



4000 North Central Avenue, Suite 800, Phoenix, Arizona 85012
602.771.5100 | 877.803.7234 | azftf.gov

24 August 2016

Debra K. Davenport, Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Arizona Early Childhood Development and Health Board (First Things First) appreciates the opportunity to provide a response to the recently completed special performance and financial audit conducted by your office. As an organization committed to continuous quality improvement, transparency, and accountability, First Things First embraced the audit as an opportunity to assess areas of strength and identify specific opportunities for improvement.

The scope of the audit as outlined by the Joint Legislative Audit Committee (JLAC) was expansive, covering the organization's revenues and revenue forecasting; expenditures; internal financial controls; processes for soliciting, reviewing, and approving grant applications; distribution of grant funding and performance monitoring; processes for evaluating the effectiveness and outcomes of funded programs; cost, purpose, and impact of parent and community awareness strategies; and processes for identifying potential areas of duplication or opportunities for collaboration.

By design, the special performance and financial audit has been quite extensive and rigorous – conducted over a nearly ten-month period with an audit team assigned on a full-time basis to First Things First. As you noted in correspondence to JLAC, implementation of this special audit required the OAG's transfer and reassignment of already planned sunset audits for two other agencies. FTF dedicated over 2,500 total staff hours engaged in the audit's research and investigative phases including, staff interviews; review and evaluation of data, records and processes; and testing and comparison for statutory and best practice adherence. On behalf of the Board, regional councils, and staff of First Things First, thank you for your office's professionalism as OAG staff worked to assess our organization and understand the important and complex work involved in giving Arizona's youngest children the tools they need to arrive at kindergarten prepared to be successful.

Attached is our organization's response to your conclusions, findings, and recommendations. We look forward to sharing our progress in implementing these recommendations – as well as areas of strength identified in the audit report and additional information about First Things First – with policymakers, community leaders, and other stakeholders.

Sincerely,

Sam Leyvas
Chief Executive Officer



CHAPTER 1 | FY15 Revenues and Revenue Projections

The Auditor General identified no deficiencies in this area; there are no findings or recommendations.

First Things First concurs with the Auditor General’s conclusions. The Auditor General concluded that tobacco tax revenues available to First Things First for programs and services are declining, which is consistent with national trends. The audit report also identified specific steps the organization has taken to strategically plan for this decrease, including: commissioning independent tobacco tax revenue projections to assist with budgeting and planning; adopting a sustainability plan to define spending limits; requiring regional councils to use fund balances to better control spending; and increasing efforts to identify new revenue sources.

“FTF has taken steps to manage its declining tobacco tax revenues and strategically plan for its future.” –Audit Report, Page 11

The Auditor General concluded that FTF’s revenue projections and the use of that information for planning purposes are reasonable. In fact, the audit report highlights that FTF’s revenue projections over a six year period were within an average of a 1.7% variance of actual revenues.



CHAPTER 2 | FY15 Expenditures

The Auditor General identified no deficiencies in this area; there are no findings or recommendations.

First Things First concurs with the Auditor General’s conclusions. The Auditor General concluded that the majority of First Things First expenditures were in the form of grants and contracts to support early childhood programs and services. Additionally, the audit concluded that 91 percent of expenses were from First Things First’s program account and 8 percent of spending was from the administrative account.

“The majority of (fiscal year 2015) spending was for providing grants and contracts to support FTF programs and services.” –Audit Report, Page 17



CHAPTER 3 | Internal Financial Controls

The Auditor General found that First Things First has appropriate financial controls, but should strengthen them in some areas. The audit concluded that FTF has established adequate procedures to help detect and minimize errors for the vast majority of its expenditures.

“First Things First has generally implemented adequate financial controls and followed them during fiscal year 2015.” –Audit Report, Page 21

Recommendation 3.1: To improve controls over cash receipts, as required by the SAAM, FTF should develop and implement written policies and procedures to:

3.1a: Ensure access to cash receipts is limited to as few employees as operationally practicable.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

3.1b: Ensure all collected cash receipts are logged.

Response: The finding of the Auditor General is agreed to and the audit recommendation has been implemented with an update to internal policies and procedures, and ongoing training for relevant staff.

3.1c: Conduct regular reconciliations of the cash receipt log to the deposits and promptly resolve any discrepancies.

Response: The finding of the Auditor General is agreed to and the audit recommendation has been implemented with an update to internal policies and procedures, and ongoing training for relevant staff.

3.1d: Ensure duties for receiving, recording, and depositing receipts are properly separated.

Response: The finding of the Auditor General is agreed to and the audit recommendation has been implemented with an update to internal policies and procedures, and ongoing training for relevant staff.

3.2: FTF should improve its p-card policies and procedures by including written procedures for handling p-card purchases that exceed purchasing limits. Additionally, FTF policies and procedures should identify supervisors' responsibilities for reviewing and approving p-card transactions. FTF should ensure both cardholders and supervisors are trained on and aware of both state and agency policies and procedures, including existing state policies and procedures that prohibit the splitting of purchases to circumvent purchase limits.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 3.3: FTF should strengthen its controls over travel by:

3.3a: Ensuring proper documentation is maintained for all travel-related purchases made on the Central Travel Account (CTA).

Response: The finding of the Auditor General is agreed to and the audit recommendation has been implemented with an update to internal policies and procedures, and ongoing training for relevant staff.

3.3b: Ensuring the CEO's travel claims are reviewed and approved by another individual.

Response: The finding of the Auditor General is agreed to and the audit recommendation has been implemented through the designation of the Chief Financial Officer as an additional level of review.

3.3c: Developing and implementing written policies and procedures that address circumstances when employees can be reimbursed and/or must reimburse FTF for charges on the CTA for canceled travel plans.

Response: The finding of the Auditor General is agreed to and the audit recommendation has been implemented with an update to internal policies and procedures, and ongoing training for relevant staff.

Recommendation 3.4: FTF should continue to evaluate and pursue a cost-reimbursement option for wireless devices and should review the SAAM requirements for wireless devices to ensure any new plans are in compliance with state requirements. Alternatively, if FTF maintains its current practice and continues to provide state-issued wireless devices, FTF should follow the SAAM by implementing the following procedures:

3.4a: Review employees' need for a state-issued wireless device not less than annually. Additionally, any change in an employee's duties should also prompt a review.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

3.4b: Periodically review the service plans in effect to determine if they are the most cost-effective and economical plans considering the State's needs.

Response: The finding of the Auditor General is agreed to and the audit recommendation has and will continue to be implemented periodically. For FY2017, FTF has reviewed its current service plans to determine that the organization is utilizing the most cost-effective and economical options available under state contract for the business needs of the organization.

3.4c: Periodically review records to determine if the overwhelming majority of the wireless device use is related to state business.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.



CHAPTER 4 | Grant Making, Oversight and Performance Monitoring

The Auditor General identified no deficiencies in this area; there are no findings or recommendations.

First Things First concurs with the Auditor General's conclusions. As indicated in the audit, the vast majority of all First Things First expenditures in FY15 (87%) went to early childhood programs and services provided through regional and statewide grants. Auditors concluded that the organization's grants management procedures are effective, and that First Things First continually improves its grant-making processes.

"First Things First has implemented effective grants management procedures. These procedures comply with statutory grant requirements and align with best practices for grant making." –Audit Report, Page 27



CHAPTER 5 | Research and Evaluation

In 2012, First Things First convened a panel of national experts in the fields of early childhood development, children's health, and early literacy; evaluation design and methodology; and school readiness. The Auditor General found that FTF has established and is implementing a comprehensive plan that directs its assessment of program effectiveness and efforts to evaluate the outcomes of funded programs, based on recommendations from the expert panel.

The audit report also describes FTF's significant work to collect data on the impact of its efforts through a wide range of activities, including the establishment of statewide goals and benchmarks; grant-specific performance measures; data sharing with other early childhood system partners; and implementation of statewide studies in areas of high investment. The audit report highlighted that this information yields significant evidence of the impact of First Things First programs and specifically cited recently completed studies or data analysis in areas such as pediatric oral health and quality early learning.

"The Plan guides FTF's assessment of effective program implementation, evaluation of key funded strategies and programs, support of regional partnership councils' decision-making, and oversight of FTF's adherence to the national panel's recommendations."
–Audit Report, Page 31

Recommendation 5.1: FTF should enhance its annual report by including more outcome-related information in it.

FTF Response: The finding of the Auditor General is agreed to and the audit recommendation is being implemented with the distribution of FTF's next annual report in September 2016.

Recommendation 5.2: FTF should enhance outcome data collection, as needed, to more clearly demonstrate its programs' impact in Arizona.

FTF Response: The finding of the Auditor General is agreed to and the audit recommendation will continue to be implemented as it is consistent with FTF's current research and evaluation efforts and the recommendations of the national panel.



CHAPTER 6 | Parent/Community Outreach and Awareness

The Auditor General identified no deficiencies in this area; there are no findings or recommendations.

First Things First concurs with the Auditor General’s conclusions. The Auditor General concluded that FTF engages in parent and community outreach and awareness efforts to help meet its statutory obligations. Specifically, Arizona Revised Statutes (A.R.S.) § 8-1151 and § 8-1161(G) require FTF to offer parent and family support, education, and information about early childhood development and literacy. Additionally, A.R.S. § 8-1171 includes increasing public information about the importance of early childhood development and health as one of six objectives that FTF’s funded strategies must meet.

“First Things First engages in media and community and parent outreach and awareness efforts to help meet its statutory responsibilities to increase public information on the importance of early childhood development and health, and to offer parent and family support, education and information on early childhood development and literacy.”

–Audit Report, Page 37



CHAPTER 7 | Avoiding Duplication and System Collaboration

The Auditor General identified no deficiencies in this area; there are no findings or recommendations.

First Things First concurs with the Auditor General’s conclusions. The Auditor General concluded that FTF fosters collaboration and coordination of early childhood services, and its proactive efforts in this area help reduce the risk of duplication. The audit details how coordination and collaboration are built in to First Things First – from designated seats on its Board and regional councils for specific early childhood stakeholders, to the work involved in examining needs and developing funding plans, to maximizing resources and avoiding duplication. The report offers specific examples of collaborations with agency and system partners. FTF’s commitment to collaboration and coordination goes beyond the organization’s funded approaches to include unfunded approaches, as well as efforts to improve the system overall for the benefit of young children and their readiness to enter kindergarten.

“First Things First uses several processes to continually identify new opportunities for collaboration and coordination, which also help reduce the risk of duplicating services.”

–Audit Report, Page 49

First Things First expresses appreciation to the Auditor General and staff for their consummate professionalism throughout the special performance and financial audit.

Debra K. Davenport, Auditor General

Dale Chapman, Performance Audit Director
Jeremy Weber, Performance Audit Manager
Rosa Ellis, Senior Performance Auditor
Aurora Carranza, CPA, Senior Financial Auditor
Cathy Clark, CPA, Performance Audit Manager
Jennie Crismore, Performance Auditor
Robin Hakes, Senior Performance Auditor

Timothy Hicks, IT Auditor
Monette Kiepke, Senior Financial Auditor
Jeff Larson, General Counsel
Megan O’Brien, Performance Auditor
Nicole Palmisano, Performance Auditor
Nate Robb, Senior IT Auditor
Scott Swagerty, Ph.D., Methodologist