



State of Arizona  
Office  
of the  
Auditor General

**PERFORMANCE AUDIT**

**ARIZONA  
DEPARTMENT  
OF  
EDUCATION**

**Early Childhood Block  
Grant Program**

**Report to the Arizona Legislature  
By Debra K. Davenport  
Auditor General  
September 2001  
Report No. 01-19**

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

September 4, 2001

Members of the Arizona Legislature

The Honorable Jane Dee Hull, Governor

Mr. Jaime A. Molera  
Superintendent of Public Instruction

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Early Childhood Block Grant administered by the Arizona Department of Education. This evaluation was conducted pursuant to the provisions of A.R.S. §15-1251. I am also transmitting with this report a copy of the Report Highlights for this evaluation to provide a quick summary for your convenience.

As outlined in its response, the Department of Education plans to implement all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 5, 2001.

Sincerely,

Debbie Davenport  
Auditor General

Enclosure

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## SUMMARY

The Office of the Auditor General has completed an evaluation of the Early Childhood Block Grant (grant) administered by the Arizona Department of Education (Department). This evaluation was conducted pursuant to the provisions of A.R.S. §15-1251. One goal of this evaluation was to determine if the money was used to fund particular programs; for instance, enrichment programs for kindergarten through third-grade at-risk students. However, no such patterns were identified. This report provides information on the use of grant monies and how the Department has overseen the grant during the three-year period from July 1, 1998 to June 30, 2001.

The grant provides money to public school districts and charter schools (grantees) for early childhood education. It began in the 1990-91 school year as the At-Risk Preschool Pilot Project, and it changed to a block grant in 1996, allowing grantees to spend grant monies on several different programs. The number and types of programs included since 1996 have varied. It now includes three programs—at-risk preschool, full-day kindergarten, and kindergarten through third grade.

**Early Childhood  
Block Grant's  
current programs**

- At-risk preschool;
- Full-day kindergarten;  
and
- Kindergarten through  
third grade.

From fiscal year 1999 to fiscal year 2001, appropriations have remained stable at approximately \$19.5 million annually. The Department passes most of this appropriation through to school districts and charter schools. The amount of money allocated to a school district or charter school is based on the number of children who are eligible for free lunches. This is an indicator sometimes associated with identifying students who are at academic risk.

**Monies Have Been  
Consistently Used for Both  
Instruction and Preschool  
(See pages 11 through 15)**

Use of grant monies by school districts and charter schools has been relatively consistent in fiscal years 1999-2001. Across the three programs, grantees chose to spend most of the money on instruction, rather than on operations, support services, capital outlays, or other expenses. In fiscal years 1999 and 2000, more than 75 percent of the monies were spent on instruction. Grantees project spending \$15 million in fiscal year 2001 in instruction. Within instruction, they chose to spend most of the money on teachers' and aides' salaries and benefits.

Among the three programs, most grant monies were dedicated to preschool. Each year, approximately half of the grant monies were dedicated to preschool. About one-third of the grant monies were dedicated to kindergarten through third grade and the rest to full-day kindergarten. However, monies dedicated to preschool have declined compared to 1995, when the money could be used only for preschool. In fiscal year 2001, 54 grantees projected they would spend \$9.7 million on preschool compared to 103 districts that participated in the \$12.6 million At-Risk Preschool Program in 1995.<sup>1</sup>

**Department Should Continue  
Efforts To Reduce  
Unspent Monies  
(See pages 17 through 21)**

At the end of fiscal years 1999 and 2000, grantees returned approximately \$1 million. Most of this money, nearly 75 percent, came from approximately 20 grantees. This money must be returned to the State General Fund and is not available to pay for other early education needs.

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<sup>1</sup> Fiscal year 2001 amounts are based on estimated expenditures.

The reasons monies are returned lie mainly with the grantees, who may fail to take the necessary steps allowing them to alter their approved spending plans, or who may be unaware from their own internal accounting systems that money is still available. The Department has taken steps to help reduce the problem and should focus its efforts on grantees who return the largest amounts.

### **Department Should Continue to Develop Eligibility And Notification Policies (See pages 23 through 25)**

Although statutes require grantees who provide preschool services to comply with several eligibility and notification requirements, the various methods that grantees use do not necessarily ensure that these requirements are met. Further, the Department of Education does not have policies in place to help grantees ensure that preschool children supported by grant monies are actually eligible for the program. The Department also does not have policies to help ensure that grantees adequately notify preschools about their rights and opportunities to participate. The Department has recently begun to develop such policies and needs to continue to do so.

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# INTRODUCTION AND BACKGROUND

The Office of the Auditor General has completed an evaluation of the Early Childhood Block Grant (grant) administered by the Arizona Department of Education (Department). This evaluation was conducted pursuant to the provisions of A.R.S. §15-1251. One goal of this evaluation was to determine if the money was used to fund particular programs; for instance, enrichment programs for kindergarten through third-grade at-risk students. However, no such patterns were identified. This report provides information on the use of grant monies and how the Department has overseen the grant during the three-year period from July 1, 1998 to June 30, 2001.

## Grant History and Purpose

The grant, which provides money to public school districts and charter schools (grantees) for early childhood education, has undergone a number of major changes since its inception. It began in the 1990-91 school year as the At-Risk Preschool Pilot Project, supporting preschools in ten school districts for children at risk of failing once they entered kindergarten. The program expanded to 33 districts the following year. In 1994, the Legislature allowed private day-care centers and federally funded preschools to participate. In 1995, the Legislature combined the program with four others—full-day kindergarten, kindergarten to third grade support, dropout prevention, and gifted support. In 1996, the Legislature removed dropout prevention and gifted support, leaving three programs to share the monies.

<p><b>Early Childhood Block Grant's current programs</b></p> <ul style="list-style-type: none"><li>➤ At-risk preschool;</li><li>➤ Full-day kindergarten; and</li><li>➤ Kindergarten through third grade.</li></ul>
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The program also assumed its current block grant form in 1996, under Laws 1996, Ch.1, §8. Under a block grant, the authority for spending decisions moves from the state to the local level. Grantees decide whether to use the money for at-risk preschool,

or to supplement full-day kindergarten<sup>1</sup> or half-day kindergarten through third grade for all public school children, and they decide which specific costs to cover. For instance, a grantee receiving \$15,000 may decide to use the money for a teacher's salary, for classroom supplies and materials, or both.

## **Appropriations**

The General Fund is the grant's only revenue source and, as illustrated in Table 1, General Fund appropriations have risen steadily since the grant was first introduced as the At-Risk Pre-school Pilot Program in fiscal year 1991. From fiscal year 1991 to fiscal year 1995, when appropriations rose from \$600,000 to \$12.6 million, the program was focused exclusively on at-risk pre-school.

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**Table 1**

**Early Childhood Block Grant  
Appropriations for Early Childhood Education  
Years Ended June 30, 1991 through 2001**

<b>Year</b>	<b>Total Appropriation</b>
1991	\$ 600,000
1992	1,600,000
1993	2,601,700
1994	2,602,600
1995	12,605,000
1996	22,911,400
1997	14,466,000
1998	19,475,300
1999	19,483,200
2000	19,489,300
2001	19,489,800

Source: Auditor General staff summary of information in the State of Arizona appropriations reports for the years ended June 30, 1991 through 2001.

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<sup>1</sup> Full-day kindergarten is an optional program provided by some districts and charter schools. The program provides at least two hours of service in addition to the minimum two hours of kindergarten that the State requires. Parents are sometimes required to pay a fee for the optional program.

In fiscal year 1996, when the Legislature combined the at-risk preschool program with four other programs, appropriations rose to \$22.9 million. In fiscal year 1997, when dropout prevention and gifted support were removed, appropriations declined to \$14.4 million. Finally, during the most recent three fiscal years, appropriations have remained stable at approximately \$19.5 million.

As shown in Table 2 (see page 4), the Department of Education passes most—but not all—of the appropriation through to school districts and charter schools. The grant’s legislation requires the Department to set aside 2 percent of the appropriation to cover its costs for administering the grant (see Table 2). In fiscal year 1999, approximately \$1.6 million was returned to the General Fund, and in fiscal year 2000, approximately \$1.2 million was returned. The returned money includes money the schools returned along with some monies that had been set aside for administration, some monies that had been set aside for grants to charter schools established during the fiscal year,<sup>1</sup> and monies that grantees did not claim.

### **Grant Eligibility and Administration**

The amount of money allocated to an individual school district or charter school is based on the number of children in kindergarten through third grade who are eligible for free lunches, an indicator sometimes associated with identifying students who are at academic risk. Any school district or charter school with at least one kindergarten through third grade student eligible for free lunch during the previous year is eligible to receive an allocation. If a grantee does not have a count of free-lunch-eligible children, perhaps because the school is a new charter school, the statute allows the Department to determine the allocation using the percentage of children that are eligible statewide. This percentage is the number of children in kindergarten through third grade eligible for free lunch divided by the total number of chil-

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*Allocations are based on the number of children in kindergarten through third grade who are eligible for free lunches.*

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<sup>1</sup> In fiscal years 1999 and 2000, the Department chose to set aside \$200,000 to provide allocations to charter schools that opened during the course of the fiscal year. In fiscal year 2001, the Department reduced the set-aside amount to \$150,000, because not all of it had been spent the previous years.

## ***Introduction and Background***

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dren in kindergarten through third grade. Figure 1 (see page 5) shows the formula the Department uses to calculate each grantee's allocation.

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**Table 2**  
**Early Childhood Block Grant**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Years Ended June 30, 1999, 2000, and 2001**  
**(Unaudited)**

	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<b>(Actual)</b>	<b>(Actual)</b>	<b>(Estimated)</b>
Revenues:			
State General Fund appropriations	<u>\$19,488,646</u>	<u>\$19,489,300</u>	<u>\$19,494,800</u>
Expenditures and other uses:			
Aid to other governments and organizations: <sup>1</sup>			
Distributions	18,746,118	18,922,929	19,073,700
Reversions to the Arizona Department of Education	<u>(1,130,095)</u>	<u>(992,608)</u>	
Net aid to other governments and organizations	17,616,023	17,930,321	19,073,700
Personal services and employee-related	126,590	202,547	198,900
Professional and outside services	100,183	56,498	61,400
Travel	592	8,394	19,000
Other operating	37,896	48,456	122,000
Equipment	<u>18,063</u>	<u>10,149</u>	
Total expenditures	17,899,347	18,256,365	19,475,000
Reversions to the State General Fund <sup>1</sup>	1,589,299	1,219,242	
Operating transfers out		<u>13,693</u>	<u>19,800</u>
Total expenditures and other uses	\$19,488,646	\$19,489,300	\$19,494,800

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<sup>1</sup> Amount passed through to school districts and charter schools reduced by amounts returned to the Department and subsequently reverted to the State General Fund. The reversions to the State General Fund include monies returned from the schools and other unspent monies. The 2001 Reversions to the Department is unknown until October 2001, when the entities submit their closeout reports and the reversions.

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Extract File*, *Status of Appropriations and Expenditures*, and *Administrative Adjustment Activity Summary* reports for the years ended June 30, 1999 and 2000; the Arizona Department of Education's *Early Childhood Block Grant Completion Report Log* for the years ended June 30, 1999 and 2000; and Department-provided estimates for the year ended June 30, 2001 (actual amounts were not available at the time of this report).

**Figure 1**

**Early Childhood Block Grant  
Allocation Formula  
As of July 2001**

$\frac{\text{District or charter school's number of eligible children}}{\text{Total number of eligible children in Arizona}}$	x	$\text{Early Childhood Block Grant dollars available}$	=	$\text{Grantee's allocation}$
<i>Example:</i> $\frac{1,182}{126,336}$	x	$\$19,073,700$	=	$\$178,454$

Source: Auditor General staff summary of information from the Arizona Department of Education, Student Services Division.

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Each spring, the Department allocates the money for the next fiscal year and notifies each grantee of its allocation amount. Over the last three fiscal years, grants ranged from \$150 to \$1,848,744 with 234 to 315 grantees receiving allocations. See Table 3 (page 6) for the number of grantees receiving allocations within different ranges over the last three fiscal years.

To receive the allocation, the grantee must submit a project summary telling the Department two things about how it will spend the money:

- How the money will be divided among the three programs eligible for funding: preschool, full-day kindergarten, and kindergarten through third grade. For instance, a grantee who receives \$1,000 could decide to spend \$500 for full-day kindergarten and \$500 for kindergarten through third grade.
- What kinds of costs will be covered. For instance, the grantee receiving the \$1,000 could decide to use \$500 toward the cost of a teacher's benefits, \$200 for supplies, and \$300 for books.

If a grantee finds that it cannot spend the monies as planned, it can amend its project summary. A grantee can make amendments up to 90 days before the fiscal year ends. If the proposed spending does not relate to early childhood education, the Department will not approve the amendment.



**Table 3**

**Early Childhood Block Grant  
Range Allocations  
Years Ended June 30, 1999, 2000, and 2001**

	<b>1999</b>	<b>2000</b>	<b>2001</b>
Less than \$1,000	8	13	20
\$1,001 to \$5,000	52	75	95
\$5,001 to \$10,000	26	39	40
\$10,001 to \$30,000	55	62	67
\$30,001 to \$50,000	21	13	16
\$50,001 to \$100,000	29	35	36
\$100,001 to \$500,000	33	33	33
Greater than \$500,000	<u>10</u>	<u>10</u>	<u>8</u>
Total	234	280	315

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Source: Auditor General staff analysis of 1999 and 2000 Early Childhood Block Grant data from the Arizona Department of Education's Grants Management online system and information from the 2001 allocation spreadsheet compiled by the Arizona Department of Education, Student Services Division.

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A grantee must also submit a report telling the Department how it actually spent the allocation. This report, called a Completion Report, is due within 90 days from the end of the fiscal year. If a grantee does not spend all of its money, the money is returned to the Department, and it reverts to the General Fund at the end of the fiscal year.

### **Grantees Report Satisfaction with the Department**

Most grantees are satisfied with the Department's administration of the grant. When all 275 grant coordinators were asked about their experiences with the fiscal year 2001 allocation and application processes, 73 percent and 87 percent, respectively, reported that they were satisfied with the experience. Specifically, grantees mentioned that the staff at the Department had been helpful and responsive to their needs and that the online application had simplified the application process.

## **Number of Grantees and Eligible Students**

The number of grantees included in the allocation process has risen each year, mainly because of the rise in the number of charter schools. The total number of grantees rose from 234 in fiscal year 1999 to 315 in fiscal year 2001. In fiscal year 1999, grantees included 50 charter schools, or 22 percent of the total. By fiscal year 2001, grantees included 125 charter schools, or 40 percent of the total.

Although more grantees are receiving allocations, the percentage of eligible children statewide has stayed relatively stable. As Table 4 shows, the percentage has ranged from 45 percent to 51 percent in fiscal years 1999 through 2001.

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**Table 4**

**Early Childhood Block Grant  
Total and Eligible Number of Children  
Years Ended June 30, 1999, 2000, and 2001**

<b>Year</b>	<b>Number of Children in Kindergarten through Third Grade</b>		<b>Percentage Eligible</b>
	<b>Eligible</b>	<b>Total</b>	
1999	106,664	237,051	45%
2000	125,606	248,228	51
2001	126,336	268,103	47

Source: Auditor General staff analysis of data compiled by the Arizona Department of Education, Student Services Division.

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## **Scope and Methodology**

Evaluation work focused on the distribution of grant monies, grantees' expenditures, and the Department's monitoring of pre-school providers. Because the grant is not required to support a specific program beyond the general designation of early childhood education, one goal of this evaluation was to determine if the money was used to fund particular programs; for example, enrichment programs for kindergarten through third-grade at-risk students. If so, then subsequent evaluations could determine

the impact of this money on student outcomes. However, no such patterns were identified in this report.

This report presents three findings as follows:

- Distribution of monies by types of costs and among the three types of programs.
- The need for the Department to continue efforts to reduce unspent monies.
- The need for the Department to develop uniform eligibility and notification policies for preschools.

A multi-method approach was used in collecting and analyzing data for the evaluation. Methods included:

- **Analysis of the grants management data**—Evaluators analyzed data from the Department’s grants management system for fiscal years 1999 and 2000 to determine changes in grant size, estimated and actual spending, and the amount of unspent money.
- **Survey**—A survey was developed to collect information about experiences with the grant from a population of 275 early childhood education coordinators who received allocations in fiscal year 2000. Two hundred nine (76 percent) coordinators responded. The survey focused on the theoretical aspects of block grants, including flexibility and authority in the use of grant monies. It also asked about specific experiences with the application process.
- **Analysis of fiscal year 2001 applications**—Two hundred thirty fiscal year 2001 applications were analyzed for amounts budgeted to preschool, full-day kindergarten, and kindergarten through third grade, as well as the services and items that grantees expected to purchase with the monies. Information on preschool budgeting was compared to information in the Annual Evaluation of the At-Risk Preschool Expansion Program, Office of the Auditor General, State of Arizona, January 1996 (Report No. 96-1).

- **Document Review**—Department of Education documents and correspondence were reviewed for information regarding the allocation and application processes and policy and monitoring of preschools. In addition, evaluators examined the Department's Web site.

### **Acknowledgements**

The Auditor General and staff express appreciation to the Superintendent of Public Instruction, the staff of the Department of Education's Student Services Division, and public and charter school staff for their cooperation and assistance throughout the evaluation.

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## FINDING I

# MONIES HAVE BEEN CONSISTENTLY USED FOR BOTH INSTRUCTION AND PRESCHOOL

Use of grant monies by school districts and charter schools has been relatively consistent over the three-year evaluation period (fiscal years 1999-2001). In terms of types of costs covered, grantees chose to spend most of the money on teachers' and aides' salaries and benefits. With regards to the programs funded, approximately half of the grant monies were dedicated to preschool, about one-third to kindergarten through third grade, and the rest to full-day kindergarten. However, less money is dedicated to preschool now compared to fiscal year 1995, when the block grant was created.

### **Grantees Use Most of the Money for Instructional Costs**

During the three-year evaluation period, most monies have been spent on instruction. Grantees decide whether to use the money for preschool, full-day kindergarten, or kindergarten through third grade, but they also have to decide what specific costs they will cover with the money. When deciding what costs to cover, grantees can choose from five categories defined in the *Uniform System of Financial Records*, a manual required by statute, which provides the minimum internal control policies and procedures to be used by Arizona's school districts.

- **Instruction**—teachers' and aides' salaries, textbooks, instructional aids including software.
- **Support services, students**—counselors', psychologists', and social workers' salaries, dentists, doctors, library books.
- **Support services, administration**—superintendents', principals', and clerical salaries, lawyers, accountants (limited to 5 percent of grant amount).

## ***Finding I***

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- **Operation of non-instructional services**—cooks' and bookstore staff salaries, food.
  
- **Capital outlays**—improvement of grounds, replacement of equipment, acquiring buildings.

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*In fiscal year 2001, instruction costs comprise 79 percent of expected expenditures.*

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As Table 5 shows, most monies were expended for instruction. In fiscal years 1999 and 2000, over 75 percent of the monies were spent on instruction. Actual spending for 2001 is not available, but instruction accounts for over 75 percent of expected spending.

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**Table 5**

**Early Childhood Block Grant  
Expenditures by Budget Category  
Years Ended June 30, 1999, 2000, and 2001**

<b>Budget Category</b>	<b>1999</b>	<b>2000</b>	<b>2001<sup>a</sup></b>
Instruction	\$13,672,833	\$13,523,352	\$14,970,988
Support services—students	2,928,628	3,106,415	3,236,485
Capital outlay	837,577	1,136,476	453,434
Operation of non-instructional services	75,928	60,993	94,707
Support services—administration <sup>b</sup>	<u>175,198</u>	<u>113,455</u>	<u>111,478</u>
Total	\$17,690,164	\$17,940,691	\$18,867,092

<sup>a</sup> Fiscal year 2001 amounts are based on estimated expenditures.

<sup>b</sup> Statutorily restricted to 5 percent of the total budget.

Source: Auditor General staff analysis of 1999 and 2000 Early Childhood Block Grant data from the Arizona Department of Education's Grants Management Online System and information from early Childhood Block Grant applications for 2001 compiled by Auditor General staff.

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Within the instruction category, most of the money is spent on salaries and benefits for teachers and aides, as Table 6 (see page 13) shows. In fiscal years 1999 and 2000, more than three-fourths of instruction money was spent on salaries and benefits. In fiscal year 2001, grantees expect to spend more than 75 percent of instruction money on salaries and benefits.

**Table 6****Early Childhood Block Grant  
Expenditures by Instruction Subcategory  
Years Ended June 30, 1999, 2000, and 2001**

<b>Subcategories</b>	<b>1999</b>	<b>2000</b>	<b>2001<sup>a</sup></b>
Salaries	\$ 8,734,728	\$ 9,049,371	\$ 9,811,357
Benefits	1,569,611	1,542,961	1,906,706
Professional services	413,927	364,612	449,896
Property services	4,735	4,053	5,424
Other services	1,731,545	1,423,026	1,826,518
Supplies	1,199,231	1,114,633	935,266
Other expenses	<u>19,056</u>	<u>24,696</u>	<u>35,822</u>
Total	\$13,672,833	\$13,523,352	\$14,970,989

<sup>a</sup> Fiscal year 2001 amounts are based on estimated expenditures.

Source: Auditor General staff analysis of 1999 and 2000 Early Childhood Block Grant data from the Arizona Department of Education's Grants Management Online System and Early Childhood Block Grant data from the Student Services Division's 2001 Allocation Worksheet.

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**More Grant Money Was  
Dedicated to Preschool  
Than Other Levels**

In fiscal years 1999, 2000, and 2001, more monies were dedicated to preschool than to full-day kindergarten and kindergarten through third grade. However, this is less than the monies dedicated to preschool in 1995, the last year that all of the monies had to be used for preschool.

As Figure 2 (see page 14) shows, between fiscal years 1999 and 2001, expected spending for preschool ranged from about \$9.7 million to \$10.4 million, or from 52 percent to 55 percent of total monies available. Expected spending on kindergarten to third grade was between 30 and 32 percent of the total; and expected spending for full-day kindergarten between 13 and 16 percent.

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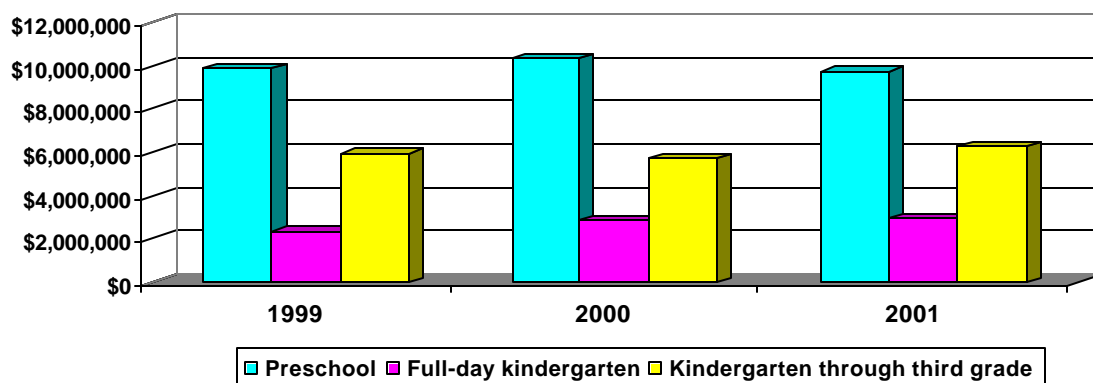
*Nearly \$10 million in grant money was dedicated to preschool in fiscal year 2001.*

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**Figure 2**

**Early Childhood Block Grant  
Estimated Expenditures by Grade<sup>1</sup>  
Years Ended June 30, 1999, 2000, and 2001**



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<sup>1</sup> Actual spending by grade level is not available; therefore, the amounts spent for each year are estimates.

Source: Auditor General staff analysis of data compiled by the Arizona Department of Education, Student Services Division.

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Although the largest total share of grant monies was dedicated to preschool, most grantees did not plan to spend monies for this purpose. In fiscal year 2001, only 54 grantees out of 315 dedicated monies to preschool. However, these 54 grantees tended to be bigger districts with larger numbers of eligible students and larger grant allocations. For example, Mesa Unified School District budgeted \$1,050,194 for preschool. Similarly, Flowing Wells Unified District received an allocation of \$127,511, all of which it budgeted to preschool.

Smaller districts and charter schools generally did not dedicate grant monies to preschool. Only two of the 125 charter schools budgeted grant monies for preschool in 2001.

Although more than half of the grant monies were expected to be spent on preschool, the total grant dollars dedicated to preschool are less than the amounts dedicated in 1995 when the

grant was a program covering only preschools. As Table 7 shows, the number of districts budgeting grant monies for preschool has declined, as have the total grant dollars dedicated to preschool.

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**Table 7**

**Early Childhood Block Grant  
Total Money Budgeted to Preschool  
Years Ended June 30, 1995 and June 30, 2001**

	<b>1995</b>	<b>2001<sup>a</sup></b>
Preschool money	\$12,600,000	\$9,748,076
Number of grantees	103	54

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<sup>a</sup> Fiscal year 2001 amounts are based on estimated expenditures.

Source: Annual Evaluation of the At-Risk Preschool Expansion Program, Office of the Auditor General, State of Arizona, January 1996 (Report No. 96-1) and Auditor General staff analysis of information compiled from 2001 applications.

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## FINDING II

# DEPARTMENT SHOULD CONTINUE EFFORTS TO REDUCE UNSPENT MONIES

At the end of fiscal years 1999 and 2000, grantees returned approximately \$1 million to the Department. Although the overall amount of unspent money is not unusual, nearly half of the returned monies came from only five grantees. Returned monies must be reverted to the State General Fund and, therefore, are not available to fund other early education needs. Grantees indicate that the primary reasons for unspent monies are turnover in key positions, communication problems between grant and accounting staff, and failure to alter approved spending plans. The Department has taken steps to help grantees reduce the amount of unspent monies; however, it should work to specifically assist grantees who return large amounts of money.

### **Although Amount of Unspent Monies Is Not Unreasonable, Monies Are Not Available for Other Early Education Needs**

In both fiscal years 1999 and 2000, grantees returned about \$1 million, or between 5 and 6 percent of the money allocated.<sup>1</sup> Overall, this is not an unreasonable amount of unspent money for a block grant. However, since the grant receives State General Fund appropriations, unspent monies must be reverted back to the State General Fund yearly. Consequently, the monies are not available to fund other early education needs.

#### ***The amount of unspent money is not unusual for a block grant—***

The overall amount of money that was unspent is not alarming when compared to other block grants. Two other block grants report similar or higher amounts of unspent monies at year's end. An official for Arizona's State Vocational Block grant re-

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*Grantees returned approximately \$1 million each year.*

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<sup>1</sup> Fiscal year 2001 Completion Reports were not due until after this report was completed. As a result, returns for the year could not be assessed.

ports that the average amount carried forward over three years was 17 percent. The U.S. Department of Health and Human Services executive report for the fiscal year 1998 Community Services Block Grant reports that the states carried forward approximately 6 percent of the total monies available.

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*Each year, nearly 75 percent of the returned monies came from approximately 20 grantees.*

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However, most of the unspent monies came from only a small number of grantees. In fact, each year nearly 75 percent of the returned monies came from approximately 20 grantees. In fiscal year 1999, the top 5 grantees returned a total of \$515,900, and another 16 grantees accounted for an additional \$306,992. In fiscal year 2000, the top 5 grantees returned a total of \$417,139, and another 15 grantees returned at least \$10,000 each, accounting for an additional \$311,248.

***Unspent monies must be reverted to the State General Fund and are not available for other uses***—The grant’s only revenue source is a lapsing appropriation from the State General Fund and any unspent monies must be returned to the Fund. When the grantees return monies to the Department after the close of the fiscal year, the Department is required to revert the monies to the State General Fund and, therefore, the monies are not available for other early education uses. Consequently, early education needs may go unmet.

### **Several Factors Contribute to Unspent Monies**

Grantees reported various obstacles that kept them from spending their entire allocations. Evaluators contacted the grant coordinators for ten grantees who returned money in fiscal year 2000.<sup>1</sup> Evaluators also analyzed information on unspent monies from completion reports. Some of the reasons identified for returning money included the following:

- **Turnover in key positions**—Six of the grantees reported that they had new grant coordinators. One grantee reported that the previous grant coordinator had left during the middle of fiscal year 2000 and the position remained unfilled un-

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<sup>1</sup> Of the grantees contacted, five returned the largest amounts among all grantees and five others returned 75 percent or more of their allocations.

til fiscal year 2001. Further, another reported that the grant coordinator position had remained unfilled for ten months during fiscal year 2000. During that time, no one was monitoring the spending of the allocation. As a result, the grantee was unaware that money was left to be spent and had to return the money.

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*Turnover and lack of communication contribute to unspent monies.*

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- **Lack of communication among grantee staff**—Even when there is a grant coordinator, organizational structure may restrict spending. Many of the grantees have business offices that are separate from their program offices. The business manager in the business office may maintain the budget for the grant monies, but the responsibility for spending the available money belongs to the grant coordinator. If there is a lack of communication between the business and program offices, the program office may be unaware that there is money available. One coordinator said that centralized budget monitoring was the primary reason for unspent money in her district. The finance department maintained expenditure records, and she was unaware of the year-to-date expenditures during the fiscal year. When she became aware of the unspent money, it was too close to district deadlines to make any changes.
  
- **Budgets not amended to allow for changes in spending**—When grantees cannot spend monies in ways the Department initially approved, they have the opportunity to alter their initial plans through an amendment process. This process allows the grantee to use monies that were otherwise limited to spending on one budget line (e.g., salaries) to another (e.g., supplies). When monies are available in one line and not moved to another through the amendment process, the grantee has to return the unspent monies at the end of the fiscal year and cannot use them for other purposes. Eighteen of the 20 grantees who returned over \$10,000 in fiscal year 2000 did not use the amendment process.

## **The Department's Continued Assistance Is Needed to Overcome Obstacles**

The Department has taken steps to ensure that grantees spend their full allocation and do not have to return money at year-end. The Department should continue these efforts and provide further assistance to grantees who return more than \$10,000 at year-end to help reduce the amount of unspent money.

***The Department has taken some steps to reduce unspent money***—During fiscal year 2001, the Department began to take steps to ensure that grantees spend their full allocation. These efforts include the following:

- **Reminding grantees about the amendment process**—Grantees can amend their project summaries if they are unable to use their allocation as planned. As the deadline to make amendments approached, the Department sent a memo reminding grantees of the deadline. The memo encouraged the grantees to examine their project summaries and determine whether they can spend the money as planned. It reminded grantees that if they had overbudgeted in one area, they could move the extra monies to an area where they could be used.
- **Encouraging communication between program and business managers**—During the year, the Department also encouraged grant coordinators to keep in contact with the business managers. Of the ten grantees who were asked about unspent monies, six said that during the current fiscal year they were working more closely with their district business offices to ensure that their grant monies are spent.

***The Department should focus on grantees who return over \$10,000***—The Department should continue its current efforts for those grantees who return small amounts of money. However, in order to greatly reduce the amount of money grantees return to the Department, and ultimately the State General Fund, further assistance is necessary for those grantees who return large amounts of money. Approximately 20 grantees each year returned over \$10,000. The Department should identify those who

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*To reduce the amount of unspent money, the Department should focus on grantees who return over \$10,000.*

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return the largest amount of money in fiscal year 2001 and assist them in identifying barriers to spending.

### **Recommendations**

1. The Department should continue to provide all grantees with reminders about spending and the amendment process, and to encourage communication between business and grant offices.
2. The Department should work with those grantees who return large amounts of money to reduce the amount of money that they return.



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## FINDING III

# DEPARTMENT SHOULD CONTINUE TO DEVELOP ELIGIBILITY AND NOTIFICATION POLICIES

Although statutes require grantees who provide preschool services to comply with several eligibility and notification requirements, the various methods that grantees use do not necessarily ensure that these requirements are met. Further, the Department of Education does not have policies in place to help grantees ensure that preschool children supported by grant monies are actually eligible for the program. The Department also does not have policies to help ensure that grantees adequately notify preschools about their rights and opportunities to participate. The Department has recently begun to develop such policies and needs to continue to do so.

### Eligibility and Notification Requirements Are Not Being Fully Met

Grantees face eligibility or notification requirements under the statute. For two requirements, grantees have developed their own approaches to complying, which leave potential gaps in ensuring that statutory requirements are met.

- **Limited assurance that only eligible children receive services**—Grantees are required to verify income eligibility for participation, but some grantees do not obtain proof of income. Use of preschool monies is restricted to services for children who qualify for free or reduced-price lunch because their families' incomes are below a certain level. Data gathered by the Department indicates that most grantees keep

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*Thirty-three percent of grantees who provide preschool do not keep proof-of-income eligibility on file.*

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proof-of-income on file, but 33 percent do not. Twelve percent do not require documentation and verify income only through self-reported information. As a result, the grantees cannot be sure that the students are truly eligible for the program. Another 21 percent report examining proof-of-income documents at registration but do not keep them on file.

- **Notification to private and federal providers varies greatly**—Grantees are required to provide all federally funded or private child care providers within the district or within ten miles of the charter school with the information necessary for them to provide services to eligible children and receive reimbursement through the grant. Grantees are not consistent in the extent to which they comply with this requirement. Department data indicates that most of the grantees notify eligible providers as required. However, 14 percent of the grantees notify a provider only when a parent expresses interest and 2 percent notify only a limited number of accredited providers.

### **Continued Development Of Policies Is Needed**

To ensure that grantees are using appropriate means to verify eligibility and notify providers of the preschool programs, the Department should continue to develop policies for grantees to follow. The Department collected data on grantee methods of ensuring compliance during the fiscal year 2001 application process, and intends to use this information to establish policies that it has begun drafting. The Department should ensure that policies include such things as whether grantees must maintain documentation of proof-of-income; acceptable proof-of-income documents; and acceptable means of notifying private and federal providers about grant participation.

### **Recommendation**

1. The Department should continue to develop policies for monitoring compliance with legislative requirements. The policies should require grantees to keep eligibility documents on file and define the acceptable types of documents. They should also define acceptable ways to notify private and federal providers about the grant.

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## Agency Response

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State of Arizona  
Department of Education

Jaime A. Molera  
Superintendent of  
Public Instruction

August 29, 2001

Ms. Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street  
Phoenix, AZ 85018

Dear Ms. Davenport:

We appreciate the efforts of your staff in the evaluation of the Early Childhood Block Grant (ECBG). Early Childhood Education programs are critical in preparing young children for school and supporting their educational success. The Auditor General's evaluation report provides objective recommendations that will strengthen the program's accountability and enhance program quality.

Our response to the evaluation report is listed below. We have responded to each finding and recommendation specifically, and then provided general comments regarding the report.

## **RESPONSE TO FINDINGS**

### **FINDING I**

The finding of the Auditor General is agreed to. No audit recommendations accompany this finding.



## FINDING II

The finding of the Auditor General is agreed to, and the audit recommendations will be implemented.

### ADE's Progress in Reducing Reverted Funds

ADE has implemented a procedure to reduce unspent funds since fiscal year 2000. The table below shows the extent to which ADE has reduced the amount of ECBG funds returned to the State General Fund.

	1998	1999	2000
Total Budgets (Allocations & Amended Interest)	\$19,036,115.53	\$18,858,961.65	\$19,173,123.52
Funds Returned	\$1,608,912.18	\$1,130,094.66	\$992,607.95
Percent of Allocation Returned	8.45%	5.99%	5.18%

These data show that from fiscal year 1998 to fiscal year 2000, the amount of unspent funds declined by \$616,304.23, or **38% less** was returned in fiscal year 2000 than was returned in fiscal year 1998. For fiscal year 2001, 36 completion reports have been received as of August 28, 2001. To date, LEAs have returned \$3,157.99 as compared to \$17,803.39 returned by the same LEAs in fiscal year 2000. This is approximately **82% less** than was returned by these LEAs during fiscal year 2000. This reduction is the direct result of ADE efforts to make LEAs aware of unspent funds, to provide technical assistance in guiding LEAs to either amend or not accept these funds, and to reduce barriers that result in unspent funds. In fiscal year 2001, for example, ECBG staff placed phone calls to 96 LEAs, or 34% of the total LEAs funded in fiscal year 2000.

In addition to the steps described above, ADE will implement a procedure to use LEA carryover funds in a reallocation process as described in the Uniform System of Financial Records (USFR), Section V1-F-6. This will further reduce unspent funding.

## **Unmet Need for Early Education in Arizona**

It is important to point out, that the very nature of the mandated formula allocation process for the ECBG virtually guarantees that some funds will go unspent. While we agree that this may contribute to some early education needs going unmet, we believe that meeting early education needs in the state of Arizona requires a broader vision.

Due to the flexibility of a block grant, and the limited funding available, Arizona serves **less than 5%** of its four year old population through the ECBG. Moreover, Arizona's preschool children have a number of risk factors for early school failure. In fiscal year 2000, 38% of ECBG preschool children spoke a language other than English as their primary language; 21% lived with a single mother; 40% had a mother who did not graduate from high school; and at least 11% of families received some form of public assistance. These are factors identified by the US Department of Education (*The Condition of Education 2000*) as placing children at risk of being behind on measures of reading and mathematics skills and general knowledge at kindergarten entrance.

We recognize the importance of utilizing all funding available for early education. However, we also realize the ability to actually resolve the issue of unmet early education needs would require legislative change to direct adequate funding targeted specifically for preschool and full-day kindergarten programs.

### **FINDING III**

The finding of the Auditor General is agreed to, and the audit recommendations will be implemented.

#### **ECBG Policy Manual**

ADE has been developing a ECBG policy manual since fiscal year 2000 that will be published in the fall of 2001. The ECBG Policy Manual is organized around the statutory requirements in an attempt to highlight those requirements to grantees and to provide guidance related to those requirements. In the section on preschool eligibility, ADE will include more specific direction on how LEAs should document eligibility and will require that grantees keep eligibility documents on file. In the section on contracting with private and federal providers, ADE will include more specific direction related to ways that LEAs can notify private and federal providers about the grant.

## GENERAL COMMENTS

### **ADE Efforts to Monitor and Enhance Program Quality and Effectiveness**

ADE's *Early Childhood Programs*, in the Student Services Division, administers the ECBG. Early Childhood Programs' state mandated strategic plan goals focus on *customer service* and monitoring for *program quality* and *effectiveness*. LEAs typically combine ECBG funds with other funding sources to provide preschool, full day kindergarten, and K-3 services. Consequently, our efforts to monitor and enhance program quality and effectiveness with ECBG administrative funds may affect early childhood programs in the state in general, in addition to programs and children funded directly by the ECBG. Examples of these efforts are outlined below.

1. **ECBG Application** – A new on-line application for ECBG funds was developed and implemented starting in fiscal year 2001 that collects information about how grantees' programs meet statutory requirements and the services provided.
2. **Site Visits** – In the last two fiscal years, 52 preschool classrooms (approximately 27% of the total number of sites funded all or in part by the ECBG) have received one full-day site visit and were monitored for quality using the detailed and nationally recognized "Early Childhood Environment Rating Scale (1998)". In fiscal year 2001, six full day kindergarten classrooms, funded all or in part by the ECBG, were visited for the full day. ADE developed the FDK Rating Form to complete, as a description of the program offered, during site visits.
3. **"Guidelines for Comprehensive Early Childhood Programs"** – ADE, in collaboration with the state Early Childhood Consortium, has revised and will re-publish this document. It outlines the elements of quality and comprehensive services (e.g., meals, health screenings) that should be found in Arizona preschools.
4. **ECBG Resource Book** – This folder includes a wide variety of information about LEAs funded all or in part by the ECBG, such as the number of children funded, a list of private preschool providers and charter schools, demographic characteristics of participants, preschool assessment, & historical information about ECBG funding.
5. **Early Childhood Education Endorsement for Teachers** – ADE has provided leadership on a task force working currently to reinstate the early childhood education endorsement for teachers. Program quality improves when classrooms are staffed with teachers specifically trained in early childhood education.
6. **Visibility in National Groups and Committees** – ADE participates in the early childhood community on a national level in order to stay abreast of new information, policies, research, and innovations in other states that could benefit early childhood programs in Arizona.
7. **Training Opportunities for Grantees** – In April 2000, ADE hosted a validator training by the National Association for the Education of Young Children in order to assist preschool programs in expediting the accreditation process. In February 2001, ADE provided a literacy training for preschool teachers and administrators through the University of Washington. This training provided participants with materials and videos in Spanish and English to help teachers and parents improve young children's literacy skills through their interactions with them. These trainings were open to the Arizona early childhood community in general.
8. **Administration Funds Used to Enhance Quality & Customer Service** – ECBG administrative funds have also been used for professional development for ECBG grantees, to provide support for programs to become accredited (Early Childhood Quality Improvement Project), and to fund the development of the ECBG on-line application to make the application process easier for grantees.

9. **Preschool Program Evaluation** – ADE conducted detailed descriptive analyses of program services and child outcomes for fiscal year 2000. The findings have been presented locally and nationally. To date, numerous organizations and individuals have requested and been provided with evaluation data. Plans are underway to conduct follow-up studies of the progress of elementary school children who attended preschool programs funded all or in part by the ECBG, in addition to the annual evaluations. A summary and graphs of the findings from fiscal year 2000 are presented below.

### ARIZONA ECBG PRELIMINARY PRESCHOOL EVALUATION (1999-2000)

PROGRAM	SAMPLE
<ul style="list-style-type: none"> <li>• 61 School Districts</li> <li>• 13 Counties (of 15)</li> <li>• 200 Preschool Sites</li> <li>• 50 Private Providers</li> <li>• 3869 Children</li> </ul>	<ul style="list-style-type: none"> <li>• 44 School Districts</li> <li>• 11 Counties</li> <li>• 112 Preschool Sites</li> <li>• 13 Private Providers</li> <li>• 850 Children (of 2021 = 42%)</li> </ul>

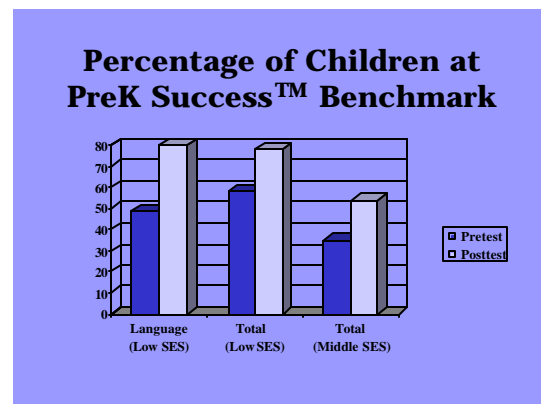
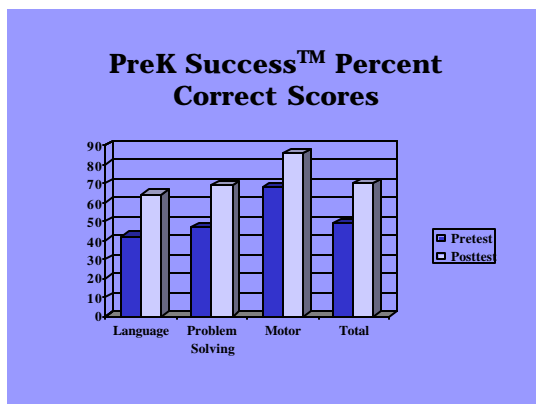
PRESCHOOL CHILDREN	
52% boys	48% girls
54 months at pretest (range = 36-68 months)	61 months at posttest (range = 44-75 months)
67% Hispanic 6% Native American 1% Asian American	21% White 3% African American 2% Other
62% spoke English (includes "both")	37% spoke Spanish 1% spoke Other

### FAMILIES

INCOME	EMPLOYMENT
<ul style="list-style-type: none"> <li>• 17% &lt;\$10,000</li> <li>• 42% \$10,001-\$20,000</li> <li>• 30% \$20,001-\$30,000</li> <li>• 11% \$30,001-\$50,000+</li> </ul> <p>[59% &lt;= \$20,000] [89% &lt;= \$30,000]</p>	<ul style="list-style-type: none"> <li>• 89% of fathers were employed</li> <li>• 43% of mothers were employed</li> </ul>

### FAMILIES

MOTHER'S EDUCATION	FAMILY STATUS
<ul style="list-style-type: none"> <li>• 40% &lt;high school or some high school</li> <li>• 31% high school grad.</li> <li>• 23% some college</li> <li>• 6% AA or BA / BS</li> </ul> <p>[Father's education was very similar.]</p>	<ul style="list-style-type: none"> <li>• 70% had both parents in the home</li> <li>• 21% had single mothers</li> <li>• 9% had other situations (e.g. grandparents)</li> </ul>



Descriptive data from PreK Success™, a standardized assessment used by preschool programs funded all or in part by the ECBG, show that preschool children gained an average of 22.4% on the language sub-scale, 22.3% on the problem-solving sub-scale, 17.9% on the motor sub-scale, and 20.9% overall. For the total PreK Success™ score, 20% more preschool children met the benchmark for their chronological age at the end of the school year than met that benchmark at the beginning of the school year, and 31% more children met the benchmark for the language sub-scale at the end of the school year than did at the beginning of the school year.

**Quality educational programs and services are provided to Arizona's children through the ECBG.**

As mentioned above, LEAs typically combine ECBG funds with other funding sources to provide preschool, full day kindergarten, and K-3 services. Nevertheless, without ECBG funding, LEAs would not be able to provide the majority of these services. Consequently, it is our hope that our efforts to continue to measure the benefit of services funded all or in part by the ECBG will adequately show the value of these services. Furthermore, we welcome additional efforts by other agencies to provide information about the impact of the grant on children, families, and schools.

For example, the primary goal of comprehensive, quality programs for disadvantaged *preschool* children is to help them attain a level of competence that is equivalent to their more advantaged peers by the time they formally enter school. In what ways do such programs benefit children who attend them, as compared to their peers who do not? Also, the primary goal of *full day kindergarten* is to provide additional educational experiences that could not be provided in the amount of time offered in a half-day program. How do children who attend full day kindergarten compare to their peers who attend half-day kindergarten? Based on findings, should the State consider funding full day kindergarten? Finally, LEAs who choose to use their ECBG funds to supplement their *kindergarten through 3<sup>rd</sup> grade* services often target these funds for specific programmatic purposes. For example, a LEA may hire an additional teacher with ECBG funds specifically to reduce class size, or it may purchase and implement a particular literacy curriculum. What is the impact of reducing kindergarten through 3<sup>rd</sup> grade class size on children's learning? How effective is the implementation of a particular literacy initiative in helping children meet the Arizona State Standards?

There are a number of national studies and studies completed by individual states that address these questions and clearly show benefits of comprehensive, quality preschool for disadvantaged children, full day kindergarten, and K-3 supplementary programs (e.g., reducing class size). Nevertheless, we believe that evaluation data related to Arizona programs in particular is needed.

Again, we thank you and your staff for your time and resource investment, as well as expertise, in producing this report. As quality early childhood programs continue to be strengthened, so grows our investment in Arizona's children.

Sincerely,



Jaime A. Molera  
Superintendent of Public Instruction  
Arizona Department of Education

## Other Performance Audit Reports Issued Within the Last 12 Months

00-21	Universities—Funding Study	01-9	Arizona Game and Fish Commission—Heritage Fund
00-22	Annual Evaluation—Arizona’s Family Literacy Program	01-10	Department of Public Safety— Licensing Bureau
01-1	Department of Economic Security— Child Support Enforcement	01-11	Arizona Commission on the Arts
01-2	Department of Economic Security— Healthy Families Program	01-12	Board of Chiropractic Examiners
01-3	Arizona Department of Public Safety—Drug Abuse Resistance Education (D.A.R.E.) Program	01-13	Arizona Department of Corrections—Private Prisons
01-4	Arizona Department of Corrections—Human Resources Management	01-14	Arizona Automobile Theft Authority
01-5	Arizona Department of Public Safety—Telecommunications Bureau	01-15	Department of Real Estate
01-6	Board of Osteopathic Examiners in Medicine and Surgery	01-16	Department of Veterans’ Services Arizona State Veteran Home, Veterans’ Conservatorship/ Guardianship Program, and Veterans’ Services Program
01-7	Arizona Department of Corrections—Support Services	01-17	Arizona Board of Dispensing Opticians
01-8	Arizona Game and Fish Commission and Department—Wildlife Management Program	01-18	Arizona Department of Correct- ions—Administrative Services and Information Technology

### Future Performance Audit Reports

Department of Public Safety—Highway Patrol

Arizona Department of Corrections—Arizona Correctional Industries

Board of Nursing

Department of Building and Fire Safety