs. In collaboration with the First 5 Association, First 5 California developed and adopted guidelines to standardize data collection. Counties report program service data under the four result areas. These data have been aggregated to the State level. Data reported are from programs that are funded by both local and State First 5 funds (Appendix A).

IMPROVED FAMILY FUNCTIONING

In FY 2014-15, county commissions invested \$105 million to improve Family Functioning. Family Functioning services provide parents, families, and communities with timely, relevant, and culturally appropriate information, services, and support. Services include:

- Increasing parent education and literacy
- Providing referrals to community resources
- Supplying basic needs, such as food and clothing

In FY 2014-15, First 5 county commissions provided 336,978 services to improve family functioning to children ages 0 to 5, and 645,110 services to parents, guardians, primary caregivers, relatives, and providers. Exhibit 4 displays the numbers of services provided.

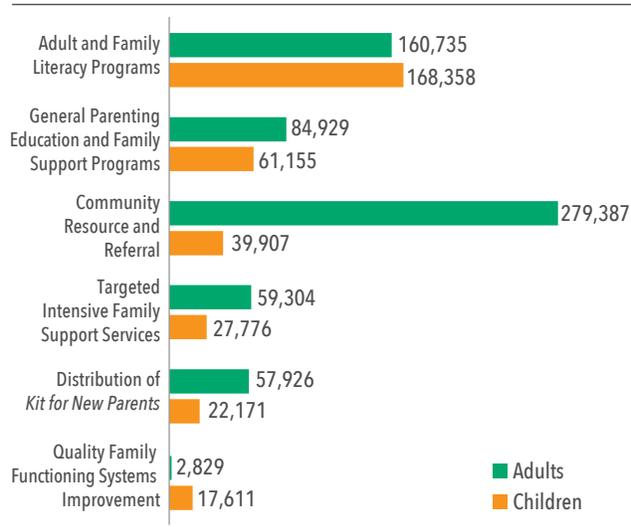
While children and adults from all ethnic groups received services, for those reporting

an ethnicity, Latinos were the largest recipient group (47 percent). For children reporting a primary language, services were provided to Spanish speakers 61 percent of the time and English speakers 35 percent of the time.

Exhibit 5 shows the distribution of expenditures by service category. First 5 California provided support to schools and educational institutions, nonprofit community-based agencies, government agencies, and private institutions. First 5 county commissions provided services to children and adults in order to improve Family Functioning.

Exhibit 4:

Family Functioning—Total Numbers of Services Provided to Children Ages 0 to 5 and Adults in FY 2014-15 by Service



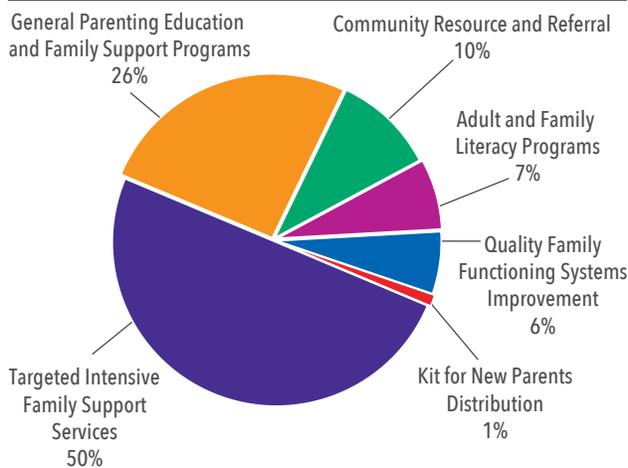
*Totals for Adults include both Adult and Provider counts

IMPROVED CHILD DEVELOPMENT

Child Development services are designed to increase access and quality of early education and learning. These services include free high-quality preschool, special needs assessment and intervention, and school readiness programs.

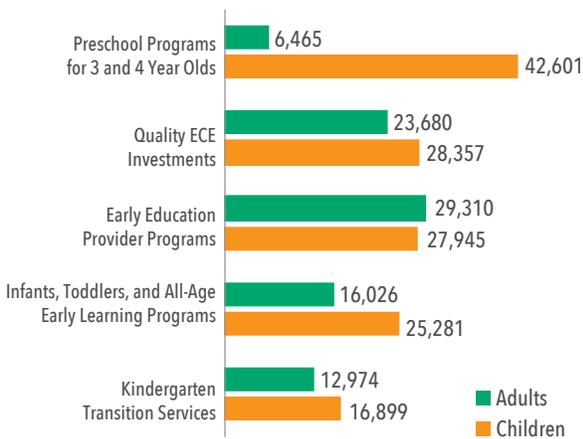
In FY 2014-15, First 5 delivered 141,083 child development services to children ages 0 to 5 and 88,455 services to parents, guardians, primary caregivers, relatives, and providers. Exhibit 6 displays the numbers of services provided.

Exhibit 5: Family Functioning—Distribution of Expenditures for Children Ages 0 to 5 and Adults in FY 2014-15 by Service



Source: County Revenue and Expenditure Summary, November 2015

Exhibit 6: Child Development—Total Numbers of Services Provided to Children Ages 0 to 5 and Adults in FY 2014-15 by Service



*Totals for Adults include both Adult and Provider counts

While children and adults from all ethnic groups received services, for those reporting an ethnicity, Latinos were the largest recipient group of services (63 percent). For children reporting a primary language, services were provided to Spanish speakers 47 percent of the time and English speakers 47 percent of the time.

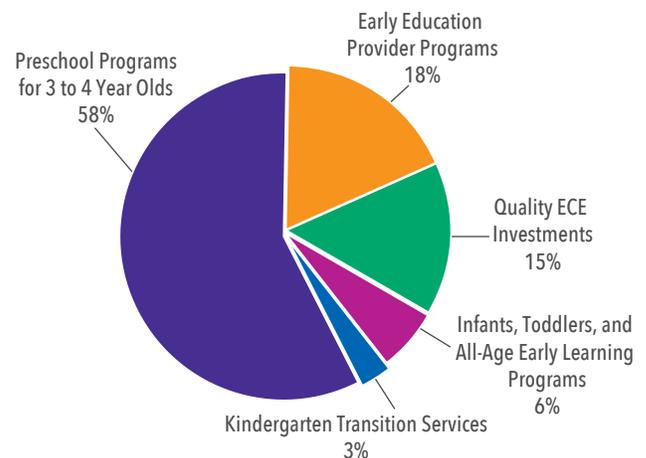
In FY 2014-15, county commissions expended \$196 million to improve Child Development. Exhibit 7 shows the distribution of expenditures by service category.

IMPROVED CHILD HEALTH

First 5 county commissions fund Child Health services that promote health through identification, treatment, and elimination of risks that threaten health and cause developmental delays and disabilities. First 5 Child Health services are far-ranging and include prenatal care, oral health, nutrition and fitness, tobacco cessation support, and intervention for children with special needs.

In FY 2014-15, First 5 provided 595,026 services designed to improve Child Health to children ages 0 to 5, and 436,329 services to parents, guardians, primary caregivers, relatives, and providers. Exhibit 8 displays the numbers of services provided.

Exhibit 7: Child Development—Distribution of Expenditures for Children Ages 0 to 5 and Adults in FY 2014-15 by Service



Source: County Revenue and Expenditure Summary, November 2015

While children and adults from all ethnic groups received services, for those reporting an ethnicity, Latinos were the largest recipient group of services (61 percent). For children reporting a primary language, services were provided to English speakers 54 percent of the time and Spanish speakers 43 percent of the time.

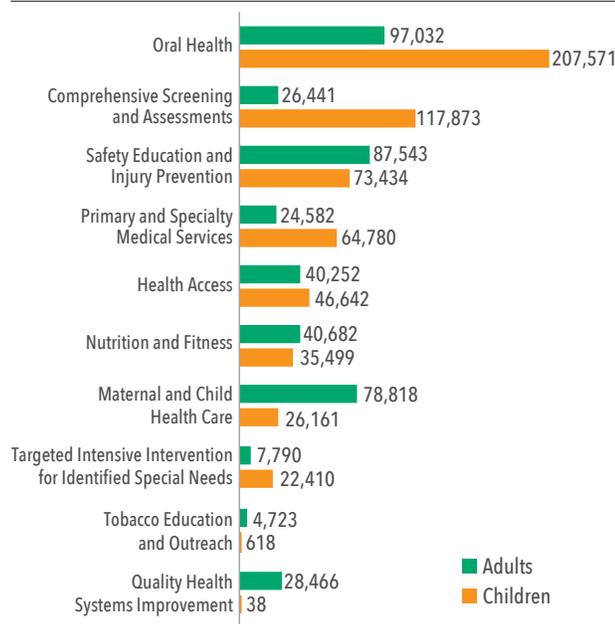
In FY 2014-15, county commissions expended \$153 million to improve Child Health. Exhibit 9 shows the distribution of expenditures by service category.

IMPROVED SYSTEMS OF CARE

Systems of Care addresses system-wide structural supports as county commissions effectively work toward achievement in the result areas of Family Functioning, Child Health, and Child Development. For example, interagency collaboration allows coordinated wrap-around efforts from multiple organizations providing targeted services. Since this result area is at a systems level, counties do not report numbers of children and adults served. Expenditure

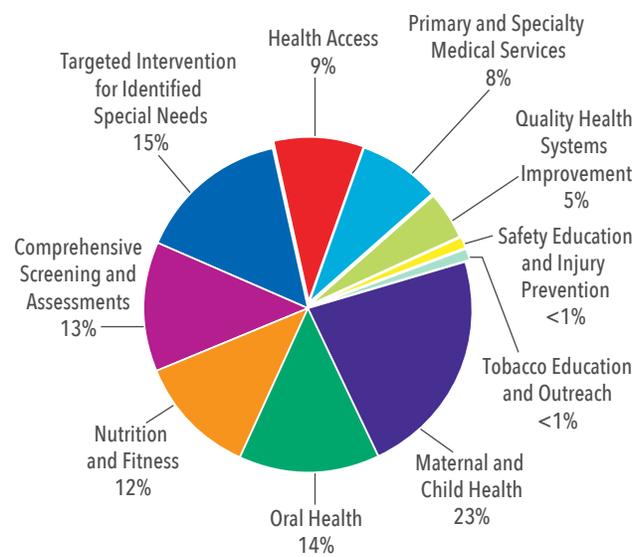
data indicate that for FY 2014-15, county commissions expended \$105 million to improve Systems of Care (Exhibit 10). In 2014-15, 8 percent of expenditures went toward Public Education and Information; 18 percent toward Policy and Broad Systems-Change Efforts; and 74 percent toward organizational support.

Exhibit 8: Child Health—Total Numbers of Services Provided to Children Ages 0 to 5 and Adults in FY 2014-15 by Service



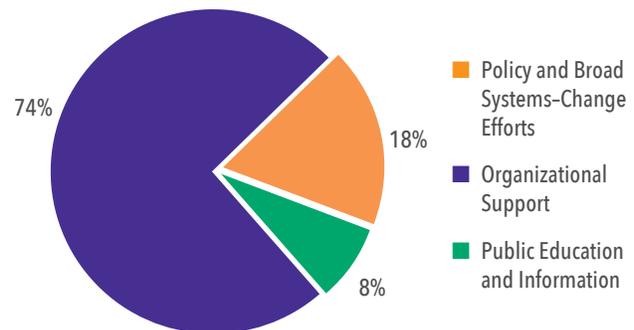
*Totals for Adults include both Adult and Provider counts

Exhibit 9: Child Health—Distribution of Expenditures for Children Ages 0 to 5 and Adults in FY 2014-15 by Service



NOTE: May not add to 100% due to rounding
Source: County Revenue and Expenditure Summary, November 2015

Exhibit 10: Systems of Care—Distribution of Expenditures by Service





Children were assessed using the Ages and Stages Questionnaire-3 (ASQ-3) at the start of the program and again at completion. Children demonstrated improvements, and upon completion of the program were developing typically as listed below:

- 100 percent of children in the *problem solving* domain
- 97 percent of children in the *communication* domain
- 91 percent of children in the *personal-social* domain
- 100 percent of children in the *gross motor* domain
- 83 percent of children in the *fine motor* domain

Upon completion of the program, parents had increased confidence in their ability to provide age-appropriate routines, play, and expectations of their child:

- 100 percent of parents report they read or share books with their child at least two times a week.
- 85 percent of parents report that when they read or share books with their child, they do so for at least 10 minutes.
- 92 percent of parents report they support expanded learning for their child through conversation at least once a week.
- 97 percent of parents report they provide early learning experiences around shapes and colors at home.

Nevada County

Through its investments, the goal of First 5 Nevada County is—in partnership with the community—to create, foster, and support programs that promote health, wellness, and child development for children ages 0 to 5 and their parents. First 5 Nevada works on behalf of all children prenatal to age 5 and their families, and focuses on those who face significant risks and challenges in achieving their maximum physical and socio-emotional health and learning potential. First 5 Nevada is engaged in four initiatives: early learning, family strengthening, communication and outreach, and capacity building and systems change.

During this last fiscal year, one of the most significant outcomes achieved with First 5 Nevada funding was attained by the PARTNERS Family Resource Centers (FRC), who implemented the evidence-based *Positive Parenting Program (Triple P)* curriculum, led by a Marriage and Family Therapist. Participating parents showed improved parenting practices, parenting knowledge, and communication with their partners, while children showed a drop in problem behavior. The PARTNERS FRCs received \$161,907 in funding in FY 2014–15 with some of the funds supporting the *Triple P* classes. *Triple P* series were held six times with participants reporting high satisfaction with the curriculum, instructor, peer interaction, and their relationships with their children; 62 parents with 69 children ages 0 to 5 attended one or more sessions. These evening classes included dinner and childcare, removing barriers to participation. The class also was available in Spanish for the first time. “Parenting Ladder” retrospective surveys were given to all Triple P participants and showed an overall average increase of 1.62 points on a six-point Likert scale in the areas of parenting knowledge, communication with their partner about child issues, consistency of positive discipline, and awareness of community resources. “The Parenting Scale,” a 30-item

measure of dysfunctional discipline styles, which is scored on a seven-point Likert scale with lower scores indicating more effective parenting, showed participating parents improved from a pre-test average of 3.19 to a post-test average of 2.65, an improvement of 17 percent. Children’s problem behavior also showed an improvement, going from an average of 1.97 to 1.31 on a 4-point Likert scale, for a 34 percent improvement. This data came from the Impact subscale of the Strengths and Difficulties Questionnaire.

Other highlights during FY 2014–15 included:

- 28 child care homes and centers were rated for quality over a three-year period.
- 143 service providers participated in collaborative meetings in eastern Nevada County, and 294 attended collaborative meetings in western Nevada County.
- 27 children received intensive home visiting services in the Healthy Families America evidence-based model.
- 97 children and 91 parents who were not otherwise eligible for services received behavioral health care.

Orange County

First 5 Orange County is a convener, planner, and sponsor for the implementation of programs in four goal areas: healthy children, early learning, strong families, and capacity building. Through First 5 Orange investments, the vision is that all children are healthy and ready to learn.

During this past fiscal year, one of the most significant accomplishments was the completion of the community school readiness assessment using the Early Development Index (EDI), a population measure of school readiness. Since 2007, First 5 Orange has partnered with school districts to collect information about kindergarten-aged children in participating geographic areas, to create an overall snapshot of their developmental progress in five areas:

physical health and well-being, social competence, emotional maturity, language and cognitive skills, and communication skills and general knowledge.

With a funding investment of approximately \$200,000, this year marked the first year of 100 percent school participation. The EDI data were reported for over 34,000 children, representing 90 percent of the total kindergarten population served by public schools in the county. The EDI data is a catalyst for bringing together individuals, organizations, and community leaders to improve school readiness and create better environments for children. Furthermore, EDI provides valuable information to improve programs and supports, and better coordinate services to help children develop and learn before and during their school years.

Other highlights during FY 2014-15 included:

- **Bridges Maternal Child Health Network Sustainability Plan:** This successful prevention and early intervention program to ensure children have a healthy start received \$250,000 in technical assistance awards to consider the feasibility of implementing a "Pay for Success" funding strategy for sustainability. The funding awards have created significant value in strengthening the Bridges Network evaluation and program model.
- **Pediatric Mobile Vision Program:** The partnership with the University of California Irvine Health (Gavin Herbert Eye Institute) and Children's Hospital of Orange County to collectively invest \$3 million for the Pediatric Eye Mobile is providing early vision screening and follow-up care to preschool-aged children throughout the county. An additional \$15,000 from the Lon V. Smith Foundation funds free glasses to disadvantaged children.
- **Children's Mental Health Initiative:** In response to the

increasing demand for children's mental health services, a process began to improve an integrated health delivery system focused on optimizing young children's social-emotional health. The Commission's efforts will align with the broader mental health planning efforts in the county, and focus on the integration of parent and child mental health, and prevention services into the health systems.

Placer County

First 5 Placer County has three long-term goals: 1) Children are nurtured, healthy, safe, learning, and developmentally reaching their potential; 2) Families are strong and connected; 3) Communities are caring and responsive. To help achieve these goals, the county commission integrates a protective factor framework for family and community strengthening. Part of the commission's role in implementing the protective factor framework is to help support and build the capacity of its funded partners.

In FY 2014-15, First 5 Placer funded 25 major programs, including those focusing on child health and development, parent support, and connecting families to community resources. Each program has a logic model that aligns with the commission's strategic plan, as well as an individual evaluation plan that outlines the programs' evaluation requirements. After the end of the fiscal year, each program participates in group learning conversations that aim to facilitate peer-to-peer learning exchanges and provide opportunities for networking and collaboration.

Through First 5 Placer-funded partners:

- Services are being coordinated and are more accessible to families in need.
- Children are being screened early to identify any developmental delays or special needs.
- Parents (including pregnant and parenting teens) receive counseling, case management,

and parent education services.

- Children who are suspected victims of felony child abuse receive mental health advocacy services.
- Mothers who are experiencing perinatal depression receive therapy.
- Organizations are building collaborative linkages with service providers to develop an integrated system of support.

Plumas County

Through targeted investments, the goal of First 5 Plumas County is to promote healthy children, optimal child development, strong families, and integrated systems of care for children ages 0 to 5 and their families. First 5 Plumas funds intensive ongoing home visitation modeled after Healthy Families America and Behavioral Health/Mental Health services for children and their parents. The Home Visitation Program is implemented by four separate projects working together toward common shared outcomes.

During this last fiscal year, one of the most significant accomplishments of First 5 Plumas was funding a pilot program for a Behavioral Health Therapist to provide mental health services in the home. An Early Childhood Development Specialist also provided early childhood development services, with bonding and attachment services in the home, to infants and children who have experienced emotional trauma. With an initial investment of \$27,000 for a six-month pilot project, the initiative provided therapeutic counseling, infant attachment/bonding, play therapy, and family therapy to parents and children ages 0 to 5. Based on the early success of the pilot project, the Plumas County Board of Supervisors invested \$286,000 of Mental Health Services Act funding to have First 5 Plumas expand the program significantly in the upcoming program year.

Other highlights during FY 2014-15 include:

- Families participating in home visits experienced improved

ANNUAL REPORT TO THE FIRST 5 CALIFORNIA COMMISSION

RESULTS OF AUDIT OVERSIGHT OF LOCAL COMMISSIONS

For the Period of July 1, 2013, through June 30, 2014



BETTY T. YEE
California State Controller

October 2015

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BETTY T. YEE

California State Controller

October 30, 2015

Camille Maben, Executive Director
First 5 California
2389 Gateway Oaks Drive, Suite 260
Sacramento, CA 95833

**SUBJECT: Annual Report to First 5 California Commission
Results of Audit Oversight of Local Commissions**

Dear Ms. Maben:

I am pleased to submit our annual report to the First 5 California Commission. The report summarizes the results of our review of the independent audits of the local First 5 county commissions (local commissions) for fiscal year (FY) 2013-14. This report also summarizes the results of our review of the audit findings identified in the independent auditor's report to the local commissions.

This is the eighth report submitted in accordance with Senate Bill 35 (Chapter 243, Statutes of 2005), which mandated an expanded audit of every county commission funded by the California Children and Families Program Act of 1998. Each commission was required to adopt a range of policies including contracting and procurement, administrative expenditure limits, conflict of interest, staff compensation, and long-range financial planning. Each local commission is required to have an annual independent audit that is reviewed by the State Controller's Office.

Our review focused on the local commissions' compliance with program requirements (as reported by their independent auditors) specified in the California Health and Safety Code. We also verified the independent auditors' compliance with audit standards and the expanded audit guidelines when performing the local commission audits. The audit findings and audit finding follow-up section of our report provide information related to the findings from each local commission's independent audit report. Lastly, our report contains comparative statistics from the results of our desk reviews of the independent audits for FY 2013-14, FY 2012-13, and FY 2011-12, where applicable.

Camille Maben
October 30, 2015
Page 2

I hope our report will be useful to you in assessing the local commissions' activities and compiling your annual report to the Legislature. Please direct any comments regarding the content of the report to Lisa Hughes, Chief of the Controller's Community Related Audits Bureau, at (916) 322-8489 or lhughes@sco.ca.gov.

Sincerely,

Original signed by

GEORGE LOLAS
Chief Operating Officer

GL/lis

Enclosure

cc: Mike Fuller, Interim Fiscal Administrator, First 5 California Commission
George Halvorson, Commission Chair, First 5 California Commission
Joyce Iseri, Commission Vice Chair, First 5 California Commission
Conway Collis, Commissioner, First 5 California Commission
Muntu Davis, Commissioner, First 5 California Commission
Erin K. Pak, Commissioner, First 5 California Commission
Kathryn Icenhower, Ph.D., Commissioner, First 5 California Commission
Diana Dooley, Ex Officio Member, First 5 California Commission
Jim Suennen, Designee, First 5 California Commission

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Executive Summary

The California Children and Families Act (Act) was created in 1998 by the passage of Proposition 10. The Act was amended in 2005, giving the State Controller's Office (SCO) oversight responsibility for audits of the local First 5 county commissions (local commissions). The objective of the amendment was to provide the state commission with independently verified fiscal and state compliance information obtained from audits performed in accordance with applicable standards and requirements.

SCO oversight responsibility includes providing audit guidelines, reviewing local commissions' annual audit reports for compliance with applicable audit standards and guidelines, and following up on findings contained in the audit reports to ensure compliance with policies and practices specified in the Health and Safety Code. As needed, SCO approves and makes substantive changes to the audit guide after consultation with an audit guide committee composed of representatives from the First 5 state commission (state commission) and local commissions.

Each year, SCO performs its oversight activities in a cycle of receiving, reviewing, and reporting on the auditor's reports for each local commission. This report summarizes the results of our review of independent auditors' reports for compliance with applicable standards and requirements. This report also summarizes the results of our review and follow-up on the audit findings identified in the independent auditors' reports to the local commissions.

This is the eighth report submitted in accordance with the expanded audit statutes chaptered into law in 2005; therefore, this report includes comparative results. In summary, our report contains the following key observations we made during our review of the local commissions' independent audit reports:

- Of the 58 independent audit reports, 51 (88%) independent auditors complied with audit guide requirements and/or audit standards, an increase compared with prior reporting periods. In fiscal year (FY) 2012-13, 60% of the independent audit reports submitted complied with all standards and/or requirements, while in FY 2011-12, 71% were in compliance.
- Of the 58 counties, 54 (93%) submitted the required audit reports by the November 1 deadline. In comparison, 88% of the audits in FY 2012-13 and 91% of the audits in FY 2011-12 were submitted by the deadline.

In addition to the observations we made during our review of the reports, the independent auditors identified a total of ten audit findings at eight local commissions; eight of the audit findings were categorized as “internal control” and two were categorized as “state compliance.” In comparison, nine of the FY 2012-13 audit reports contained a total of ten audit findings, all of which were categorized as “internal control.” In FY 2011-12, 14 of the audit reports contained a total of 15 audit findings (11 internal control and four state compliance).

Lastly, for FY 2013-14 SCO did not recommend withholding funding allocations for any commission for failure to correct (or provide a viable plan to correct) audit findings.

Introduction

Overview

The State Controller's Office (SCO), Division of Audits, is responsible for performing the oversight activities for the independent audits of local commissions administering the First 5 program authorized by the California Children and Families Act. Oversight activities consist of:

- Developing an audit guide based on the Health and Safety (H&S) Code, and applicable auditing standards;
- Verifying (via desk reviews/analysis) that the independent audit reports contracted for by the local commissions comply with auditing standards and the audit guide; and
- Verifying local commission compliance with policies and practices (specified in the Health and Safety Code) by reviewing and following up on audit findings reported in the independent audits.

Health and Safety Code section 130151 (added by Chapter 243, Statutes of 2005) requires that SCO issue guidelines for annual expanded audits¹ that require independent auditors to review local commission compliance with policies and practices related to:

- Contracting and Procurement
- Administrative Costs
- Conflict of Interest
- County Ordinance
- Long-Range Financial Plans
- Financial Condition of Commission
- Program Evaluation
- Salaries and Benefit Policies

In addition, H&S Code section 130151 also requires that SCO:

- Determine, within six months of the state or county commission's response pursuant to subdivision 130151(d), whether the county commission has successfully implemented corrective action in response to the findings contained in its audit report;
- Recommend that the state commission withhold the funding allocation for local commissions unable to provide SCO with a viable plan to correct identified audit findings; and
- Submit to the First 5 Commission, by November 1 of each year, a report summarizing the results of the reviews of the local commissions' audits for the preceding reporting cycle.

¹ *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act (First 5).*

Background

First 5 Program

The California Children and Families Act of 1998 (Act) authorized the First 5 program. The Act requires that the First 5 program be funded by surtaxes imposed on the sale and distribution of cigarettes and tobacco products. The Act further requires that the funds be deposited into the California Children and Families Trust Fund, for the implementation of comprehensive early childhood and smoking-prevention programs.

SCO Oversight

SCO oversight and reporting requirements (Health and Safety Code section 130151) were added by Senate Bill (SB) 35 (Chapter 243, Statutes of 2005). Prior to SB 35, existing law already included a fiscal/audit reporting component; therefore, the addition of SCO oversight was considered to be an expansion of those requirements. Consequently, the local commissions refer to SCO audit guidelines as “expanded” audit guidelines.

SCO—with a committee composed of representatives from the First 5 California Commission, local commissions, the Government Finance Officers Association, county auditor-controllers, and independent auditors—developed the initial audit guide based on statutory requirements enumerated in Health and Safety (H&S) Code section 130151(b). The guide is updated as needed by a committee composed of representatives from SCO, the First 5 state commission, and the local commissions. H&S Code section 130151(b) states that the scope of the independent audits will address the local commissions’ policies and practices related to:

- Contracting and Procurement
- Administrative Costs
- Conflict of Interest
- County Ordinance
- Long-Range Financial Plans
- Financial Condition of Commission
- Program Evaluation
- Salaries and Benefit Policies

Independent Audit Report Requirements

The H&S Code requires the auditors for the local commissions, or the local commissions themselves², to submit an independent audit report to both the SCO and the First 5 California Commission each year by November 1. The fiscal year ended June 30, 2014, was the eighth year that the 58 local commissions were subject to SCO’s expanded audit guidelines; the resulting audit reports were due by November 1, 2014.

² The submission deadline is based on two statutory codes, one requiring the submission and one specifying the deadline:

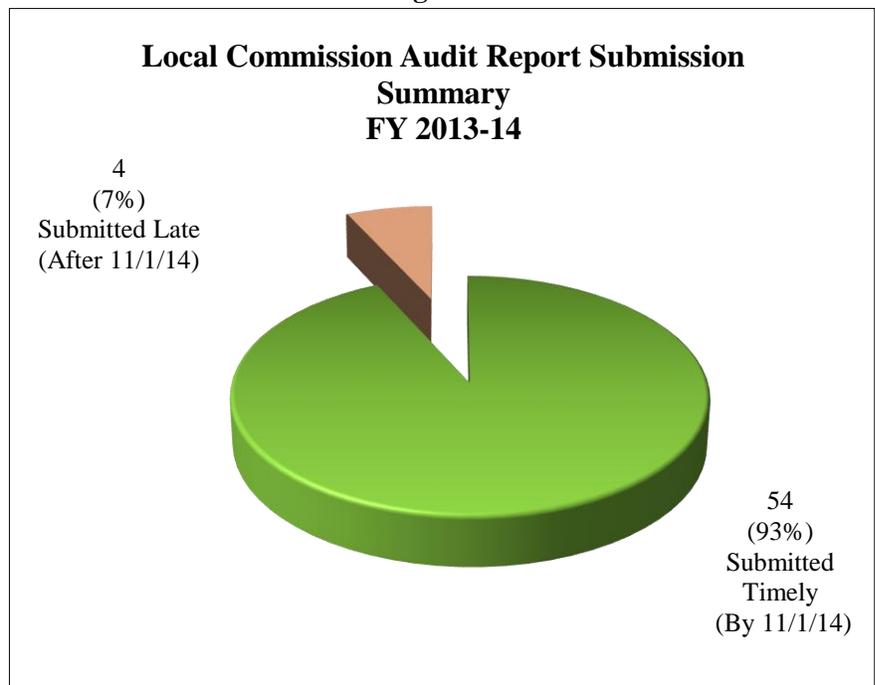
- H&S Code section 130151(c) requires that “the auditor for the state commission or the county commission shall submit each audit report, upon completion, simultaneously to both the Controller and to the state commission or applicable county commission.”
- H&S Code section 130150(a) requires that “. . . on or before November 1 of each year, each county commission shall submit its audit and report to the state commission. . . .”

Results of Oversight Activities

Audit Report Submissions

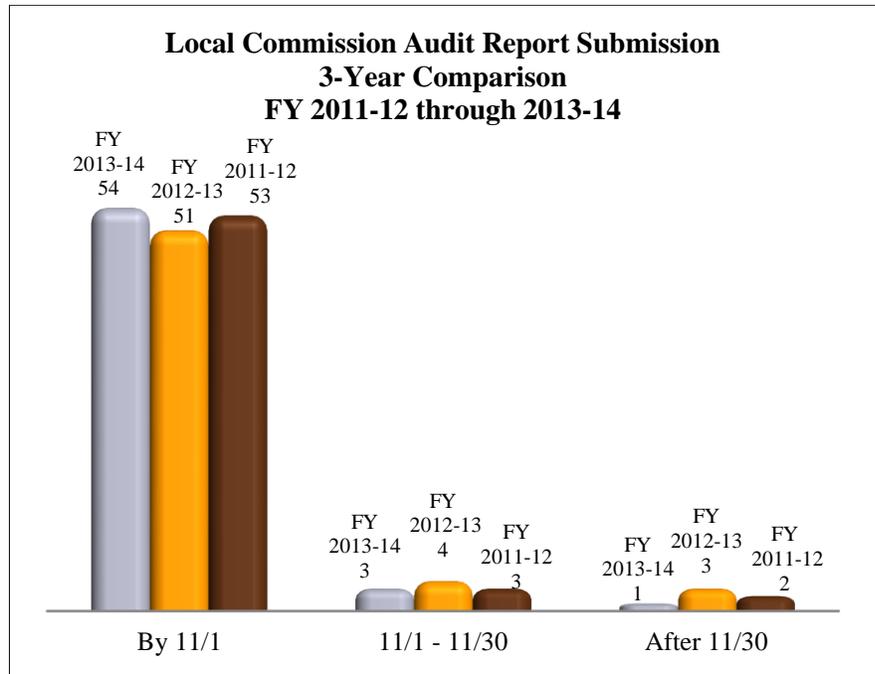
Independent auditors' reports for each local commission for the preceding fiscal year must be submitted to the State Controller's Office (SCO) by November 1 of the current fiscal year. As noted in Figure 1, for fiscal year (FY) 2013-14, 54 of 58 (93%) local commission audit reports were submitted by the required deadline, while four (7%) were submitted after the required deadline. Of the four reports submitted after the required deadline, three (5%) were submitted within 30 days of the deadline, while the remaining audit report (2%) was submitted more than 30 days late. The local commission that submitted their report more than 30 days late indicated that they were unable to prepare the financial statements in a timely manner.

Figure 1



Compared with the FY 2012-13 audit review cycle, in 2013-14 there was an increase in the number of audit reports submitted on time. During the FY 2013-14 review cycle one audit report was submitted more than 30 days late. During the FY 2012-13 review cycle three audit reports were submitted more than 30 days late. See Figure 2 for comparative data on report submissions.

Figure 2



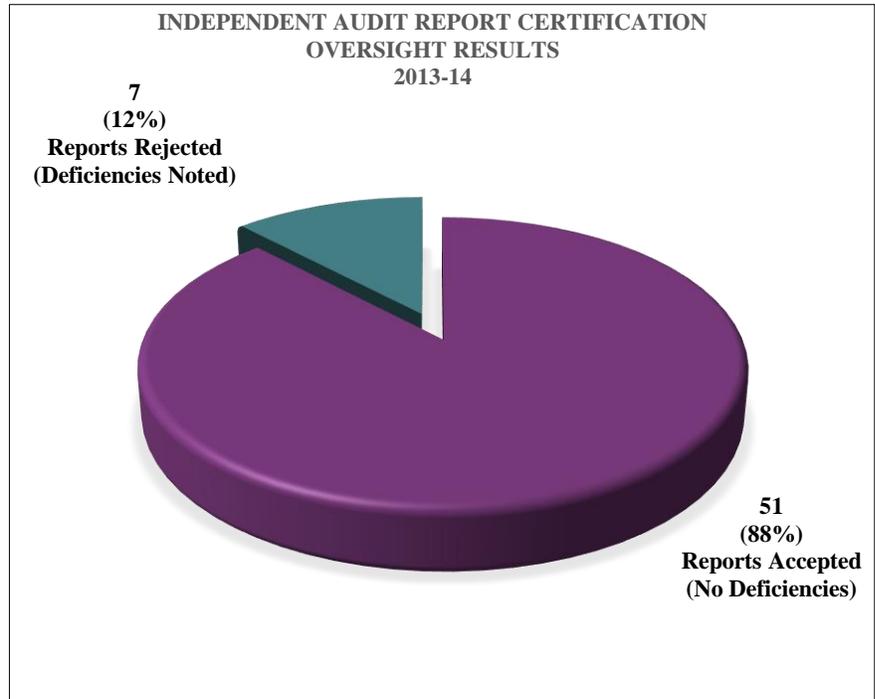
Audit Review and Certification Process

In accordance with Health and Safety (H&S) Code section 130151, SCO reviews and certifies the annual independent audit reports issued by the auditors for each local commission for compliance with applicable auditing standards and the audit guidelines set out in the *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act – First 5* (First 5 Audit Guide).

To facilitate the consistent review and certification of each audit report, SCO created a comprehensive desk review checklist that details and categorizes the program requirements specified in the First 5 Audit Guide. The desk review checklist also includes the required components of an audit report based on auditing standards generally accepted in the United States and government auditing standards. The desk review checklist also is annually updated in response to changes in auditing standards and program requirements. This report summarizes the instances of non-compliance we found in the preparation of the independent auditors’ reports (audit report deficiencies).

Audit Report Deficiencies

This section describes deficiencies found in the independent auditors’ reports. A deficiency is an instance of an independent auditor’s non-compliance with auditing standards and/or the expanded audit guidelines (First 5 Audit Guide) issued by SCO. Independent auditors (not local commissions) are responsible for addressing deficiencies in their reports of the local commissions. Based on our desk reviews of the FY 2013-14 county commission audits, we found that seven of the 58 independent audits (Figure 3) contained deficiencies. SCO notified each independent auditor and local commission in writing that the audit report required correction(s). The rejection letters identified the deficiency/deficiencies noted during our review and the criteria used to determine non-compliance.

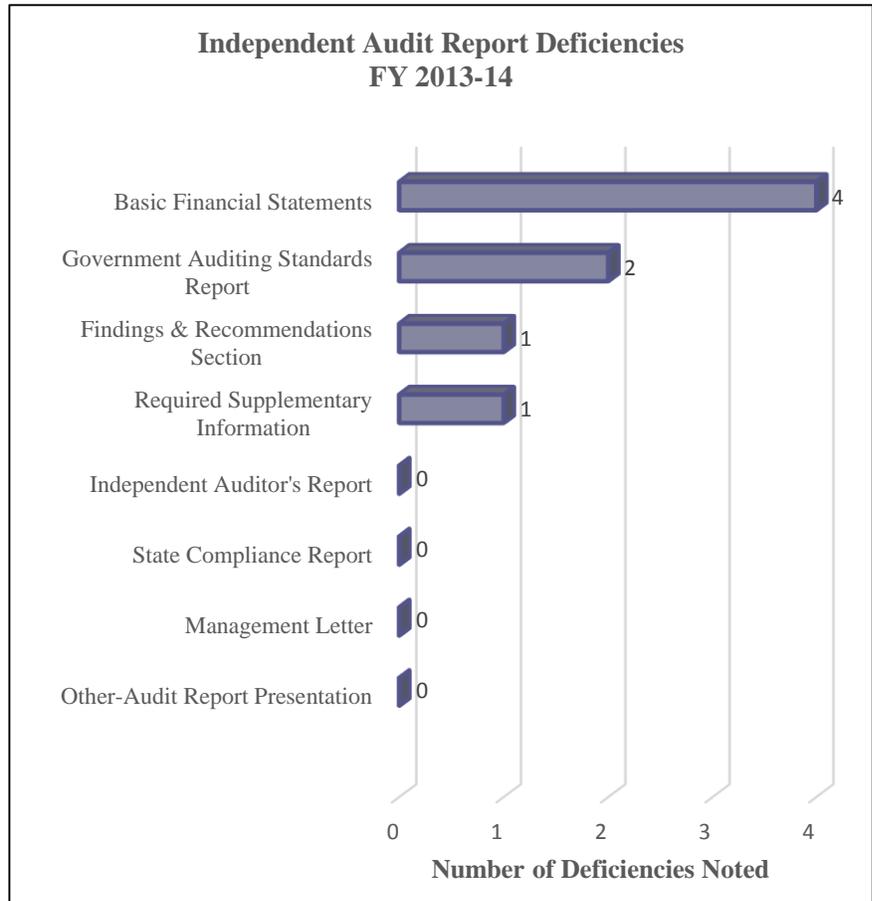
Figure 3

***Notable Audit Report
Deficiencies***

As detailed in Figure 4, during this review and certification cycle SCO identified eight deficiencies in the seven rejected reports. The audit report deficiencies were related to basic financial statements, government auditing standards reports, required supplementary information, and the findings and recommendations section of the audit. The majority of the deficiencies we identified during our review pertained to non-conformance to Governmental Accounting and Financial Reporting Standards. Specifically, one of the financial statements was not updated to conform to Governmental Accounting Standards Board Statement 63, effective for financial statements for periods beginning after December 15, 2011. These and other deficiencies we identified during our review are described in detail in Appendix A-1 and comparatively in Appendix A-2. Other notable deficiencies we identified were:

- *The Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (GAS Report) included erroneous date references and was not prepared in accordance with generally accepted auditing standards;*
- The Findings and Recommendations did not include the schedule of prior year audit findings; and
- The Required Supplementary Information of the budgetary comparison data for the general fund and any major special revenue funds did not total correctly.

Figure 4



See Appendix A-1 for detailed category breakdown.

Comparison of Audit Report Deficiencies by Fiscal Year

During this review cycle (FY 2013-14) we found eight audit report deficiencies, a significant decrease from the prior year (FY 2012-13), in which 54 deficiencies were identified. For FY 2011-12, 32 deficiencies were identified. Of the eight audit report deficiencies identified for FY 2013-14, four of the deficiencies (50%) were related to the Basic Financial Statements included in the independent audit reports for four local commissions. In these instances, the Basic Financial Statements were not in conformance with the Governmental Accounting and Financial Reporting Standards, which specified new reporting requirements effective for financial statements for periods beginning after December 15, 2011.

During this review cycle, SCO identified one independent audit report that contained one recurring deficiency, which had been previously identified during the FY 2012-13 review cycle. In comparison with FY 2012-13, one independent audit report contained one recurring deficiency, and in FY 2011-12, the independent audit reports did not contain recurring audit report deficiencies.

Figure 5 provides a breakdown by category of audit deficiencies for the current and previous reporting periods. Appendix A-2 provides additional detail for each category for the three audit years.

**Figure 5
Independent Audit Report Deficiencies – Comparison by Fiscal Year**

Category	Number of Occurrences		
	2013-14	2012-13	2011-12
Independent Auditor's Report	0	13	11
Basic Financial Statements	4	4	1
Notes to the Financial Statements	0	0	0
Required Supplementary Information	1	1	3
Government Auditing Standards Report	2	21	2
Management Letter	0	1	2
State Compliance Report	0	10	7
Findings and Recommendations Section	1	4	5
Other – Audit Report Presentation	<u>0</u>	<u>0</u>	<u>1</u>
Total	<u>8</u>	<u>54</u>	<u>32</u>

Findings Reported by the Independent Auditors

This section describes the audit findings reported by the local commissions' independent auditors. The independent auditors for eight of the 58 local commissions (Figure 6A) reported a total of ten audit findings (Figure 6B); eight categorized as "internal control" and two categorized as "state compliance."

Figure 6A

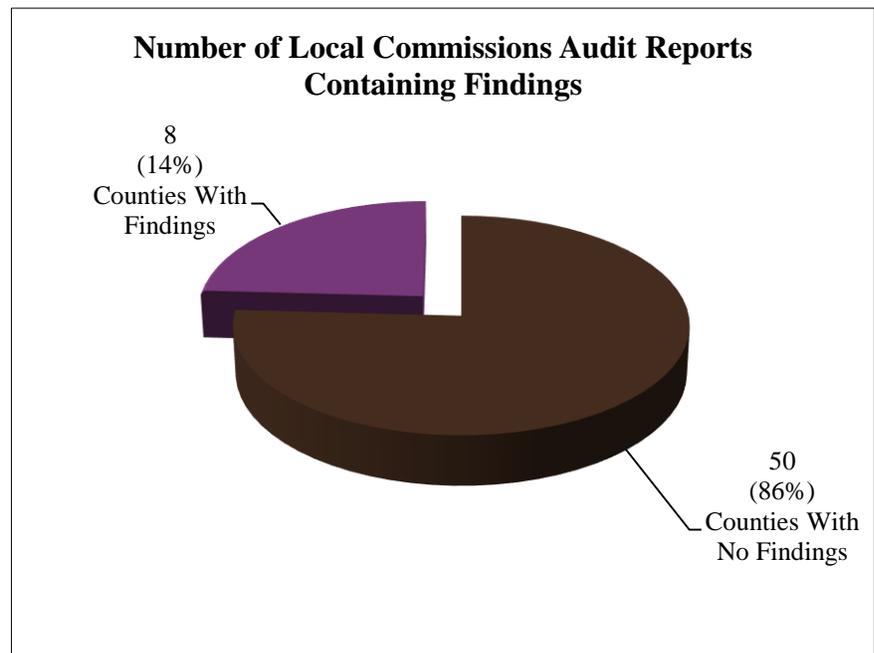
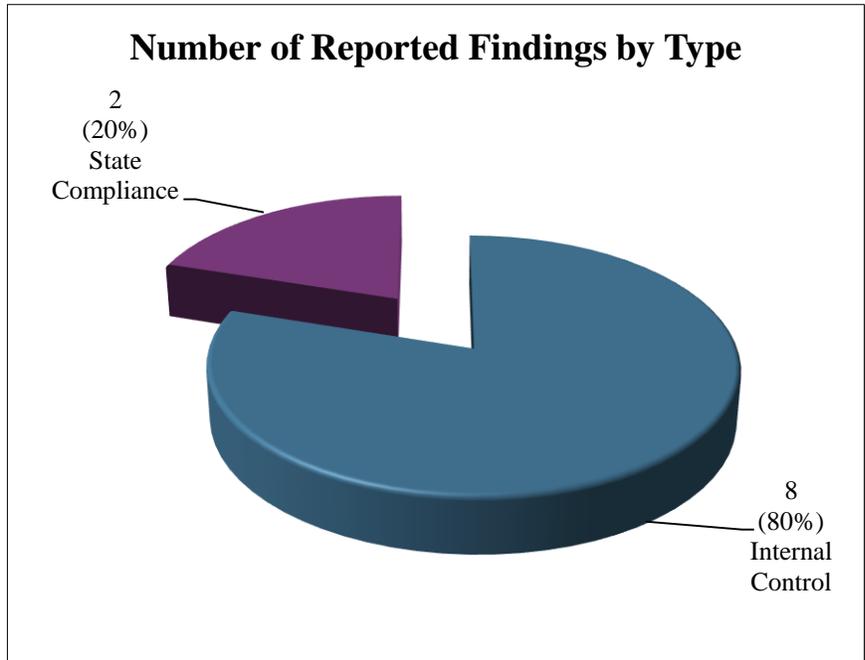


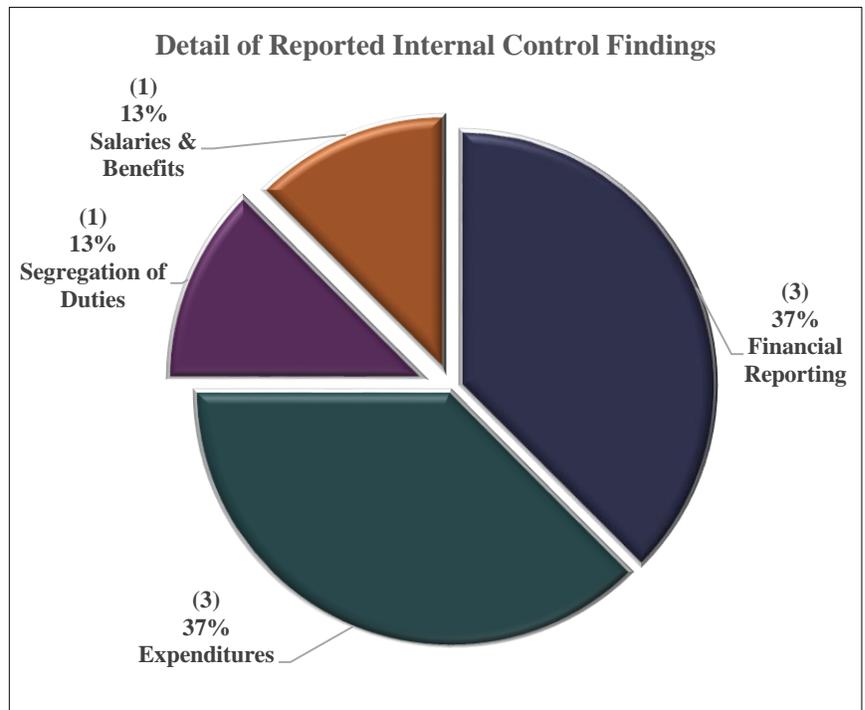
Figure 6B



***Breakdown of
Reported Internal
Control Findings***

During the FY 2013-14 review cycle we identified four functional areas which were represented in the eight internal control findings reported for FY 2013-14, as summarized in Figure 7.

Figure 7



Three of eight internal control findings are in the financial reporting category and are related to a recurring situation that is not readily corrected in one reporting cycle. Specifically, these findings address the local commissions' reliance on their independent auditors to draft financial statements and/or the accompanying notes to the financial statements.

Consistent with Statements of Auditing Standards No. 122, section AU-C 200.05, management has acknowledged responsibilities for the financial statements and the accompanying notes. Therefore, when the independent auditor must prepare (or significantly assist in preparing) these documents, it must be reported as an internal control finding under auditing standards applicable to FY 2013-14. However, all three local commissions whose report contained a financial reporting finding of this nature indicated that they do not have the resources and/or do not find it feasible to hire staff to prepare the financial statements and/or accompanying notes. Based on our audit finding follow-up, our review of corrective action plans included in commission meeting minutes, and the local commissions' responses to audit findings, we noted that:

- Two of the three local commissions indicated it is cost prohibitive to hire staff or retain a public accountant to prepare the financial statements, but are working with their county's auditor-controller to assist in preparing the financial statements and/or accompanying notes.
- One of the three local commissions has determined that it is not cost effective to engage someone to prepare the financial statements and accompanying notes, and they plan to continue relying on their independent auditor to prepare the financial statements.

Our review of local commissions' board meeting minutes indicated that all three local commissions apprised their governing commissions of attempts to take corrective action or implement mitigating procedures. This issue is not easily remedied due to a number of factors, including limited resources/options on the part of smaller or remotely located local commissions. As a result, three of the four repeat findings from FY 2012-13 were related to local commissions relying on their auditors to prepare the financial statements and accompanying notes.

***Breakdown of
Reported State
Compliance Findings***

For FY 2013-14 there were two state compliance findings. In comparison, in FY 2012-13, there were no state compliance findings. During the review cycle for FY 2011-12 we noted four state compliance findings. Fiscal-year comparison by year is summarized in Figure 8.

Figure 8

Comparative Detail of Audit Findings–State Compliance			
	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>
Contracting & Procurement	2	0	0
Strategic Plan	0	0	1
Report Submission	0	0	1
Program Evaluation	0	0	1
Policies and Procedures	0	0	0
Conflict of Interest	0	0	1
Administrative Costs	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2</u>	<u>0</u>	<u>4</u>

SCO Follow-up of Reported Audit Findings

In addition to performing our desk review of the local commission audits, SCO is required to follow up on findings reported in the local commission audits. Specifically, H&S Code section 130151(e) requires:

Within six months of the state or county commission's response pursuant to subdivision (d), the Controller shall determine whether a county commission has successfully corrected its practices in response to the findings contained in the audit report. The Controller may, after that determination, recommend to the state commission to withhold the allocation of money that the county commission would otherwise receive from the California Children and Families Trust Fund until the Controller determines that the county commission has a viable plan and the ability to correct the practices identified in the audit.

The local commissions, in accordance with H&S Code section 130151(d) and *Government Auditing Standards* paragraphs 4.33, through 4.36 are required to submit a response to findings in their audit reports. Audit finding follow-up is accomplished in three ways:

1. Review of evidence that the local commission has adopted a corrective action plan and/or resolved any findings. Evidence reviewed includes commission minutes, signed commission meeting agenda item documentation, and commission-approved audit finding responses.
2. Review of the subsequent fiscal year financial and compliance audit. Audit standards require that the independent auditor or auditor-controller determine the status of previously reported audit findings.
3. Onsite visits or telephone conference by SCO staff with local commissions with audit findings.

For the FY 2013-14 audit review cycle, SCO performed audit finding follow-up via telephone conference with three of the eight local commissions whose independent audit reports contained findings. Our follow-up resulted in a review of 30% of the total reported findings for all eight local commissions. All four local commissions provided corrective action plans and other documentation to substantiate resolution of their FY 2013-14 audit findings.

Based on our desk reviews of commission meeting minutes and telephone conference follow-up of audit findings, SCO did not recommend withholding funding allocations for any commission for failure to correct or provide a viable plan to correct audit findings.

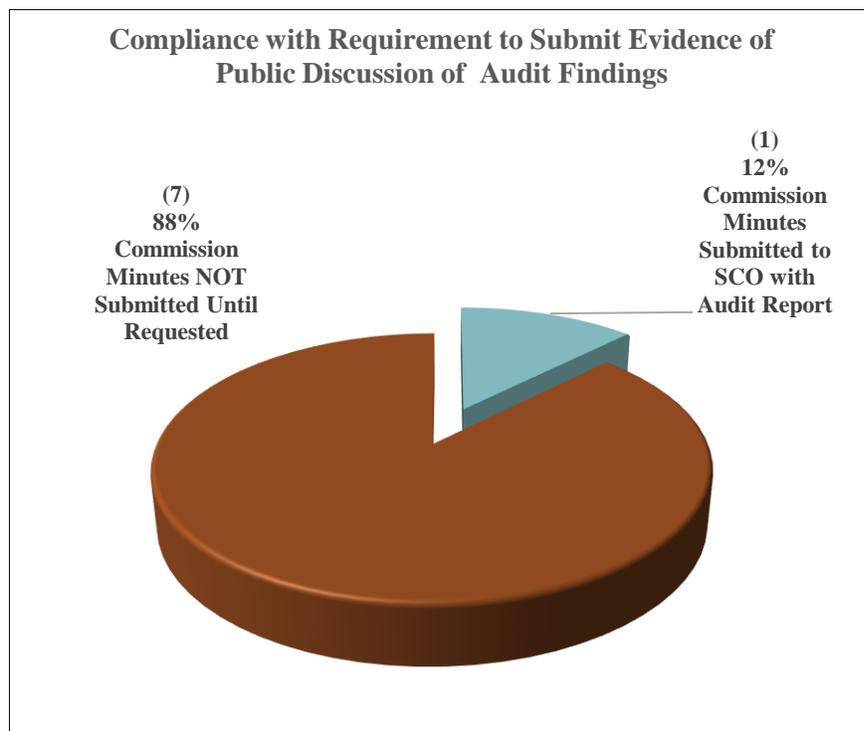
Compliance with Requirement for Public Discussion of Reported Audit Findings

The local commissions are required to discuss their audit findings in a public hearing. Specifically, H&S Code section 130151(d) states, in part, that:

... each respective county commission shall schedule a public hearing within two months of receipt of the audit to discuss findings within the report and any response to the findings. Within two weeks of the public hearing, the state or county commission shall submit to the Controller a response to the audit findings.

In September 2009, SCO issued an advisory requesting that the local commissions submit evidence (e.g., commission minutes, signed commission meeting agenda item documentation) of public discussion of audit findings and any related corrective action plans with their independent audit reports. However for the last eight review cycles, many local commissions failed to submit the required documentation until requested to do so by SCO. For FY 2013-14, only one (12%) of the eight local commissions whose independent audits contained findings submitted public discussion-related documentation to SCO with their audit reports (Figure 9). Upon request, the remaining seven local commissions submitted similar documentation. Based on the SCO review of the documentation submitted, all eight local commissions with audit findings held public hearings discussing the findings and related corrective action plans as required by H&S Code section 130151(d).

Figure 9



Appendix A-1

Summary of Independent Audit Report Deficiencies

Fiscal Year 2013-14

Description of Audit Report Deficiency	Number of Occurrences
<u>Basic Financial Statements</u>	
The Statement of Net Position title and/or line items did not conform with the requirements set forth by the Governmental Accounting Standards Board (GASB).	3
The <i>Statement of Activities</i> was not included with the financial statements as required by GASB. The <i>Statement of Activities</i> was replaced by a <i>Statement of Revenues, Expenses, and Changes in the Net Position</i> – Proprietary Funds.	1
	<u>4</u>
<u>Required Supplementary Information (RSI)</u>	
The RSI of the budgetary comparison data for the general fund and any major special revenue funds did not total correctly.	1
	<u>1</u>
<u>Report on Internal Control Over Financial Reporting and Compliance on and Other Matters (GAS Report)</u>	
The GAS Report did not include the required heading “Internal Control Over Financial Reporting” and/or included an incomplete or incorrect statement that the auditor’s consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies when no significant deficiencies or material weaknesses have been identified.	1
The GAS Report included erroneous dates that result in ambiguity in the independent auditor's opinion.	1
	<u>2</u>
<u>Findings and Recommendations</u>	
The audit report did not include a Schedule of Prior Audit Findings and/or the Status of Findings.	1
	<u>1</u>
Total	<u>8</u>

Appendix A-2

Summary of Independent Audit Report Deficiencies Three-Year Comparison

Description of Audit Report Deficiency	Number of Occurrences		
	2011-12	2012-13	2013-14
<u>Independent Auditor's Report</u>			
The Independent Auditor's Report did not include the word <i>independent</i> in the title of the auditor's report as required.	1	0	0
The Independent Auditor's Report did not include a section with the heading "Management's Responsibility for the Financial Statements."	0	1	0
The Independent Auditor's Report did not include a statement that management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.	0	1	0
The Independent Auditor's Report did not include a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.	0	1	0
The Independent Auditor's Report did not include a statement that an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.	0	1	0
The Independent Auditor's Report did not include a discussion of the audit procedures, risk assessment of material misstatement to the financial statements, and a statement that the auditor does not express an opinion on the effectiveness of the entity's internal control.	0	1	0
The Independent Auditor's Report did not include a statement that an audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.	0	1	0
The Independent Auditor's Report did not state whether the auditor believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.	0	1	0
The Independent Auditor's Report did not include a section with the heading "Opinion."	0	1	0
The Independent Auditor's Report did not include a section with the heading "Other Matters."	0	1	0
The Independent Auditor's Report did not include all of the elements regarding the required supplementary information.	5	0	0
The Independent Auditor's Report did not identify the supplementary information accompanying the financial statements.	2	1	0
The Independent Auditor's Report did not include a statement whether the supplementary information was fairly stated, in all material respects, in relation to the financial statements as a whole.	2	1	0
The Independent Auditor's Report did not include a section with the heading "Other Reporting Required by Government Auditing Standards."	0	2	0
The Independent Auditor's Report contained an inaccurate or inconsistent reference to a separate report.	1	0	0

Appendix A-2 (continued)

Description of Audit Report Deficiency	Number of Occurrences		
	2011-12	2012-13	2013-14
<u>Basic Financial Statements</u>			
The Statement of Net Position title and/or line items did not conform with the requirements set forth by the Governmental Accounting Standards Board (GASB).	0	1	3
The Statement of Activities was not included with the financial statements as required by GASB. The Statement of Activities was replaced by a Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.	0	0	1
The independent auditor’s presentation of the Governmental Funds Balance Sheet’s line items, and references to the notes to the financial statements did not conform to GASB requirements and/or did not total correctly.	0	1	0
The independent auditor’s presentation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balance did not total correctly.	1	0	0
The independent auditor’s presentation of the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (title, and line items) did not conform to GASB requirements and/or did not total correctly.	0	2	0
<u>Required Supplementary Information (RSI)</u>			
The RSI of the budgetary comparison data for the general fund and any major special revenue funds did not total correctly.	3	1	1
<u>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (GAS Report)</u>			
The GAS Report included erroneous dates that result in ambiguity in the independent auditor's opinion.	1	0	1
The GAS Report did not include the required heading “Internal Control Over Financial Reporting” and/or a statement that the auditor's consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses when no significant deficiencies or material weaknesses have been identified.	0	13	1
The GAS Report included contradicting statements concerning significant deficiencies and material weaknesses, which resulted in ambiguity in the independent auditor’s opinion.	1	1	0
The GAS Report did not include the required statement of the auditor’s consideration of internal control over financial reporting, when material weaknesses were noted.	0	1	0

Appendix A-2 (continued)

Description of Audit Report Deficiency	Number of Occurrences		
	2011-12	2012-13	2013-14
The GAS Report included erroneous statements on the description of the material weaknesses and/or significant deficiencies identified in the independent auditor's report.	0	3	0
The GAS Report did not include the alert paragraph that describes the purpose of the report and that the report is not suitable for any other purpose.	0	3	0
<u>Management Letter</u>			
The audit report referred to a separate management letter that was not submitted to the SCO.	2	1	0
<u>Auditor's Report on State Compliance (State Compliance Report)</u>			
The State Compliance Report did not contain the word "independent" in the title of the auditor's report.	1	0	0
The State Compliance Report referenced the incorrect applicable compliance requirement or reference.	3	0	0
The State Compliance Report did not include a section with the heading "Management's Responsibility" that includes a statement that compliance with the applicable compliance requirements is the responsibility of the entity's management.	0	3	0
The State Compliance Report referenced the incorrect title of the SCO First 5 Audit Guide.	3	0	0
The State Compliance Report's reference to the list of procedures (by compliance area) as required by the audit guide was incorrect.	0	2	0
The State Compliance Report did not contain a section with the heading "Opinion" that includes the auditor's opinion at the level specified by the governmental audit requirement, on whether the entity complied, in all material respects, with the applicable compliance requirements.	0	5	0
<u>Findings and Recommendations</u>			
Reported audit findings did not include all elements required by GAS (criteria, effect, cause, recommendation).	4	0	0
The audit report did not include a Schedule of Prior Audit Findings and/or the Status of Findings.	1	4	1
The auditor's reports contained inaccurate or inconsistent date references to the Independent Auditor's Report.	1	0	0
Total	<u>32</u>	<u>54</u>	<u>8</u>

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