

# Arizona Early Childhood Development and Health Board (First Things First)

First Things First provides funding for early childhood development and health programs, has implemented effective grant procedures, and fosters collaboration; however, it should strengthen some financial controls and enhance program outcome reporting

Special Audit

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A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





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August 29, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Sam Leyvas, Chief Executive Officer  
Arizona Early Childhood Development and Health Board

Transmitted herewith is a report of the Auditor General, *A Special Audit of the Arizona Early Childhood Development and Health Board (First Things First)*. This report is in response to a November 5, 2015, resolution of the Joint Legislative Audit Committee and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Early Childhood Development and Health Board agrees with all of the findings and plans to implement all of the recommendations.

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

Sincerely,

Debbie Davenport  
Auditor General

cc: Arizona Early Childhood Development and Health Board members

Attachment



## Arizona Early Childhood Development and Health Board

**CONCLUSION:** The Office of the Auditor General has completed a special audit of the Arizona Early Childhood Development and Health Board, also known as First Things First (FTF), pursuant to a Joint Legislative Audit Committee resolution. FTF was established by voter initiative in 2006 to provide early childhood development and health programs to Arizona children from birth to age 5. FTF's fiscal year 2015 revenues were \$130 million, most of which were tobacco tax revenues, but its revenues have declined. FTF spent more than \$162.5 million in fiscal year 2015, largely for grants and contracts supporting its programs and services. These expenditures included approximately \$3.1 million for media and community and parent outreach and awareness efforts to meet statutory responsibilities. Although FTF has generally implemented adequate financial controls, it should strengthen controls in four areas. FTF has also implemented effective procedures for managing grants, as well as a research and evaluation plan that directs its program evaluation efforts, although it should enhance its reporting and collection of program outcomes. Finally, FTF has implemented several ongoing processes to identify opportunities for collaboration and coordination with other organizations providing early childhood services.

### FTF's fiscal year 2015 revenues were \$130 million, but its revenues have declined

FTF collected nearly \$130 million in revenues in fiscal year 2015, but its revenues have declined as a result of declining tobacco tax revenues. Tobacco taxes comprise the majority of FTF's revenues, but tobacco tax revenues declined by an average of about \$2 million annually between fiscal years 2010 and 2015. This decline is consistent with national trends and is projected to continue. FTF has taken various steps to plan for and manage its sustainability in light of its declining revenues, including commissioning independent tobacco tax revenue projections and adopting a sustainability plan. The revenue projections commissioned by FTF provide reasonable short-term projections, but long-term projections are generally less reliable because making long-term projections is more challenging. FTF has commissioned updated projections every 2 years since 2012 to offset this challenge, and reported that it plans to continue doing so.

### FTF spent nearly \$163 million in fiscal year 2015

FTF spent more than \$162.5 million in fiscal year 2015. The majority of this spending, more than \$142 million, was for providing and administering 254 grants and contracts to support FTF programs and services. FTF also spent nearly \$13 million for employee payroll and benefits in fiscal year 2015, and incurred additional expenditures for program materials, consulting and other professional services, education and program advertising, and rent.

### FTF generally has appropriate financial controls but should strengthen them in four areas

FTF has generally implemented adequate financial internal controls. For example, FTF had implemented procedures for ensuring payments are supported for employee payroll and benefits and grant and contract awards, which comprised approximately 96 percent of FTF's fiscal year 2015 expenditures. However, we found that FTF had insufficient and/or ineffective controls in four areas—cash receipts, purchasing cards (p-cards), travel, and wireless devices—and should strengthen its controls to better comply with *State of Arizona Accounting Manual* requirements.

#### Recommendations

FTF should:

- Improve controls over cash receipts by developing and implementing written policies and procedures for limiting access to cash receipts to as few employees as operationally practicable, ensuring cash receipts are logged, regularly reconciling the cash receipt log to deposits, and properly separating cash receipt duties;

- Improve its policies and procedures for handling p-card purchases that exceed purchasing limits and identifying supervisors' responsibilities for reviewing and approving p-card transactions;
- Strengthen its controls over travel by ensuring that proper documentation is maintained for all travel-related purchases, having another individual review and approve the CEO's travel claims, and developing and implementing written policies and procedures regarding reimbursements for canceled travel plans; and
- Continue to evaluate and pursue a cost-reimbursement option for wireless devices, but perform periodic reviews of wireless device use and service plans if it continues to provide state-issued wireless devices.

## FTF has implemented effective grants management procedures

FTF has implemented effective, standardized grants management procedures that comply with statutory requirements and align with best practices. For example, FTF plans its grant solicitations to meet identified needs, publicizes grant opportunities to potential applicants, trains grant evaluators on reviewing and scoring applications, orients new grantees, uses a centralized grants management information technology system to track and administer its grants, reviews reimbursement requests prior to distributing funds, and monitors grantees to ensure they are meeting contractual obligations. We reviewed a sample of 22 competitive grants awarded for fiscal years 2012 through 2015 and found that FTF complied with the procedures tested for these 22 grants. Additionally, FTF works to continually improve its grants management procedures.

## FTF has implemented research and evaluation plan but should enhance program outcome reporting

FTF has implemented a research and evaluation plan that directs its program evaluation efforts. This plan was developed based on recommendations from a panel of national experts FTF convened and directs FTF staff to perform several research and evaluation activities. These activities include developing program standards of practice based on available research and best practice, monitoring program implementation, and studying and evaluating key funded programs. The plan also directs FTF to enhance its data collection and systems, as well as collaborate with partners to securely share data. However, FTF should include more program outcome-related information in its annual report and enhance program outcome data collection, as needed, to more clearly demonstrate the impact of its programs.

### Recommendations

FTF should enhance its annual report by including more outcome-related information, and enhance its outcome data collection, as needed, to more clearly demonstrate its programs' impact.

## FTF engages in media and community and parent outreach and awareness strategies

FTF engages in media and community and parent outreach and awareness efforts to help meet statutory responsibilities to increase public information about the importance of early childhood development and health and offer parent and family support, education, and information on early childhood development and literacy. In fiscal year 2015, FTF spent nearly \$1.4 million on its state-wide media efforts, which included television, radio, billboard, and Internet advertising, and the use of social media. FTF also spent approximately \$1.7 million on community and parent outreach and awareness through efforts such as presentations and community events, site tours, and distributing printed materials and educational items. FTF uses various means to assess the impact of these efforts, including reviewing reports prepared by its media consultants that provide information on the effectiveness of its advertising and assessing specific measures of success, such as the number of referrals FTF receives to share information about early childhood development and health.

## FTF fosters collaboration and coordination of early childhood services

FTF was created as a collaborative agency to help coordinate early childhood development and health programs. FTF has implemented several ongoing processes to identify new opportunities for collaboration and coordination, including assessing needed childhood services at both the state and regional levels every 2 years; developing annual funding plans to prioritize and fund needed services, which helps ensure that FTF is not funding duplicative or unnecessary services; participating in a national collaborative that supports state leaders in developing programs, policies, and services to address the needs of young children and their families; and hosting an annual summit that encourages collaboration. FTF also has established ongoing partnerships with other Arizona state agencies that serve children and their families.



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## Scope and objectives

The Office of the Auditor General has completed a special audit of the Arizona Early Childhood Development and Health Board, also known as First Things First (FTF), pursuant to a November 5, 2015, resolution of the Joint Legislative Audit Committee (JLAC). This special audit was conducted under the authority vested in the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03(A)(4). As directed by JLAC, this audit report addresses FTF's fiscal year 2015 revenues and revenue projections (Chapter 1); fiscal year 2015 expenditures (Chapter 2); financial internal controls, which auditors reviewed in conjunction with revenues and expenditures (Chapter 3); grants management procedures (Chapter 4); program evaluation processes (Chapter 5); media and outreach efforts (Chapter 6); and processes for identifying collaborative opportunities or duplicative areas for early childhood programs and services in Arizona (Chapter 7).

## FTF mission and structure

FTF was established by voter initiative in 2006 to ensure the quality and accessibility of early childhood development and health programs at the community level (see textbox). Its mission is to be one of the critical partners in creating a family-centered, comprehensive, collaborative, and high-quality early childhood system that supports the development, health, and early education of all Arizona's children from birth through age 5. To help support early childhood development and health programs, the voter initiative established a new tax on tobacco products that provides dedicated funding for FTF (see pages 7 through 8 for additional information about FTF funding). The initiative also created a two-tiered governance structure comprising FTF's state-level board (Board) and its local-level regional partnership councils (regional councils), that share responsibility for ensuring early childhood funds are spent on programs that will improve education and health outcomes for children ages 5 and younger. Specifically, statute establishes the following:

**Early childhood development and health programs**—Programs and services provided to children prior to kindergarten and their families for the purpose of assisting child development by providing education and other support, including parent and family support programs, childcare, preschool, health screenings, and access to preventive health services.

Source: A.R.S. §8-1152.

- **Board**—The Board consists of nine members appointed by the Governor for 6-year terms who have demonstrated an interest and/or experience in early childhood development and health, reside in at least four different counties, and are members of different political parties. The Board also includes three ex-officio, nonvoting members from other state agencies, including the Superintendent of Public Instruction and the directors of the Arizona Departments of Health Services and Economic Security, or their designees. The Board sets FTF's policies and goals and is responsible for establishing and overseeing the regional councils (see page 2 for more information about regional councils). The Board's specific responsibilities include:
  - Conducting a biennial assessment of existing early childhood development and health programs in Arizona—including an analysis of any unmet early childhood development and health needs for Arizona children; the use of available federal, state, and private funds; suggestions for improved program coordination; and outcomes for children and families—and then submitting a report of its assessment to the Governor and legislative leaders;
  - Administering FTF's Early Childhood Development and Health Fund for programs and grants (see pages 7 through 8 for additional information);

- Preparing an annual report describing FTF’s activities, including a description of program spending and outcomes for children and families achieved by FTF; and
- Coordinating with other state agencies involved with early childhood development and health issues.

The Board may also use FTF monies to operate programs and services directly and to fund state-wide grant programs. Specifically, statute permits the Board to use a portion of FTF’s tobacco tax revenues for state-wide grants or direct programs (see pages 7 through 8 for additional information).

- **Regional councils**—Regional councils consist of local volunteers representing different community stakeholders, including parents, educators, health professionals, and faith communities who are responsible for identifying and funding early childhood development and health programs that are needed in their communities (see textbox). Specifically, each regional council is responsible for completing a biennial needs and assets assessment of its region that (1) describes the current circumstances of young children and their families; (2) identifies the assets available in the region to serve the early childhood health and development needs of children and families; and (3) draws conclusions regarding the unmet needs of young children and their families. For example, a regional needs and assets assessment may identify that the cost of childcare is cost-prohibitive for many families and that the number of families eligible for childcare subsidies through other Arizona state agencies is decreasing. These regional needs and assets assessments are completed by public and private vendors, and regional councils must submit a final report containing their needs and assets assessments to the Board for its approval. Regional councils then work with local stakeholders to determine which services to fund in their communities based on identified needs and develop annual funding plans, which must also be submitted for the Board’s approval. These funding plans also include unfunded approaches, which are opportunities for collaboration or partnership that do not require funding from regional councils (see Chapter 7, page 49, for additional information about FTF’s unfunded approaches).

### Regional council membership

Statute requires that each regional council consist of 11 members who reside or work in the designated region. Council members are appointed by the Board after a public application process to serve on a volunteer basis for 4-year terms. At a minimum, council members should include: a parent of a child aged 5 or younger; a childcare provider; a health services provider; a public school administrator; an early childhood educator; a member of the business community; a member of the faith community; a representative of a philanthropic organization; and, if an Indian tribe is located in the region, a public official or employee of a tribal government.

Source: Auditor General staff analysis of A.R.S. §8-1162.

Regional councils may provide services directly or fund them through grants or other contracts with private, public, governmental, and faith-based organizations. Additionally, regional councils are responsible for soliciting and evaluating grants, although grant awards must be approved by the Board. Regional councils are also responsible for increasing parents’ and providers’ access to information about early childhood development and health programs, such as by providing information about FTF programs, providing support and training to service providers, and fostering cooperation among providers to increase the number of children and families served and improve outcomes for children and families served.

Statute authorizes the Board to establish regional councils, and, as of fiscal year 2015, the Board had established 28 regional councils covering the entire State (see Figure 1, page 3). Additionally, statute permits the Board to redefine regional boundaries at its discretion every 2 years. Statute also permits federally recognized Indian tribes that choose to participate to be designated as separate regional councils or to participate in the regional council designated for their geographic area. During fiscal year 2015, 10 tribes had determined that they would operate as separate regional councils and 9 tribes participated in the regional council that covered their geographic regions. According to FTF staff, 270 council member seats were filled and 38 were vacant as of July 1, 2016.

**Figure 1**  
 FTF's map of the 28 regional councils' boundaries  
 As of July 1, 2016<sup>1</sup>



<sup>1</sup> A.R.S. §8-1164 permits the Board to re-designate regional council boundaries every 2 years. The Board adopted new boundaries in June 2013 for implementation at the beginning of fiscal year 2015. Prior to this, there were 31 regional councils.

Source: Map courtesy of FTF.

## FTF goals and strategies

FTF programs are required to accomplish one or more statutorily permitted objectives (see textbox, page 4). FTF organizes its programs within seven goal areas: quality and access, health, professional development, family support, coordination, community awareness, and evaluation. Within each goal area, FTF has developed one or more specific strategies that regional councils can choose to fund and implement within their regions or that the Board has implemented state-wide. Examples of strategies within each goal area are listed in Table 1 (see pages 5 through 7). To assist regional councils in selecting which strategies to fund in their communities, FTF has developed, and posted on its website, a strategy toolkit that contains information related to strategy

## Statutorily permitted objectives for FTF programs

- Improving the quality of early childhood development and health programs;
- Increasing access to quality early childhood development and health programs;
- Increasing access to preventative health care and health screenings for children through age five;
- Offering parent and family support and education concerning early childhood development and literacy;
- Providing professional development and training for early childhood development and health providers; and
- Increasing coordination of early childhood development and health programs and public information about the importance of early childhood development and health.

Source: Auditor General staff analysis of A.R.S. §8-1171.

implementation, including research evidence supporting the strategy, FTF's strategy implementation standards of practice, and performance measures.

The majority of FTF's strategies are implemented through regional, multi-regional, or state-wide grants and contracts. In fiscal year 2015, FTF administered 254 grants and contracts and paid approximately \$142 million for these grants and contracts. Approximately \$119 million was paid to nongovernmental organizations and \$23 million to governmental organizations (see Chapter 2, pages 17 through 18, for additional information about FTF's fiscal year 2015 grant and contract expenditures; and Chapter 4, pages 27 through 30, for information about FTF's grant management procedures). Additionally, statute permits the Board and regional councils to operate programs directly. FTF operates components of its Quality First, service coordination, media, community outreach, community awareness, and research and evaluation strategies under this authority.

## FTF staff

The Board and regional councils are supported in their duties by FTF staff located throughout the State. According to FTF, it had 150 full-time equivalent (FTE) staff positions, of which 142 were filled and 8 were vacant as of July 1, 2016. FTF staff are organized in the following divisions:

- **Executive office (4 filled FTE, 2 vacancies)**—The executive office includes the chief executive officer, his assistant, legal counsel, and the vice president for strategic partnerships and investments.
- **Regions Division (51.5 filled FTE, 1.5 vacancies)**—The Regions Division supports FTF's 28 regional councils. As described previously, regional councils comprise volunteer members and have various statutory responsibilities. Statute permits FTF to hire staff to support the work of the regional councils in meeting these responsibilities, including planning, evaluating grant applications, reviewing grantee performance, and preparing for and conducting regular meetings of the council members. Staff also train council members and help to ensure consistency in practices across regions. Regional councils are supported by a full- or part-time regional director and administrative staff. These staff work in one of the 15 regional offices located throughout the State or in FTF's main office located in central Phoenix (see Table 7, page 19, which includes a list of all regional offices). Additionally, FTF's organizational structure includes six senior regional area directors who supervise three to five regional directors.

**Table 1**  
**FTF goal areas, example strategies, amount spent, and number of grants and contracts administered**  
**Fiscal year 2015**

Goal area	Example strategies	Amount spent and number of grants/contracts administered
<p><b>Quality and access</b>—Includes several strategies that address the accessibility, affordability, and quality of early childcare and education providers.</p>	<ul style="list-style-type: none"> <li>• <b>Quality First</b>—Encompasses multiple FTF strategies intended to improve the quality of participating childcare and preschool centers’ programs; provide tools and information to help parents select quality childcare centers; and provide scholarships to low-income families for their children to attend quality childcare centers.</li> <li>• <b>Inclusion of Children with Special Needs</b>—Provides on-site consultation and coaching to childcare providers about how to best include and serve children with special health and/or developmental needs in their early care and education settings.</li> <li>• <b>Family, Friend, and Neighbor Care</b>—Provides training, professional development, and other resources to caregivers to improve the quality of care and education that children receive in unregulated childcare homes.</li> </ul>	<ul style="list-style-type: none"> <li>• Approximately \$80.2 million</li> <li>• 31 grants and contracts, and direct program implementation by FTF</li> </ul>
<p><b>Family support</b>—Includes several strategies to expand families’ access to information, resources, services, and other supports available to help young children achieve their potential.</p>	<ul style="list-style-type: none"> <li>• <b>Birth to Five Helpline</b>—Toll-free helpline that connects parents, caregivers, and professionals with questions to child development specialists.</li> <li>• <b>Home Visitation</b>—Provides voluntary, in-home services for pregnant women and families with children under the age of 5 tailored to meet individual families’ needs by providing parenting information and coaching; child developmental assessments; access to health, economic, and/or social service resources, and support for families.</li> <li>• <b>Parent Kit</b>—Provides resources and information to parents of newborns when they leave the hospital, including DVDs about good parenting practices, a resource guide, and a book to encourage early literacy.</li> <li>• <b>Parenting Outreach and Awareness</b>—Educates parents and connects them to resources and activities that promote children’s healthy growth and readiness for school.</li> </ul>	<ul style="list-style-type: none"> <li>• Approximately \$34.8 million</li> <li>• 128 grants and contracts, and direct program implementation by FTF</li> </ul>

**Table 1 (continued)**

Goal area	Example strategies	Amount spent and number of grants/contracts administered
<p><b>Health</b>—Includes several strategies for improving children’s health.</p>	<ul style="list-style-type: none"> <li>• <b>Care Coordination and Medical Home</b>—Works with families who have young children to link them with appropriate medical and community services to integrate care between all of the organizations that could be involved in a child’s health, including specialty care, hospitals, schools, and childcare providers.</li> <li>• <b>Nutrition, Obesity, and Physical Activity</b>—Provides education to support healthy and nutritious eating habits and daily physical activity for children.</li> <li>• <b>Oral Health</b>—Provides fluoride varnishes for children, oral health screenings for children and expectant mothers, and training for families and oral health professionals to prevent and reduce the prevalence of early childhood tooth decay.</li> </ul>	<ul style="list-style-type: none"> <li>• Approximately \$19.6 million</li> <li>• 63 grants and contracts, and direct program implementation by FTF</li> </ul>
<p><b>Professional development</b>—Includes strategies that focus on developing a comprehensive and well-articulated professional development system for Arizona teachers who work with infants, toddlers, and preschoolers. These strategies provide opportunities for these early childcare and education professionals to obtain access to college coursework and/or degrees so that they are better prepared to engage young minds.</p>	<ul style="list-style-type: none"> <li>• <b>Professional Development for Early Care and Education Professionals</b>—Provides a series of learning seminars and individual coaching to increase participants’ knowledge of early learning principles and applying these principles to support young children’s development and learning.</li> <li>• <b>Recruitment into the Field</b>—Recruits new early care and education professionals and offers career counseling to potential members of the early education workforce to improve the quality of early care and education.</li> </ul>	<ul style="list-style-type: none"> <li>• Approximately \$6.9 million</li> <li>• 22 grants and contracts, and direct program implementation by FTF</li> </ul>
<p><b>Community awareness</b>—Includes three complementary strategies focused on raising community and parent awareness of early childhood development and health (e.g., brain development and early literacy) and the availability of programs and services.</p>	<ul style="list-style-type: none"> <li>• <b>Community Awareness</b>—Raises awareness about early childhood development and health through participation in the community and the distribution of parenting education materials.</li> <li>• <b>Community Outreach</b>—Engages people and organizations directly to share information and resources to increase parent and community awareness of the importance of early childhood development and health.</li> <li>• <b>Media</b>—Increases public awareness of the importance of early childhood development and health via traditional and social media.</li> </ul>	<ul style="list-style-type: none"> <li>• Approximately \$3.1 million</li> <li>• 1 grant, and direct program implementation by FTF</li> </ul>



**Table 1 (continued)**

Goal area	Example strategies	Amount spent and number of grants/contracts administered
<p><b>Coordination</b>—Aims to facilitate coordination among the federal, state, private, and tribal systems related to early childhood development and health to ensure a common understanding of the systems and to share ownership in ensuring access to services for children.</p>	<ul style="list-style-type: none"> <li>• <b>Court Teams</b>—Focuses on improving how the courts, child welfare, and child serving organizations work together, share information, and expedite services for young children in the child welfare system.</li> <li>• <b>Service Coordination</b>—Connects various organizations that support early childhood development and health in the State to ease families' access to services and promote shared results for children and families.</li> </ul>	<ul style="list-style-type: none"> <li>• Approximately \$1.4 million</li> <li>• 6 grants and contracts, and direct program implementation by FTF</li> </ul>
<p><b>Evaluation</b>—This goal area focuses on assessing strategy implementation to support regional council members' decision-making about which strategies to fund in their respective regions.</p>	<p>This goal area includes several research and evaluation activities, such as completing evaluations, researching and developing standards of practice, and monitoring program implementation.</p>	<ul style="list-style-type: none"> <li>• Approximately \$2 million</li> <li>• 3 grants and contracts, and direct program implementation by FTF</li> </ul>

Source: Auditor General staff analysis of FTF documentation and FTF-provided financial information for fiscal year 2015.

- **Communications and Public Affairs Division (30 filled FTE, 2.5 vacancies)**—The Communications and Public Affairs Division is responsible for FTF's public information; tribal and government relations; and community awareness, outreach, and media efforts. The Division performs many duties, including building public and parent awareness of the importance of early childhood health and development throughout the State, working with Arizona's sovereign Indian tribes, supporting FTF's social media presence, and preparing FTF's press releases and print media pieces. Division staff also update the Board on FTF's community outreach, engagement, and paid media efforts. The Division includes regionally funded parent and community outreach staff who work in the regions they represent. Community outreach staff hold meetings, give presentations, and participate in or host events for parents, caregivers, and community leaders.
- **Programs Division (24 filled FTE, 1 vacancy)**—The Programs Division comprises four teams: 1) research and evaluation, 2) early learning, 3) children's health, 4) and family support and literacy. Staff in this division oversee evaluations of funded programs, establish the standards of practice for FTF's strategies, write template grant scopes of work and customize these templates to support individual regional councils' grant-making, and review and assess grantees' performance to help ensure that they are meeting contractual grant requirements.
- **Operations Division (32.5 filled FTE, 1 vacancy)**—The Operations Division performs FTF's human resources, payroll, accounts payable, fiscal operations, finance, and information technology (IT) functions. FTF's IT staff manage several computerized data systems, including its grants management system, data warehouse, intranet, and portal for exchanging data with external partners.

## FTF funding

FTF receives funding from various sources, but its primary revenue source is tobacco tax revenue. The 2006 voter initiative creating FTF also established a new tax on tobacco products to ensure a dedicated revenue source for FTF programs. The State of Arizona imposes a luxury tax on cigarettes and other tobacco products, excluding electronic cigarettes and vapor products. The tax rate varies by product, with the rate for the largest revenue producer, cigarettes, set at \$2.00 per pack of 20 cigarettes. As shown in the textbox (see page 8), cigarette taxes are distributed to multiple state funds, including FTF's Early Childhood Development and Health Fund (Fund),

which the Board is responsible for administering. The Fund comprises various accounts funded by FTF's different revenue sources, with the two largest accounts—the program account and the administrative costs account—funded by tobacco taxes. Specifically:

- **Program account**—A.R.S. §8-1181(D) requires that 90 percent of FTF's tobacco tax revenues be distributed into the program account. The program account provides the primary revenue source to pay for the programs and services provided by the regional councils and the Board. A.R.S. §8-1185 requires that the Board allocate program monies to each of the regional councils for their programs, based on the population of young children (birth to age 5) and the proportion of young children living in poverty within each region. Specifically, program account monies are allocated as follows:
  - 10 percent is allocated to the Board to pay for state-wide grants and programs;
  - 31.5 percent is allocated to the regional councils based on the population of children in the region aged 5 and under
  - 36 percent is allocated to the regional councils based on the population of children in the region aged 5 and under living at or below the federal poverty line; and
  - 22.5 percent is allocated to the regional councils at the Board's discretion, although it is the Board's practice to allocate most discretionary funds based on the population of children living in poverty.
- **Administrative costs account**—According to A.R.S. §8-1181(D), the remaining 10 percent of tobacco tax revenues FTF receives is distributed into the administrative costs account. According to this statute, FTF's administrative costs may only be paid from this account. The statute also permits FTF to transfer monies from the administrative costs account to the program account, but monies may not be transferred from the program account to the administrative costs account.

### Distribution of cigarette taxes

- \$0.80 to the Early Childhood Development and Health Fund
- \$0.60 to the Tobacco Products Tax Fund
- \$0.40 to the Tobacco Tax and Health Care Fund
- \$0.16 to the State General Fund
- \$0.02 to the Corrections Fund
- \$0.02 to the Smoke-free Arizona Fund

Source: Auditor General staff analysis of the Arizona Joint Legislative Budget Committee's 2015 Tax Handbook.

In addition to tobacco tax revenue, statute also permits the Board and regional councils to receive other revenues to support FTF programs. Specifically, the Board and regional councils can solicit private monies from individuals, corporations, and foundations to support FTF's efforts to improve the quality of and access to early childhood development and health programs for Arizona children. Solicited monies are deposited into a private gifts account in the Fund and may be spent on state-wide or regional grants, or programs provided directly by the Board or regional councils in accordance with permissible conditions. The Board is required to approve any gifts received in response to regional councils' solicitations. FTF is also permitted to accept federal, state, and local monies that are deposited into a grant monies account in the Fund and must be spent in accordance with conditions placed on those monies by the government making the grant.<sup>1</sup> Finally, statute permits FTF to invest any unspent monies, and any interest or investment income is credited to that account.

## Budget

As shown in Table 2 (see page 9), FTF received nearly \$130 million in revenues in fiscal year 2015 and budgeted for nearly \$135.5 million in revenues for fiscal year 2016, primarily from tobacco taxes. FTF's expenditures and transfers totaled nearly \$162.6 million in fiscal year 2015 and were budgeted for approximately \$145.7 million for fiscal year 2016, mostly as aid to other organizations and state agencies as grants and contracts to support

<sup>1</sup> During fiscal year 2015, the Arizona State General Accounting Office directed FTF to account for all federal monies in a different fund.

**Table 2**  
**Schedule of revenues, expenditures, and changes in net position**  
**Fiscal years 2011 through 2016**  
(Unaudited)

	2011 (Actual)	2012 (Actual)	2013 (Actual)	2014 (Actual)	2015 (Actual)	2016 (Budget)
<b>Revenues</b>						
Tobacco taxes	\$130,701,444	\$128,314,293	\$125,768,040	\$124,621,736	\$122,115,614	\$120,500,000
Investment earnings	3,053,337	4,614,319	6,715,180	5,990,836	5,720,826	5,500,000
Federal grants, private grants, and donations <sup>1</sup>	1,121,118	429,290	1,572,700	3,715,421	1,943,958	9,474,002
Other	2,170					
<b>Total revenues</b>	<b>134,878,069</b>	<b>133,357,902</b>	<b>134,055,920</b>	<b>134,327,993</b>	<b>129,780,398</b>	<b>135,474,002</b>
<b>Expenditures and transfers</b>						
Payroll and related benefits	10,781,322	11,439,702	11,921,497	12,386,200	12,920,543	15,518,204
Professional and outside services	7,051,087	3,288,412	3,034,011	2,626,036	1,839,755	4,736,880
Travel	406,171	452,401	479,519	496,112	414,462	645,659
Aid to others and state agencies (grants and contracts)	92,823,590	120,431,162	125,727,475	137,536,936	142,174,479	119,464,131
Other operating	2,516,059	5,423,376	5,294,583	4,954,255	4,747,258	4,505,763
Furniture and equipment	261,989	320,069	410,281	906,425	303,498	682,991
Transfers to other agencies <sup>2</sup>				150,000	150,532	150,000
<b>Total expenditures and transfers</b>	<b>113,840,218</b>	<b>141,355,122</b>	<b>146,867,366</b>	<b>159,055,964</b>	<b>162,550,527</b>	<b>145,703,628</b>
Net change in fund balance	21,037,851	(7,997,220)	(12,811,446)	(24,727,971)	(32,770,129)	(10,229,626)
Fund balance, beginning of year	421,397,186	442,435,037	434,437,817	421,626,371	396,898,400	364,128,271
<b>Fund balance, end of year</b>	<b>\$442,435,037</b>	<b>\$434,437,817</b>	<b>\$421,626,371</b>	<b>\$396,898,400</b>	<b>\$364,128,271</b>	<b>\$353,898,644</b>

<sup>1</sup> Amounts were provided from two federal grants, private donations, and interagency agreements with the Arizona Department of Health Services (DHS), the Arizona Department of Economic Security (DES), and the Arizona Department of Education (ADE). Specifically, in fiscal years 2013 through 2015, DHS provided financial support from the Maternal Infant and Early Childhood Home Visitation federal grant to partner with FTF to expand home visitation programs for families with young children in the Pima North and Yavapai regions. In fiscal year 2014, DES provided financial support from the federal Child Care and Development Fund block grant to FTF for childcare and development targeted expenses in support of the target population of eligible infants and toddlers, 0 through 3 years of age. According to FTF, in fiscal year 2016, ADE provided financial support from the federal Preschool Development Grant to develop and enhance the capacity to deliver high-quality preschool programming as well as implement and sustain high-quality preschool for eligible children, in select high-need communities.

<sup>2</sup> FTF transferred \$150,000 annually since fiscal year 2011 to the Arizona Department of Revenue, which it reported was to pay for two tobacco law enforcement officers and their operations through an interagency agreement to support the State's tobacco law enforcement efforts. Prior to fiscal year 2014, these transfers were reported as professional and outside services expenditures.

Source: Auditor General staff analysis of FTF's fiscal years 2011 through 2015 financial statements audited by an independent certified public accounting firm and filed with the Office of the Auditor General in accordance with A.R.S. §8-1186(B); and fiscal year 2016 board-approved budget provided by FTF.

programs and services. A more detailed review of FTF's fiscal year 2015 revenues and expenditures is provided in Chapters 1 and 2, respectively (see pages 11 through 20).

FTF ended fiscal year 2015 with a fund balance of approximately \$364.1 million in the following accounts:

- \$280.6 million in the program account;
- \$83.1 million in the administrative account; and
- \$0.4 million in the private gifts and grant monies accounts.

According to FTF's fiscal year 2016 budget, it anticipated a reduction in its fund balance to approximately \$353.9 million.

FTF's fund balance is externally restricted as to how it can be spent because FTF's tobacco tax revenues are restricted for use by statute, and private gift and grant monies are restricted for use by grantor or donor restrictions. For example, as discussed previously, statute requires that 90 percent of the program account monies be allocated to the regional councils and the Board for programs and services.



## FTF's fiscal year 2015 revenues were \$130 million, but its revenues have declined

First Things First's (FTF) revenues totaled nearly \$130 million in fiscal year 2015, but its total revenues have declined as a result of declining tobacco tax revenues. Specifically, tobacco taxes comprise the majority of FTF's revenues, but tobacco tax revenues declined by about \$2 million annually between fiscal years 2010 and 2015. This decline is consistent with national trends and is projected to continue. FTF has taken steps to manage its declining tobacco tax revenues and strategically plan for its future. These steps include commissioning independent tobacco tax projections. Auditors reviewed the projections and found that they are reasonable for assisting FTF with short-term budgeting. Long-term projections, as with most long-term projections, are generally less reliable because the future is uncertain and various assumptions must be made that affect the projections. FTF has commissioned updated projections every 2 years since 2012 to offset this challenge, and reported that it plans to continue doing so.

Chapter 1 addresses FTF's fiscal year 2015 revenues and its revenue projections. This chapter contains no recommendations.

### Tobacco taxes are FTF's primary revenue source

As shown in Table 3 (see page 12), FTF received nearly \$130 million in revenues in fiscal year 2015, with tobacco taxes accounting for approximately \$122.1 million of this amount, or 94 percent of total revenues. As discussed in the Introduction (see pages 7 through 8), FTF receives monies from a specially designated tax on tobacco products that are deposited into its Early Childhood Development and Health Fund (Fund), which comprises various accounts with different revenue sources. The two largest accounts—the program account and the administrative costs account—receive all of the Fund's tobacco tax revenues. For fiscal year 2015, FTF's tobacco tax revenues were distributed in accordance with statute, which requires 90 percent of the revenues to be distributed to the Fund's program account and 10 percent to the Fund's administrative costs account. Further, as discussed in the Introduction, statute prescribes how monies in the program account should then be allocated to FTF's Board and the regional partnership councils (regional councils). Auditors reviewed the fiscal year 2015 allocations and found that FTF allocated these monies in accordance with statutory requirements. FTF has established a process for allocating the revenues to the regional councils using 2010 census data, the last complete census taken, to ensure monies are allocated according to population requirements established in statute. (See the Introduction, pages 7 through 8, for additional information about the statutory requirements for depositing and allocating FTF's tobacco tax revenues.)

As shown in Table 3, in fiscal year 2015, FTF also received approximately \$5.7 million from investment earnings and \$1.9 million in federal grants, private grants, and donations.<sup>2</sup> For example, FTF received approximately \$1.4 million from the Maternal Infant and Early Childhood Home Visitation federal grant. These monies were passed through to FTF from the Arizona Department of Health Services, who partnered with FTF to expand home visitation programs for families with young children in the Pima North and Yavapai regions. In addition, FTF received a \$300,000 grant from the W.K. Kellogg Foundation to enhance and expand parenting education resources available to Arizona families through FTF.

<sup>2</sup> Statute permits FTF to invest any unspent monies in the Fund and requires FTF to credit any interest or investment income to the specific account that generated the interest or investment income.

**Table 3**  
**Schedule of revenues by account**  
**Fiscal year 2015**  
(Unaudited)

	Program account	Administrative costs account	Other accounts <sup>1</sup>	Total
Tobacco taxes	\$ 109,904,052	\$ 12,211,562		\$ 122,115,614
Investment earnings	5,148,744	572,082		5,720,826
Federal grants, private grants, and donations			\$ 1,943,957	1,943,957
<b>Total revenues</b>	<b>\$ 115,052,796</b>	<b>\$ 12,783,644</b>	<b>\$ 1,943,957</b>	<b>\$ 129,780,397</b>

<sup>1</sup> Statute requires monies from the federal government, individuals, corporations, and foundations or other revenues to be deposited into specific accounts.

Source: Auditor General staff analysis of FTF's fiscal year 2015 financial statements audited by an independent certified public accounting firm and filed with the Office of the Auditor General in accordance with A.R.S. §8-1186(B).

## Declining tobacco tax revenues have prompted agency action

Declining tobacco tax revenues have prompted FTF to take various actions to help plan for and manage its sustainability. Consistent with national trends, FTF's tobacco tax revenues declined annually between fiscal years 2010 and 2015, and FTF estimates that they will continue to do so. Actions FTF has taken to help address its sustainability include commissioning independent tobacco tax revenue projections and adopting a sustainability plan.

**Tobacco tax revenues have been declining in Arizona and nation-wide**—Consistent with national trends, FTF experienced declining tobacco tax revenues between fiscal years 2010 and 2015. Specifically, FTF's tobacco tax revenues declined by an average of about \$2 million annually, from \$132.3 million in fiscal year 2010 to approximately \$122.1 million in fiscal year 2015 (see Table 4). Additionally, tobacco tax revenues have declined nationally since 2011, and Arizona's rate of decline is similar to national trends.<sup>3</sup> FTF estimates that tobacco tax revenues will continue to decline each year as a result of changes in demand for tobacco products and changes to the State's population. FTF cites various factors that affect demand, including anti-smoking

**Table 4**  
**Schedule of revenues**  
**Fiscal years 2010 through 2015**  
(In millions)

	2010	2011	2012	2013	2014	2015
Tobacco taxes	\$ 132.3	\$ 130.7	\$ 128.3	\$ 125.8	\$ 124.6	\$ 122.1
Other revenues <sup>1</sup>	4.4	4.2	5.0	8.3	9.7	7.7
<b>Total revenues</b>	<b>\$ 136.7</b>	<b>\$ 134.9</b>	<b>\$ 133.3</b>	<b>\$ 134.1</b>	<b>\$ 134.3</b>	<b>\$ 129.8</b>

<sup>1</sup> Amounts include interest earnings, federal grants, private grants, and donations revenues.

Source: Auditor General staff analysis of FTF's fiscal years 2010 through 2015 financial statements audited by an independent certified public accounting firm and filed with the Office of the Auditor General in accordance with A.R.S. §8-1186(B).

<sup>3</sup> Orzechowski and Walker. (2014). *The tax burden on tobacco: Historical compilation, volume 49*. Arlington, VA.

advertising campaigns, restrictions on where people can smoke, and alternative choices, such as e-cigarettes and the type of tobacco used by different population segments. FTF's expectations are consistent with reports by the Centers for Disease Control and Prevention (CDC). Specifically, according to the CDC, the percentage of U.S. adults who smoke cigarettes is decreasing.<sup>4</sup> In addition, the CDC reported that although cigarette smoking has declined among U.S. youth in recent years, use of some other tobacco products and tobacco alternatives, such as electronic cigarettes, has increased.<sup>5</sup> As discussed on page 7, electronic cigarettes and vapor products are not taxed in Arizona, and, according to Bloomberg Intelligence, the electronic cigarette and vapor market is expected to more than triple between 2015 and 2019.<sup>6</sup> As shown in Table 4 (see page 12), the decline in tobacco tax revenues has been somewhat offset in some years by increases in other revenues, such as investment earnings and federal grants, private grants, and donations. However, total revenues still declined between fiscal years 2010 and 2015 as a result of the declining tobacco tax revenues.

**Steps taken to address declining revenues**—FTF anticipated the decline in its tobacco tax revenues and has taken various steps to plan for and manage its sustainability, including managing its fund balance. As shown in Table 2 (see page 9), FTF's fund balance reached approximately \$442.4 million at the end of fiscal year 2011 before beginning to decline in subsequent years as FTF's expenditures and transfers to other agencies for programs and services began to exceed its revenues. According to FTF, this fund balance was accumulated because, although it began receiving tobacco tax revenues at its inception in December 2006, regional grant making was not statutorily required to begin until June 2009. FTF reported that it used this time to create policies and procedures, establish tracking and accountability systems, and complete statutory requirements, such as designating regional boundaries, selecting regional council members, and conducting needs and assets assessments on the needs of young children. To continue to help plan for and manage its sustainability in light of declining revenues, FTF has:

- **Commissioned independent tobacco tax revenue projections to assist with budgeting and planning**—FTF commissioned independent tobacco tax revenue projections from the L. William Seidman Institute, W.P. Carey School of Business at Arizona State University to assist with annual budgeting and long-term planning. The first study was commissioned in 2012, with an update commissioned in 2014, and updates expected in 2016 and 2018. The 2014 projections provide a potential range of annual tobacco tax revenue through fiscal year 2030, including a lower boundary, an expected revenue amount, and an upper boundary (see pages 14 through 15 for auditors' review of the revenue projections).
- **Adopted a sustainability plan to define spending limits**—In July 2014, FTF's Board adopted a sustainability plan with the intent of defining the amount of spending FTF could reasonably expect to sustain for the foreseeable future in its efforts to help ensure stability and predictability for the programs and services funded by FTF. As part of this plan, FTF reported that it used the revenue projections, historical trends, and current year revenue collections to adopt a program budget spending target of \$126.6 million annually, which would help it manage the decline of its fund balance and stabilize its spending. FTF estimated that at this spending target, which became effective in fiscal year 2016, it could sustain its current operations for 9 to 15 years; however, FTF reported that it plans to annually review the target amount to determine if it needs to be adjusted.
- **Required regional councils to use their fund balances to better control spending**—Regional councils had accumulated fund balances of approximately \$94 million at the beginning of fiscal year 2013 from unspent program account monies that were allocated in prior years. According to FTF, the Board implemented a goal beginning in fiscal year 2013 to reduce regional councils' fund balances by planning ways to spend down these monies. These efforts helped to decrease the regional councils' fund balances to approximately \$57.9

<sup>4</sup> Centers for Disease Control and Prevention. (2016). *Trends in current cigarette smoking among high school students and adults, United States, 1965-2014*. Atlanta, GA.

<sup>5</sup> Centers for Disease Control and Prevention. (2016). *Youth and tobacco use*. Atlanta, GA. "Youth" is defined as middle- and high school students. Youth were considered to be users of a tobacco product if they reported they had used a tobacco product on at least one day during the past 30 days.

<sup>6</sup> Edney, A. (2016, May 19). E-cigarettes could be taxed by states missing out on tobacco revenue. *Bloomberg*. Retrieved from <http://www.bloomberg.com/news/articles/2016-05-19/e-cigarette-tax-may-be-new-fix-as-tobacco-money-goes-up-in-smoke>.

million by the end of fiscal year 2015. FTF reported that it planned its fiscal year 2016 allocation process to effectively eliminate the regional carry-forward balances by considering their fund balances as part of the monies available to achieve FTF's targeted program spending level of \$126.6 million annually (see prior bullet), as opposed to FTF's historical practice of adding a region's carry-forward monies to the Board's current year allocation of revenues. One impact of this strategy was to reduce allocations to the regional councils, thus slowing the decline in FTF's fund balance and allowing these monies to be used in future years to offset declines in tobacco tax revenues. FTF also reported that if regional council fund balances begin to grow again, the Board will consider if and what action(s) should be taken to reduce them again.

- **Increased efforts to identify new revenue sources**—As discussed in the Introduction, statute permits FTF to solicit private monies from individuals, corporations, and foundations to support state-wide or regional grants or programs. In 2015, FTF created a Strategic Partnerships and Investments unit, led by a resource development officer, to identify and generate alternative revenue sources, leverage existing resources in the State, and secure grant monies. Additionally, in February 2016, FTF created a new board subcommittee to oversee the implementation of the Strategic Partnerships and Investments Plan, which is designed to assist FTF in fulfilling its commitment to securing additional resources to help support long-term sustainability for the early childhood system in Arizona. The subcommittee met from March through May 2016 to review how other states fund early childhood programs and made recommendations to the Board in June 2016 for updating the prioritization of the Strategic Partnerships and Investments Plan's goals and strategies.

## **Tobacco tax revenue projections are reasonable in the short term, but long-term projections are less reliable**

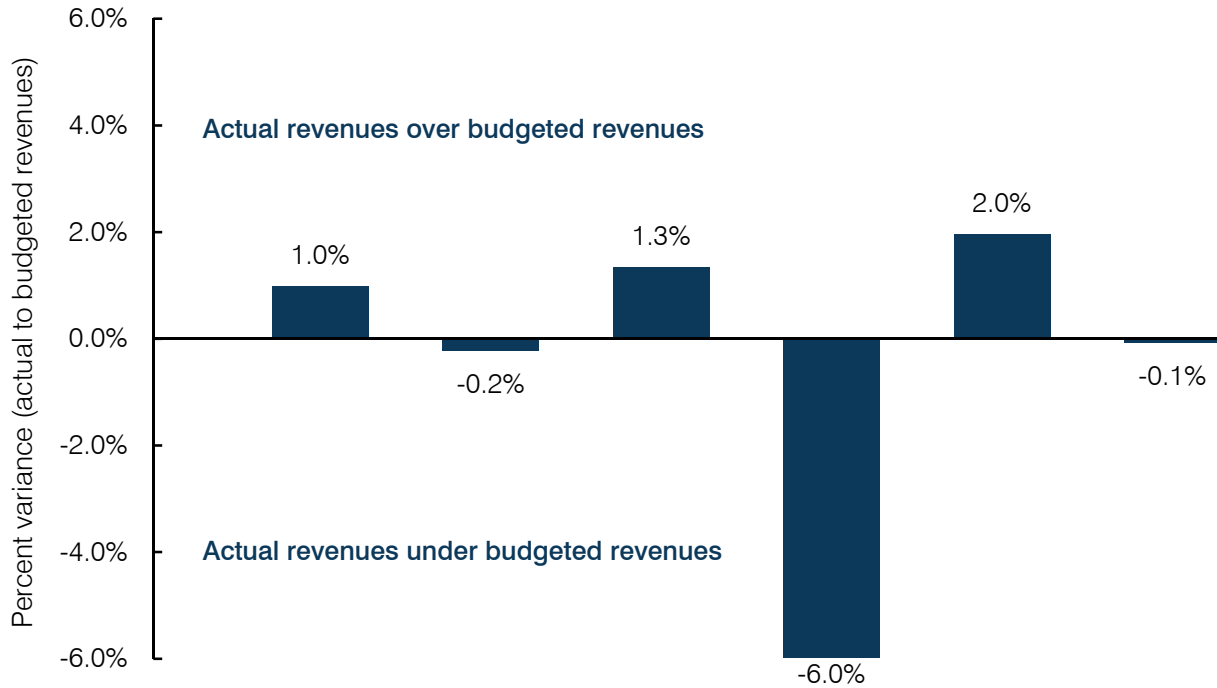
The tobacco tax revenue projections commissioned by FTF provide reasonable short-term projections, but long-term projections are generally less reliable because making long-term projections is more challenging. As discussed previously, FTF commissioned the projections to assist with annual budgeting and long-term planning. Auditors reviewed the model used to develop the projections and believe that it provides reasonable short-term projections and that FTF's use of the projections in its annual budgeting process is reasonable. Specifically, FTF prepares an annual expenditure budget that is partially dependent on reasonably accurate revenue projections. In preparing its budgets, FTF used historical revenue information for tobacco taxes and other revenues to help estimate revenues. Beginning in fiscal year 2013, FTF has also used its revenue projections to strengthen its revenue forecasting. As illustrated in Figure 2 (see page 15), actual tobacco tax revenues ranged from 6 percent under to 2 percent over the budgeted revenues that FTF developed through this process for fiscal years 2010 through 2015.

However, long-term projections are less reliable because the future is uncertain and various assumptions must be made that affect the projections. For example, tobacco tax revenues are dependent on how many packages of cigarettes are sold which, in turn, is based on a number of factors that are difficult to accurately predict, such as the percentage of the population that will smoke in the future and how many cigarettes each smoker will consume daily. Even minor adjustments to any of these variables can greatly affect future revenue projections. For example, while the 2012 projections relied on secondary data to estimate smoking consumption habits, the 2014 projections used original survey data collected by the Arizona State University, W.P. Carey School of Business, L. William Seidman Institute in order to more precisely estimate the smoking habits of Arizona citizens. As shown in Table 5 (see page 16), by updating the data on which the revenue projections are based, the 2014 projections vary considerably from the 2012 projections, further illustrating the difficulty of making long-term projections and the need for continuous review. For example, the 2012 projections expected tobacco tax revenues to increase over time, while the 2014 projections expected revenues to decline, as they have for the past several years. In addition, the range of potential revenues is much wider in the 2014 projections than in the 2012 projections, which accounts for the uncertainty of the assumptions used in the forecasting process. FTF has recognized these challenges and addressed them by commissioning updated projections for 2014, 2016, and 2018. FTF reported that it plans to continue commissioning updated projections every 2 years thereafter.



**Figure 2**  
**Comparison of budgeted to actual tobacco tax revenues and percent variance**  
**Fiscal years 2010 through 2015**  
(In millions)

	2010	2011	2012	2013	2014	2015
<b>Budgeted</b>	\$131.0	\$131.0	\$126.6	\$133.8	\$122.2	\$122.2
<b>Actual</b>	\$132.3	\$130.7	\$128.3	\$125.8	\$124.6	\$122.1



Source: Auditor General staff analysis of FTF's fiscal years 2010 through 2015 financial statements audited by an independent certified public accounting firm and filed with the Office of the Auditor General in accordance with A.R.S. §8-1186(B), and FTF-provided budget information for fiscal years 2012 and 2014.

**Table 5****2014 and 2012 tobacco tax revenue projections<sup>1</sup>****For fiscal years 2016 through 2018, 2020, 2025, and 2030**

(In millions)

(Unaudited)

Fiscal year	2014 projections			2012 projections		
	Lower boundary	Expected	Upper boundary	Lower boundary	Expected	Upper boundary
<b>Short-term projections</b>						
2016	\$ 99.7	\$ 123.1	\$ 146.8	\$ 126.9	\$ 139.2	\$ 151.5
2017	99.7	123.6	148.0	128.3	140.8	153.5
2018	99.6	124.1	149.0	129.7	142.4	155.2
<b>Long-term projections</b>						
2020	99.1	124.4	150.3	132.4	145.5	159.1
2025	96.5	123.2	150.8	137.1	151.7	166.5
2030	92.0	119.2	147.5	141.3	157.5	174.2

<sup>1</sup> The 2012 and 2014 projections were made using different data sources. The 2012 projections used secondary data to estimate smoking consumption habits, while the 2014 projections used original survey data collected by the Arizona State University, W.P. Carey School of Business, L. William Seidman Institute.

Source: Auditor General staff analysis of the Arizona State University, W.P. Carey School of Business, L. William Seidman Institute, *First Things First, Tobacco Tax Revenue Forecast Study, Final Report* dated May 14, 2012, and June 24, 2014.



## FTF spent nearly \$163 million in fiscal year 2015

First Things First's (FTF) expenditures and transfers totaled more than \$162.5 million in fiscal year 2015. The majority of this spending was for providing grants and contracts to support FTF programs and services. Additionally, FTF spent monies for employee payroll and benefits, program materials, consulting services, advertising, rent, travel, and various other expenditures.

Chapter 2 addresses FTF's fiscal year 2015 expenditures. This chapter contains no recommendations.

### Majority of FTF expenditures for grants and contracts

As shown in Table 6 (see page 18), FTF spent more than \$162.5 million in fiscal year 2015, primarily from its Early Childhood Development and Health Fund (Fund). As discussed in the Introduction (see pages 7 through 8), FTF receives revenues from a specially designated tax on tobacco products that are distributed to its Fund, which comprises various accounts with different revenue sources. The program account receives 90 percent of the tobacco tax revenues and is FTF's primary funding source for its programs and services. The administrative costs account receives 10 percent of the tobacco tax revenues to pay for FTF's administrative costs. Statute does not direct the percentage of expenditures that may be paid from each account in a given year, but FTF reported that it tries to minimize its administrative costs. Approximately 91 percent of FTF's fiscal year 2015 expenditures and transfers were paid from the program account, 8 percent from the administrative costs account, and 1 percent from other accounts.

The majority of FTF's fiscal year 2015 expenditures and transfers were for providing grants and contracts related to its programs and services. Other expenditures and transfers included payroll and related benefits, program/educational and promotional materials, consulting and other professional services, advertising, rent, travel, and various other expenditures. Specifically, as shown in Table 6 (see page 18):

- **Grants and contracts**—FTF spent more than \$142 million on 254 grants and contracts that it provided and administered during fiscal year 2015. As discussed in the Introduction, the majority of FTF's programs are provided through regional, multi-regional, or state-wide grants and contracts. FTF provided approximately \$119 million to 48 nongovernmental organizations such as Valley of the Sun United Way, Southwest Human Development, and Child and Family Resources, Inc. For example, FTF awarded the Valley of the Sun United Way several grants during fiscal year 2015, including its largest grant, through which it paid the grantee approximately \$56 million to distribute as Quality First childcare and preschool scholarships, as well as provide administrative and programmatic oversight of the scholarship distribution (see Table 1, page 5, for information on the scholarships). The remaining grants and contracts were provided to 61 governmental organizations, including other state agencies, county and municipal governments, schools, Indian tribes, and community colleges. For example, FTF provided approximately \$116,700 to the Safford City-Graham County Library in fiscal year 2015 to provide families in the Graham/Greenlee region age-appropriate books for children ages 5 and younger and to educate parents about emergent language and literacy and early brain development. Total payments to the 109 grant and contract recipients ranged from \$5,300 to more than \$68 million in fiscal year 2015 (see Appendix B, pages b-1 through b-4, for a complete list of grant and contract recipients and total fiscal year 2015 payments). Appendix A (see pages a-1 through a-7) provides more detailed information about the 32 grants and contracts that auditors reviewed.

**Table 6**  
**Schedule of expenditures and transfers by account**  
**Fiscal year 2015**  
(Unaudited)

	Program account	Administrative costs account	Other accounts <sup>1</sup>	Total
Grants and contracts	\$ 140,720,029	\$ 77,590	\$ 1,376,860	\$ 142,174,479
Payroll and related benefits	2,790,075	10,087,579	42,889	12,920,543
Program/educational and promotional materials:				
Program/educational materials	1,557,165	9,363	222	1,566,750
Promotional materials		29,777		29,777
Consulting and other professional services	1,307,065	352,156	105,769	1,764,990
Education and program advertising <sup>2</sup>	1,396,817	25,860		1,422,677
Office and other rent	35,000	892,630		927,630
Travel	59,707	344,818	9,937	414,462
Telecommunications	38,889	369,792		408,681
Furniture and equipment	66,985	236,513		303,498
Summit and operating costs <sup>3</sup>		3,461	78,620	82,081
Education, training, and registration fees	11,984	40,072	105	52,161
Copy machines	9,338	64,637		73,975
Repair and maintenance		55,532		55,532
Other expenditures <sup>4</sup>	26,839	163,870	12,050	202,759
Transfers to other agencies <sup>5</sup>		150,532		150,532
<b>Total expenditures and transfers</b>	<b>\$ 148,019,893</b>	<b>\$ 12,904,182</b>	<b>\$ 1,626,452</b>	<b>\$ 162,550,527</b>

<sup>1</sup> Other accounts are expenditures from monies collected from the federal government, either directly or through other state agencies, individuals, corporations, and foundations. Statute requires these monies to be deposited into specific accounts.

<sup>2</sup> Amount includes approximately \$569,300 that was paid in fiscal year 2015 but was for advertising through September 2015. According to FTF, amounts were paid in fiscal year 2015 to secure pricing and placement for its media campaign.

<sup>3</sup> The summit is an annual conference hosted by FTF for early childhood professionals, stakeholders, and supporters. It includes breakout sessions for best practices, innovative and evidence-based approaches, and research on a variety of early learning topics. Amount presented is net of Summit fees totaling \$185,261 that were collected from participants and does not include \$20,385 of payroll and related benefits that were incurred by FTF employees working on the summit.

<sup>4</sup> Amounts include various expenditures such as office and community outreach event supplies, utilities, and books and subscription costs.

<sup>5</sup> FTF transferred \$150,000 to the Arizona Department of Revenue, which it reported was to pay for two tobacco law enforcement officers and their operations through an interagency agreement to support the State's tobacco law enforcement efforts.

Source: Auditor General staff analysis of FTF's fiscal year 2015 accounting system financial transactions and other accounting information.

- Payroll and benefits**—FTF spent nearly \$13 million for payroll and related benefits for 172 different employees throughout fiscal year 2015.<sup>7,8</sup> According to A.R.S. §8-1195(D), FTF employees are public employees and, thus, participate in the Arizona State Personnel System and are eligible for the same benefits as all other state employees, such as health insurance. Similarly, they also participate in the Arizona State Retirement System. FTF expenditures for fiscal year 2015 included its costs related to providing these benefits. See the Introduction, pages 4 and 7, for additional information about how employees are organized and their various responsibilities.
- Program/educational and promotional materials**—FTF spent approximately \$1.57 million in fiscal year 2015 for program/educational materials, including printed materials. Most of this amount was spent to purchase program items such as DVDs and other materials included in parent kits, children's books, dental kits, and other items that provide educational messages to parents and caregivers. Approximately \$121,000 of this amount was used to acquire printed materials that contain educational messages or information about FTF. In addition, FTF spent nearly \$30,000 for promotional items, such as Band-Aid holders and highlighters branded with the "First Things First" logo. See Chapter 6, pages 40 through 42, for additional information about FTF's use of program materials for community and parent outreach and awareness efforts.
- Consulting and other professional services**—FTF spent nearly \$1.8 million for various consulting and other professional services during fiscal year 2015. For example, FTF spent approximately \$768,000 for contractors who provided ongoing development and enhancements to its various systems, including its financial accounting and grants management systems, website, data warehouse, and internal network. Additionally, FTF spent nearly \$138,000 on consultants it hired to conduct community and parent outreach activities in some regions during all or part of fiscal year 2015. FTF also spent \$47,100 to pay a required contribution to the Attorney General for general state services it provided, and \$19,000 to acquire financial audit services required annually by statute. Finally, FTF spent approximately \$127,000 for media consulting services and content development for social media, as well as project management, media planning, and strategic planning (see Chapter 6, pages 37 through 43, for additional information on FTF's media expenses).
- Rent**—FTF spent nearly \$928,000 on office and other rent in fiscal year 2015. As discussed in the Introduction, FTF has established 28 regional partnership councils located throughout the State. In addition to its main office in Phoenix, FTF leased 15 regional offices to operate its regional activities (see Table 7 for the amount of rent paid by office location).

**Table 7**  
**Schedule of office rent expenditures**  
**Fiscal year 2015**  
(Unaudited)

Office location	Rent paid
Casa Grande	\$ 20,396
Flagstaff	28,424
Globe	23,100
Lake Havasu	16,306
Lakeside	13,401
Mesa	32,830
Nogales	16,732
Parker	8,505
Peoria	40,483
Phoenix	580,235
Prescott	17,760
Safford	9,709
Sierra Vista	10,138
Tucson	48,313
Window Rock	28,881
Yuma	29,373
<b>Total paid</b>	<b>\$ 924,587</b>

Source: Auditor General staff analysis of FTF's fiscal year 2015 accounting system financial transactions and other accounting information.

<sup>7</sup> As reported in the Introduction, pages 4 and 7, FTF reported it had 142 full-time equivalent employee positions filled as of July 1, 2016. The 172 different employees reported here represents all employees paid throughout fiscal year 2015, including those who worked part of the year or part-time.

<sup>8</sup> As shown in Table 6 (see page 18), FTF paid approximately \$2.8 million from its program account in fiscal year 2015 for the salaries and benefits of FTF employees who directly operate some of its programs and services. Although Arizona Revised Statutes (A.R.S.) §§8-1181(D) and 8-1195(D) state that FTF employees should be compensated from the administrative costs account, compensating program employees from the program account is permissible given FTF's statutory authority to directly operate programs and services and use FTF monies to pay for them. Further, using program account monies to compensate program employees is consistent with good accounting practices because it helps capture all relevant program costs for monitoring and accountability purposes.

- **Education and program advertising**—FTF spent approximately \$1.4 million on education and program advertising and related costs in fiscal year 2015. See Chapter 6, pages 37 through 43, for additional information on FTF's media expenses.



## FTF generally has appropriate financial controls but should strengthen them in some areas

First Things First (FTF) has generally implemented adequate financial controls to detect and minimize errors when processing financial transactions but should strengthen its controls in some areas. Based on auditors' review of FTF's fiscal year 2015 revenues and expenditures, FTF had several controls in place for processing financial transactions, and auditors generally found them to be adequate. For example, FTF had implemented procedures for ensuring payments are supported for employee payroll and benefits and grant and contract awards, which comprised approximately 96 percent of FTF's fiscal year 2015 expenditures. However, auditors identified inadequate controls in four areas that should be improved. Specifically, FTF should strengthen its controls over cash receipts, purchasing cards, travel, and the use of wireless devices.

Chapter 3 addresses auditors' review of FTF's financial controls completed in conjunction with the review of FTF's fiscal year 2015 revenues and expenditures.

## FTF has generally implemented adequate financial controls

Based on auditors' review, FTF has generally implemented adequate financial internal controls and followed them during fiscal year 2015 (see textbox for definition of internal control). Specifically, auditors found that FTF has established adequate procedures to help detect and minimize errors regarding most of its expenditures, including ensuring payments are supported for employee payroll and benefit payments and grant/contract payments. These two categories of expenditures comprised approximately 96 percent of FTF's total expenditures in fiscal year 2015. For example, FTF had procedures for reviewing and approving employee positions and pay rates for new hires, thus ensuring salaries were appropriate before authorizing payroll payments. Additionally, FTF had procedures for reviewing and approving payments made for its grants and contracts. These controls varied slightly, depending on the type of grant awarded. For example, FTF reported that the majority of its grants are awarded on a reimbursement basis in which a grantee uses its own money to administer a program and then seeks reimbursement from FTF. Most of the grants and contracts auditors reviewed were awarded on a reimbursement basis, and auditors found that FTF required the grantee to submit a request for payment and provide documentation to support the program costs. FTF staff then reviewed the payment request to ensure it did not exceed the grant award and for compliance with the grant requirements prior to authorizing payment to the grantee. Alternatively, FTF reported that some grantees are awarded an advance-funded grant in which a grantee receives a portion of FTF monies up front. Auditors' review of an advance-funded grant found that FTF required the grantee to report how the monies were

**Internal control**—An integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting for internal and external use; and
- Compliance with applicable laws and regulations.

Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Source: United States Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, D.C.

used before issuing the next advance payment. FTF staff then reviewed the report to ensure monies were spent in accordance with the grant requirements before authorizing the next advance-funded payment. Further, FTF reported that it follows the policies and procedures set forth in the *State of Arizona Accounting Manual (SAAM)* for its financial and accounting processes.<sup>9</sup> Auditors' test work found that FTF generally complied with SAAM requirements, except as discussed in the next section.

## FTF should strengthen controls in four areas

Although FTF generally had adequate financial controls, it should strengthen its controls in four areas to comply with SAAM requirements. Specifically, auditors found that FTF should improve its internal controls in the areas of cash receipts, purchasing cards, travel, and wireless devices.

**Insufficient controls over cash receipts**—FTF receives cash and checks (cash receipts), from donors, vendors, and grantees. For example, some grantees receive advance funding and may reimburse large sums of money to FTF if the grant monies were not used. In fiscal year 2015, FTF recorded deposits of more than \$5.8 million in cash receipts and logged individual cash receipts ranging from almost \$7 up to \$4.95 million. Auditors reviewed FTF's cash-handling practices and determined that FTF had not implemented policies and procedures, as required by the SAAM, to properly account for all monies received. Specifically:

- **Access to cash receipts not limited**—Nearly all cash receipts are received through the mail, and each employee is responsible for opening his/her own mail, which may contain cash receipts. For example, some grantees may mail in unused grant monies, addressing the reimbursement to the employee responsible for monitoring the grant. Employees have been instructed to forward any cash receipts received in the mail to one employee in the accounting office. However, because each employee opens his/her own mail, access to cash receipts is not limited to as few employees as operationally practicable, as required by the SAAM. Further, because employees open mail on their own and not in the presence of others, FTF cannot ensure that all cash received is deposited.
- **Some cash receipts not logged**—FTF employees receiving mail have been instructed to log all cash receipts when received, as required by the SAAM, but not all receipts were recorded on a cash receipts log in fiscal year 2015. Auditors identified two instances where payments totaling \$5,000 were not recorded on the cash receipts log. Although not recorded on the cash receipts log, these payments were deposited.
- **Cash receipts log and deposits not reconciled**—As a result of the two receipts not being logged and keying errors, auditors identified discrepancies between the cash receipts log and the monies deposited. Although the SAAM requires that the log be reconciled to the deposit and that discrepancies be promptly and properly resolved, these clerical errors went undetected by FTF employees.
- **Duties not properly separated**—The employee that collects cash receipts received in the mail from other employees, as well as any cash receipts mailed directly to the employee, was also responsible for all cash-handling responsibilities, including logging receipts, and preparing and making deposits. As a result, cash-handling duties were not adequately separated, as required by the SAAM.

Because of the risk associated with handling cash receipts, FTF should develop and implement written policies and procedures to safeguard cash receipts and to comply with the SAAM. Specifically, FTF should ensure access to cash receipts is limited to as few employees as operationally practicable; ensure all collected cash receipts are logged; conduct regular reconciliations of the cash receipt log to the deposits and promptly resolve any discrepancies; and ensure duties for receiving, recording, and depositing receipts are properly separated.

**Ineffective controls over the use of purchasing cards**—FTF uses state-approved purchasing cards (p-cards), a type of commercial credit card, to facilitate the purchase of goods and services such as office

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<sup>9</sup> The SAAM contains instructional material as well as the State's central accounting policies and procedures. All state agencies are required to comply with the policies and procedures unless otherwise authorized by law or exempted in writing by the director of the Arizona Department of Administration.



supplies, postage, and conference and training registration fees. In fiscal year 2015, FTF had approved and provided p-cards to 32 of its employees (cardholders). These cardholders purchased goods and services totaling more than \$113,000 in fiscal year 2015. Because of the risk of theft and misuse associated with the use of p-cards, auditors reviewed all of FTF's p-card transactions for fiscal year 2015 and determined that, although FTF had p-card policies and procedures, it did not always operate effectively to ensure all p-card transactions were appropriate or complied with the SAAM. Specifically:

- **Supervisory review of p-card transactions not always effective**—Although almost all p-card transactions received a supervisory review, not all reviews were effective in identifying missing or incomplete documentation. According to the SAAM, agencies using p-cards are responsible for reconciling all charges to the p-card statement, and a supervisor must review the statement for appropriateness of charges. To comply with this policy, FTF instructs its cardholders to summarize their purchases on a summary sheet, attach receipts that support the purchases, and submit them to their supervisors for review and approval. However, auditors noticed several instances where, even though there was a supervisory review of p-card transactions, the receipts, summary sheet, and/or p-card statement did not reconcile. These purchases totaled more than \$4,000. For example, one cardholder's p-card statement included a \$230 purchase that was not supported with a receipt or listed on the summary sheet. Although the summary sheet was reviewed by a supervisor, the difference between the summary sheet and p-card statement was not detected. In addition, auditors identified three instances where the supervisor did not sign the summary sheet. As a result, not all p-card purchases were properly reviewed and approved to ensure they were appropriate or complied with the SAAM.
- **Splitting of charges**—Although FTF established purchasing limits for each cardholder, auditors identified instances where six different cardholders each split a purchase to circumvent their transaction purchase limit. These purchases totaled more than \$8,200. For example, one cardholder needed to purchase postage totaling approximately \$1,141, but that total purchase would have exceeded the cardholder's transaction purchase limit of \$1,000. To circumvent the purchase limit, the cardholder split the purchase into two different transactions, one for \$998 and another for \$143. The SAAM requires that cardholders have single transaction and monthly purchase limits, and FTF has set purchase limits for cardholders to reduce the risk of misuse. Additionally, the SAAM requires cardholders to sign an agreement stating that they will follow both state and agency policies and procedures. FTF's practice is that if a cardholder needs to make a purchase above his/her purchase limit, then the purchase should be made by a cardholder with a higher purchase limit. FTF reported that this practice has been verbally communicated to cardholders, but that it has not been documented in FTF's policies and procedures. Auditors noted instances where two different cardholders followed this practice and requested that a cardholder with a higher purchase limit make the purchases. Additionally, auditors noted an instance where a cardholder received approval from a supervisor prior to splitting the purchase. However, in the six instances where a cardholder split a purchase, a supervisor reviewed and approved the monthly summary sheet without questioning the split purchases.

Adequate and effective p-card policies and procedures are important to help prevent potential errors, fraud, theft, or abuse. Therefore, FTF should improve its p-card policies and procedures to include 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 FTF policies and procedures, including state policies that prohibit the splitting of purchases to circumvent purchase limits.

**Insufficient controls over travel**—In fiscal year 2015, FTF spent \$414,462 on travel, including payments for lodging and airfare using FTF's state-approved Central Travel Account (CTA), a type of commercial credit card used for travel-related purchases only, and reimbursements for travel-related expenses paid out of pocket (travel claims).<sup>10</sup> FTF employees, board members, and regional partnership council members travel throughout the

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<sup>10</sup> Pursuant to SAAM Topic 50, Section 50, travel arrangements, such as airfare or hotel reservations, are generally made using a state agency's Central Travel Account, or CTA. The CTA is a state-liability charge account available for all state agencies. Expenses incurred at the destination, such as car rentals, mileage, and meals, are generally paid for by the employee, who then submits a request for reimbursement in the form of a travel claim.

State for regional meetings and board meetings, and travel out-of-state for national conferences, workshops, and trainings. Auditors reviewed FTF's travel-related procedures and determined that although FTF has established written policies and procedures, they should be strengthened to ensure that monies spent on travel are properly supported and appropriate. Specifically:

- **Missing receipts**—Auditors reviewed a sample of 97 CTA travel-related purchases and 15 travel claim reimbursements from fiscal year 2015. Although the 15 travel claim reimbursements were properly supported with receipts, auditors noted 16 instances where there was no hotel receipt to support the travel-related purchases made on the CTA. The SAAM requires that adequate records must be maintained for each purchase made on the CTA.
- **CEO approved his own travel claims**—Auditors reviewed a sample of travel claims and noted that FTF's CEO approved his own travel claims. The CEO submitted 12 travel claims during fiscal year 2015 and was reimbursed \$2,366. The SAAM requires agency management to approve all travel expenditures, and this is generally documented on a travel claim form. The travel claim form requires two levels of review. The first review should be conducted by a supervisor who is responsible for certifying that the expenses were incurred for official state business or in accordance with applicable laws, grants, and contracts and approving payment. Although the SAAM does not specifically require the CEO's travel claims to be approved by a supervisor, such an approval by a second individual is still a best practice to protect the CEO and the State from improper reimbursements. The second review is performed during the payment process by an authorized accounting representative, who should certify that there are sufficient monies available to pay the claim, expenses are within allowable rates, and that all required documentation is attached. The CEO's travel claims were reviewed by an authorized accounting representative during payment processing, but they were not reviewed for appropriateness and signed by a second individual, such as the chief financial officer or an FTF board member.
- **Payment for lodging that was unused**—Auditors identified six instances totaling \$983 where FTF paid for hotel rooms that the travelers did not use. Further, two of these rooms were reserved for the same employee, but the double-booking was not detected by FTF staff during the reservation process. This resulted in waste, as these purchases did not add value to the State. Although the SAAM requires agencies to implement policies and procedures to determine when a traveler can be reimbursed and/or should reimburse an agency for charges on the CTA for canceled rooms, FTF did not have documented policies and procedures to address canceled lodging.

Establishing adequate travel policies and procedures helps prevent errors, fraud, theft, or abuse in travel purchases. Therefore, FTF should strengthen its controls over travel. This includes ensuring proper documentation is maintained for all travel-related purchases made on the CTA, ensuring the CEO's travel claims are reviewed and approved by another individual, and 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.

**Wireless devices provided without sufficient oversight**—In fiscal year 2015, FTF paid more than \$96,000 to provide wireless devices to employees and FTF board members. These wireless devices included 112 cell phones, 15 tablets, and 13 mobile broadband devices. Although FTF staff review the wireless device billing statements to ensure the accuracy of amounts billed, FTF did not perform other required monitoring activities. Specifically:

- **Wireless devices not evaluated annually for business needs or to determine if use is related to state business**—Although FTF began evaluating the overall use of wireless devices in November 2015, an evaluation of each employee's business need for a state-issued wireless device was not conducted in fiscal year 2015. FTF reported that it determines the business need for a cell phone at the time a position is created and the wireless device, such as a cell phone, is approved; however, FTF did not conduct an annual review, as required by the SAAM, to assess employees' need for a state-issued wireless device. Similarly, a periodic review of records, as required by the SAAM, was not conducted during fiscal year 2015 to determine

if wireless devices were predominantly used for state business.<sup>11</sup> FTF reported that it has not historically reviewed wireless device activity for nonbusiness use because the structure of the service plans would result in limited additional costs for nonbusiness use. Auditors found that FTF paid for some wireless service plans although the devices were not assigned to employees or board members, and the devices may not have been used or were used very little. For example, at least five cell phones were unassigned for 10 or more months during the fiscal year, for which FTF paid more than \$3,200 for service plans. Conducting these required reviews would help FTF determine if each employee's use of a wireless device is in the State's best interest, and not merely a convenience, and if the device is still needed.

- **FTF did not conduct a periodic review of the cost-effectiveness of its state-owned wireless devices and service plans**—According to the SAAM, when providing state-issued wireless devices to employees, state agencies should periodically review the service plans in effect to determine if they are the most cost-effective and economical considering the State's needs. However, FTF had not conducted a periodic review of its service plans because it reported contracting for the lowest-priced wireless device service plans that met its business needs. Specifically, FTF reported that an unlimited data service plan was required for its cell phones to provide email access to its employees. Auditors found that FTF had selected the lowest-priced service plan available on state contract that included unlimited data for 71 of its 112 cell phones as of June 30, 2015. For an additional 25 cell phones, FTF added plan features, such as hotspots that provide internet access to a laptop computer, resulting in additional monthly costs. The remaining 16 cell phones had higher-priced service plans because, according to FTF, it determined there was a business need for these employees at the time these plans were selected. FTF reported that its supervisors approved the business need for these additional features and service plans.

For these reasons, FTF indicated that conducting a periodic review was not needed. However, auditors found that some plan limits were exceeded and, therefore, FTF incurred overages costing a total of \$766 in fiscal year 2015. For example, one employee exceeded his plan limit by \$360 in May and \$180 in June, which could suggest that FTF paid higher costs for excess charges because the plan for that employee was insufficient to meet the State's needs. Further, FTF had not periodically determined that all employees who had cell phones continued to need access to email through a cell phone to perform their job duties and, therefore, still required an unlimited data plan. Conducting a periodic review would help ensure that FTF purchases the most cost-effective and economical plans to support the State's needs.

FTF began evaluating the overall use of wireless devices in November 2015 and was considering changing to a reimbursement-based wireless device option. The SAAM has policies and procedures for reimbursing employees for using their own personal devices in lieu of providing employees with state-issued devices. Although issuing state-owned wireless devices is a permissible practice under the SAAM, it may be a more expensive option. For example, FTF's cell phone service plans ranged from \$55 to \$98 per month for the state-issued devices. Under one of two reimbursement options allowed by the SAAM, employees may be reimbursed a standard amount of \$25 to \$50 per month, depending on the type of wireless plan needed. According to the SAAM, this standard reimbursement option may prove less costly than providing a state-issued wireless device. Further, because the standard reimbursement amounts are fixed and paid through employee payroll, irrespective of the type of wireless equipment or wireless plan, the standard reimbursement option may be less of an administrative burden compared to the state-issued wireless device option.

To ensure the use of wireless devices is the most economical based on use and need, FTF should continue to evaluate and pursue a cost-reimbursement option for those employees and board members it determines need wireless devices. Additionally, FTF should review the SAAM requirements for wireless devices to ensure any new plans are in compliance with state requirements. If FTF maintains its current practice and continues to provide state-issued wireless devices, FTF should follow the SAAM and implement procedures to 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. FTF should also follow the SAAM and periodically review its service plans to determine if

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<sup>11</sup> Pursuant to SAAM Topic 55, Section 60, this review should affirm that the overwhelming majority of use of a state-issued wireless device by a state employee should be related to state business.

they are the most cost-effective and economical considering the State's business needs and periodically review records to determine if the overwhelming majority of the wireless device use is related to state business.

## Recommendations

- 3.1. To improve controls over cash receipts, as required by the SAAM, FTF should develop and implement written policies and procedures to:
  - a. Ensure access to cash receipts is limited to as few employees as operationally practicable;
  - b. Ensure all collected cash receipts are logged;
  - c. Conduct regular reconciliations of the cash receipt log to the deposits and promptly resolve any discrepancies; and
  - d. Ensure duties for receiving, recording, and depositing receipts are properly separated.
- 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.
- 3.3. FTF should strengthen its controls over travel by:
  - a. Ensuring proper documentation is maintained for all travel-related purchases made on the Central Travel Account (CTA);
  - b. Ensuring the CEO's travel claims are reviewed and approved by another individual; and
  - c. 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.
- 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:
  - a. 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;
  - b. Periodically review the service plans in effect to determine if they are the most cost-effective and economical plans considering the State's needs; and
  - c. Periodically review records to determine if the overwhelming majority of the wireless device use is related to state business.



## FTF has implemented effective grants management procedures

First Things First (FTF) has implemented effective grants management procedures. Specifically, FTF has implemented standardized procedures for soliciting, awarding, and administering grants, including the use of a centralized grants management information technology (IT) system.

These procedures comply with statutory grant requirements and align with best practices for grant making. Additionally, FTF works to continually improve its grants management procedures.

Chapter 4 addresses FTF's processes for soliciting, reviewing, and approving grant applications; distributing grant funding; and monitoring grant awards. This chapter contains no recommendations.

## Grants management procedures align with statutory requirements and best practices

FTF has implemented standardized procedures for managing its competitive grants and other contracts that align with statutory grant requirements and best practices.<sup>12</sup> As discussed in the Introduction, the majority of FTF's programs are provided through grants, and FTF spent more than \$142 million on 254 grants in fiscal year 2015 (see Appendix B, pages b-1 through b-4, for a complete list of grant and contract recipients in fiscal year 2015). Although FTF awards regional, multi-regional, and state-wide grants, its procedures for administering them are the same. Specifically, FTF has developed and implemented written procedures, trainings, guidelines, templates, and checklists to consistently manage its grants. For example, FTF has established a detailed timeline for completing steps related to planning, soliciting, evaluating, and awarding grants each year.<sup>13</sup>

Auditors evaluated FTF's grants management procedures against statute and best practices and determined that the procedures were designed to comply with statutory grant requirements and that they aligned with best practices for grant making.<sup>14</sup> Further, auditors tested FTF's compliance with various procedures by reviewing a sample of 22 competitive grants awarded for fiscal years 2012 through 2015, observing some procedures, and reviewing other related documentation.<sup>15</sup> Auditors found that FTF complied with the procedures tested. Specifically, auditors found that FTF does the following:

- **Plans grant solicitations to meet identified needs**—FTF develops state-wide and region-specific funding plans annually to determine the number and types of grants to be awarded. The annual funding plans are based on FTF's biennial needs and assets assessment process, which includes opportunities for public input (see the Introduction, page 1, for more information about this assessment). In addition to region-

<sup>12</sup> In addition to competitive grants, FTF awards other contracts/agreements such as intergovernmental agreements and interagency service agreements. Although these contracts are not awarded through a competitive process, they are managed through FTF's grants management procedures, as applicable. For the purpose of this chapter, auditors refer to these contracts/agreements as grants.

<sup>13</sup> Generally, grant scopes of work are developed between January and March, solicited between February and April, evaluated between March and May, awarded in June, and become effective July 1.

<sup>14</sup> Auditors reviewed best practices from the federal government that apply to agency grant-making functions, guidance from other states' grant-making agencies, and practices related to nonprofit and philanthropic organizations' grant making.

<sup>15</sup> Auditors randomly selected 21 of the 22 grants for review and judgmentally selected the largest grant awarded in fiscal year 2015 for review.

specific grants, FTF plans multi-regional or state-wide grants, as needed, to promote more efficient grants administration. For example, in fiscal year 2015, FTF funded a multi-regional contract for family resource centers serving three regions within Maricopa County. Further, FTF uses a standardized template for its grant solicitations that staff modify based on the grant. Consistent with best practice, the scope of work for each grant that auditors reviewed included clear program objectives and performance measures.

- **Publicizes grant opportunities to potential applicants**—Auditors observed that for competitive grants, FTF publicizes grant funding opportunities on its website and through an email subscription list. According to statute, grants must be advertised for 6 weeks prior to the deadline for submitting applications. Auditors' review of the 22 grants found that FTF complied with this requirement. Questions about grant opportunities can be emailed to FTF staff, and FTF may also hold a conference for potential grant applicants to obtain more information and ask questions about the grant opportunity, instructions for submission, and how applications will be reviewed. Auditors attended two such conferences and observed that FTF staff provided helpful information to applicants. For the 22 grants auditors reviewed, the number of applications submitted for each grant ranged from 1 to 13, with 9 of the 22 grants receiving a single application.
- **Trains evaluators on reviewing and scoring grant applications**—According to its procedures, FTF convenes a grant evaluation committee for each grant to review and score the submitted applications. As required by statute, FTF selected at least three qualified evaluators to serve on each committee for the 22 grants auditors reviewed. Statute also requires the evaluators to sign conflict of interest disclosures, which they did for the 22 grants reviewed. Further, FTF trains evaluators on the evaluation process and scoring grant applications. Auditors observed this training and determined that it provides appropriate direction to evaluators for evaluating and scoring grant applications. Statute requires evaluators to review and score the applications based on factors included in the grant solicitation. According to its procedures, FTF then holds a grant application review meeting to discuss evaluators' application scores and opinions on the strengths and weaknesses of each application. Based on a review of the 22 grants, auditors found that evaluators followed scoring requirements and consistently recommended the highest-scoring applicant for award.
- **Approves grant awards and orients new grantees**—For regional grants, evaluation committees make award recommendations to the regional partnership councils (regional councils) for review, and the regional councils then forward their award recommendations to the Board for approval. For state-wide grants, evaluation committees make award recommendations directly to the Board for review and approval. Board and regional council members are provided conflict of interest training and are required to disclose conflicts when reviewing and/or approving grant awards. Auditors found that the Board approved the evaluation committees' award recommendations in all 22 instances. Once approved, FTF notifies successful grant applicants of the final grant award amount and term of the grant award, which is typically 1 year with the option of two additional 1-year renewals.

Further, FTF provides an orientation for new grantees. Based on auditors' review of the orientation material, the orientation includes an overview of FTF's structure, mission, and vision; FTF and grantees' roles and responsibilities; performance monitoring reporting requirements; and expectations for grantees' collaboration and coordination. FTF has also developed a grantee implementation guide that helps grantees understand how to request financial reimbursements and report progress of program performance.

- **Uses a centralized grants management IT system**—FTF uses a data management program called the Partners and Grant Management System (PGMS) to track and administer awarded grants through the life of the grant, including close-out. Specifically, FTF uses this system to communicate with grantees, monitor grantee performance, and manage grant reimbursements. Auditors reviewed FTF's IT systems, including PGMS, and determined that FTF appears to be appropriately securing its data and systems through the use of firewalls, anti-virus protection, data encryption, and other tools. Further, FTF staff reported that they help ensure the reliability of data in PGMS by performing quality assurance checks, limiting data ranges in many data fields, and monitoring various data logs. Finally, FTF staff provide grantees with a PGMS data entry user guide, which facilitates consistency in data entry for information that grantees are required to provide FTF through the system.

- **Reviews reimbursement requests before distributing grant funding**—Grantees may request funding monthly or quarterly and must submit documentation using PGMS to support grant reimbursement requests before receiving financial reimbursements.<sup>16</sup> PGMS is programmed to reject grantee requests that exceed the total award amount. Three FTF staff members review grantees' reimbursement requests prior to authorizing payment. Auditors reviewed a sample of 32 reimbursements—including 1 reimbursement from each of the 22 competitive grants auditors reviewed and 1 reimbursement from 10 randomly selected noncompetitive contracts—and found that the reimbursement requests were appropriately reviewed by staff prior to payment and that reimbursement requests were generally supported by grantee documentation.<sup>17</sup>
- **Monitors grantees through quarterly reporting requirements and site visits**—FTF follows multi-layered, ongoing quality assurance procedures to help ensure grantees are meeting their grant obligations. Grantees report performance measures using PGMS and FTF staff review these reports quarterly. FTF staff verify that these reports are submitted by running data submission status and exception reports. In fiscal year 2015, of the 203 grantees that were required to quarterly report performance measures in PGMS, only 2 did not do so. However, both grantees had documented the reasons for not doing so, making FTF staff aware of why reports were not submitted.

Additionally, FTF's quality assurance procedures require staff to complete site visits every year for a sample of active grants based on the size and scope of the grant and whether staff have noted red flags when processing reimbursements. For example, according to FTF's site visit schedule, staff were scheduled to conduct 47 on-site programmatic reviews during fiscal year 2015. FTF staff use a site visit assessment tool that includes an evaluation of the grantee's data collection, strategy implementation, and staff qualifications. If necessary, FTF staff provide the grantee a plan to address identified deficiencies. FTF staff follow up on the plan after the on-site visit. Auditors reviewed the 11 site visits conducted between December 2013 and December 2015 for the 22 grants auditors reviewed and found that FTF staff conducted interviews, reviewed documentation, observed service delivery, and completed file reviews as part of their review. Auditors also found that on-site visit reports included corrective action plans when needed and that FTF staff followed up on these plans. FTF's quality assurance procedures also require that staff conduct a sample of on-site financial reviews that follow a checklist and include a review of expenditures. According to FTF's site visit schedule, staff were scheduled to conduct 21 on-site financial reviews during fiscal year 2015. Auditors reviewed the 6 on-site financial reviews conducted between September 2014 and November 2015 for the 22 grants auditors reviewed and found that FTF staff identified instances where grantees were not meeting grant requirements regarding mileage reimbursement documentation, the State's allowed per diem rate, and the State's travel rate schedule, and notified the grantees of the need to comply with these requirements. FTF's on-site visits and financial reviews are consistent with best practice by helping FTF to ensure that grant recipients maintain sufficient accounting and standard of practice controls and have not violated any requirements or state laws.

- **Closes out grants annually**—FTF's close-out process helps ensure grant recipients met financial requirements, provided final reports, and returned any unspent grant monies. FTF awards grants for 1-year periods and staff are required to close out all grants and contracts and terminate grantees' access to PGMS if the grant is not being renewed. FTF notifies grantees that final performance monitoring reports and requests for financial reimbursement are due at the end of the grant term. Auditors reviewed the year-end report for fiscal year 2015, and noted that all grants were closed out as required.

<sup>16</sup> According to FTF staff, some grantees are funded in advance and receive a quarterly allotment at the beginning of the first quarter. FTF reported that these grantees are required to submit a report detailing how those monies were spent before they can receive the next quarterly allotment.

<sup>17</sup> For 1 of the 32 reimbursements reviewed, auditors found that a grantee was paid \$70,000 in fiscal year 2015 to distribute vouchers for 2,000 food boxes to low-income families with children from birth to age 5. By the end of the fiscal year, the grantee reported that 1,351 boxes had been distributed. Because FTF did not renew the grant and thus stopped monitoring the grantee, FTF staff do not know if the remaining 649 boxes were eventually distributed but believed they would be because the grantee was an established food bank.

## FTF works to continually improve grants management procedures

FTF engages in ongoing activities to improve its grants management procedures and has updated various procedures over time. Specifically, FTF has created a cross-divisional team that, among other duties, meets monthly to discuss potential improvements to its grants management procedures. This team evolved from staff's efforts to implement recommendations from a 2010 study commissioned by the Board that largely focused on standardizing its procedures. Since this time, staff reported that they have continued meeting to identify additional improvements to its grants procedures based on feedback received from FTF staff, grant recipients, and potential applicants. The use of multi-regional grants is one procedure change that has resulted from these efforts. Further, in late 2015, FTF administered three surveys to receive feedback from grant evaluators, prior grant applicants, and potential grant applicants. FTF staff met in February 2016 to review and discuss the survey results. For example, based on feedback received, staff discussed the possibility of implementing an online grants application.





# FTF has implemented research and evaluation plan but should enhance program outcome reporting

First Things First (FTF) has implemented a formal research and evaluation plan (Plan) based on recommendations from a panel of national experts (national panel) that directs its program evaluation efforts, but it should enhance its reporting of program outcomes. Specifically, the Plan directs FTF staff to perform several activities that help to ensure that FTF's funded programs are effective. The Plan also requires FTF to enhance data collection and sharing in order to assess Arizona's progress in preparing children for school. However, FTF should include more program outcome-related information in its annual report and enhance program outcome data collection, as needed, to more clearly demonstrate the impact of its programs.

Chapter 5 addresses FTF's processes for evaluating the effectiveness and outcomes of funded programs.

## FTF has established research and evaluation plan

FTF has established a Plan that directs its assessment of program effectiveness and efforts to evaluate the outcomes of its funded programs. The Plan was developed based on the recommendations from the national panel, which FTF convened in 2012 to provide recommendations on its approach to evaluating its funded programs. The national panel includes experts from the fields of early childhood development, health, and literacy; evaluation design and methodology; and school readiness. The Plan guides FTF's assessment of effective program implementation, evaluation of key funded strategies and programs, support of regional partnership councils' (regional council) decision-making, and oversight of FTF's adherence to the national panel's recommendations. It also directs FTF's efforts to enhance data collection to assess Arizona state agencies' progress in preparing young children for kindergarten.

**Plan includes activities that help ensure program effectiveness**—The Plan directs FTF staff to perform several research and evaluation activities that help ensure program effectiveness, and FTF has a dedicated evaluation team responsible for carrying out the Plan. These activities include developing standards of practice based on available research and best practice, monitoring program implementation, studying and evaluating key funded strategies and programs, supporting regional decision-making and engagement in the evaluation process, and overseeing evaluation activities. The Plan also includes a timeline and budget for these activities for fiscal years 2013 through 2017. Specifically:

- **Developing standards of practice based on available research and best practice**—The Plan includes activities to develop standards of practice based on available research and best practice. Standards of practice are the strategy-specific standards that FTF uses to guide program implementation (see the Introduction, pages 3 through 4, for more information about FTF's strategies). FTF has developed standards of practice for all of its funded strategies to help ensure that its programs operate as intended. For example, the standards of practice for the home visitation strategy include the strategy's intent; description of its significance; implementation standards, such as required program models; and references and resources. The Plan directs FTF staff to develop the standards of practice based on research and best practice, when available, and to annually review the standards of practice to determine if revisions are required based on new research findings and/or recommended practices. Based on its research, FTF incorporates best practices for strategy implementation, including evidence-based, evidence-informed, or promising practices

(see textbox). Auditors reviewed standards of practice for six of FTF's strategies and found that they required grantees to implement evidence-based, evidence-informed, and/or promising-practice programs or service models.

Evidence-based practices are considered to be a higher standard of practice than evidence-informed and promising practices because they have been subjected to a closer level of scrutiny and have demonstrated their success in achieving desired outcomes. FTF favors funding evidence-based and evidence-informed programs over less established programs. For example, FTF's grantees for the home visitation strategy must follow one of 17 approved evidence-based home visitation practice models that meet the U.S. Department of Health and Human Services (HHS) effectiveness criteria. Grantees must also maintain good standing and current affiliation with their respective national organizations or institutions for home visitation programs. FTF requires grantees providing home visitation services to follow these evidence-based practices to help ensure desired outcomes, which HHS defines as improved child health and development, families' enhanced ability to support children's development, decreased incidence of maltreatment, and improved family economic self-sufficiency and stability.

**Evidence-based practices**—Programs that have been validated by documented and scientific research and for which the evidence has gone through a peer review process.

**Evidence-informed practices**—Programs or services based on a clearly articulated logic model that have had some evaluation of outcomes.

**Promising practices**—Programs or services informed by an evidence-based practice of a similar nature, a similar program that is generally accepted as appropriate for use with the same target population, or culturally responsive practices that are known to contribute positively to program outcomes.

Source: Auditor General staff analysis of FTF documents.

- **Monitoring program implementation**—As discussed in Chapter 4 (see page 29), FTF collects and reviews performance measures to ensure grantees are implementing programs according to the standards of practice and meeting contractual requirements. Specifically, FTF requires grantees to collect and report on performance measures quarterly, which staff then review. FTF also provides technical assistance to help grantees comply with the standards of practice, as needed. In addition, FTF conducts site visits to verify that grantees are following the defined standards of practice. For example, auditors reviewed the 11 site visit reports completed between December 2013 and December 2015 for the 22 grants auditors reviewed and found that FTF staff assessed grantees' implementation of program guidelines and, as appropriate, developed corrective action plans to improve grantee performance. In one instance, FTF canceled a grant contract because of poor grantee performance and failure to implement the standards of practice.
- **Studying and evaluating key funded strategies and programs**—The Plan also directs FTF to evaluate key strategies and programs. Because of limited resources to conduct these assessments, the national panel recommended that FTF focus its evaluations on programs associated with funded strategies that are implemented throughout the State and represent large FTF investments. Based on this recommendation, FTF selected key FTF strategies for study or evaluation, including the different components of the Quality First program, home visitation programs, and child health programs.<sup>18</sup> Some of the planned studies and evaluations have been completed and posted on FTF's website. For example:
  - In fiscal year 2013, FTF completed two early learning studies: a childcare demand study and a compensation and credential study. The purposes of these studies were to understand what parents see as their most critical childcare needs and challenges, and the importance of a skilled early childhood workforce to support children's success, respectively. These studies were not designed to assess the impact of FTF's funded programs but provided information about parents' childcare needs and the qualifications and compensation of Arizona's early childhood workforce to inform FTF's future strategic planning and grant funding for childcare scholarships and professional development grants.

<sup>18</sup> Quality First is an FTF program that is designed to improve the quality of regulated early childcare and education programs by establishing standards for quality care, providing assessment and coaching to programs to improve quality, and increasing families' access to quality childcare by providing scholarships to families. See Table 1, page 5, for additional information.

- FTF also conducted a family and community survey, which was published in 2015, that provided information about parents' knowledge regarding early childhood development and perceptions of available resources. The survey found that parents could benefit from better and more accessible information about child development and available services. According to FTF, the study provided baseline data for measuring progress in assessing one of the Arizona school readiness indicators (see pages 34 through 35 for additional information about the school readiness indicators). In addition, the study provided regional councils and FTF stakeholders with information on the need for parent support in local communities. An update to this survey is planned for fiscal years 2017 and 2018.
- Finally, in 2016, FTF published the results of a state-wide evaluation of children's oral health. In 2014 and 2015, FTF partnered with the Arizona Department of Health Services to coordinate a state-wide oral health study that included performing dental screenings of more than 3,600 kindergarten students. The study concluded that tooth decay prevention efforts have resulted in fewer Arizona kindergarteners with untreated tooth decay and dental pain or infections, and a reduction in the number of kindergarteners that have never been to the dentist, since the last comprehensive study undertaken in 2003. This study provided data to assess progress against one of the Arizona school readiness indicators related to untreated tooth decay (see pages 34 through 35 for additional information about the school readiness indicators). According to the study, the percentage of Arizona children entering kindergarten with untreated tooth decay was reduced from 35 percent in 2003 to 27 percent in 2015, which exceeded FTF's target of reaching 32 percent by 2020. However, this study also reported that 52 percent of Arizona kindergarteners had experienced tooth decay compared to the national average for 5-year-olds of 36 percent. Further, many parents were unaware that their health insurance covered dental benefits. According to FTF, the results of this study will inform FTF's oral health strategies moving forward.
- **Supporting regional decision-making and engagement in the evaluation process**—One of the Plan's goals is to ensure that the regional councils have the information they need to support decision-making and to engage members in evaluation activities. For example, the results of completed studies and surveys, and FTF's progress in implementing the Plan, have been presented to council members to help them understand the information and how it might affect the implementation of their programs. Additionally, FTF staff reported holding forums to obtain council members' feedback on what data they need in order to make program funding decisions. The Plan also supports opportunities for regional councils to commission region-specific research studies to support their strategic planning efforts. Specifically, the Plan outlines guidelines that the regional councils should consider in determining when regional studies should be conducted. For example, in January 2013, a multi-regional evaluation was completed to identify how the combination of FTF-funded programs contributed to the success of family support and literacy, and supported child and family well-being in those regions. This study found that each region used their local needs and assets assessments to inform their funding decisions and that the programs evaluated adhered to FTF's program implementation requirements, as outlined in the grant scopes of work and standards of practice. The study made several recommendations, including that FTF continue to monitor regional population trends, strengthen collaboration among its grantees to promote comprehensive service delivery in the regions, and identify successful components of regional program implementation to serve as examples for other regions to follow. Further, FTF reported that, as of May 2016, it was in the early planning stages for an evaluation of family resource centers in the Maricopa and Phoenix regions. Finally, FTF appoints regional council member(s) to help oversee evaluation activities (see the next bullet).
- **Overseeing evaluation activities**—Since 2012, the national panel has met with FTF staff every 2 years to provide ongoing guidance and to assess FTF's efforts to implement the Plan. The Plan also requires FTF to annually review its evaluation activities and assess its progress in fulfilling the Plan's goals. To do so, FTF has an oversight team that includes staff from different divisions, as well as regional council members, to work with available members of the national panel. This oversight team also serves as an ongoing resource to review and provide advice on contracting with external vendors to perform evaluations, monitoring programs, developing and using data systems, and reporting.

Further, the national panel recommended that FTF prioritize its evaluation efforts given its limited resources. Specifically, the Plan recommends that advisory groups be consulted in planning and conducting studies that exceed \$500,000 and requires that FTF monitor their direction and scope. FTF has established multiple internal advisory groups comprising staff from its different divisions and regional council members, and these advisory groups would be responsible for overseeing studies specific to their area of expertise. For example, FTF has an advisory group to oversee an external evaluation of its Quality First program that is due in 2017. The advisory group comprises FTF staff from multiple divisions and FTF Quality First program administrative staff.

**Plan includes enhancing data collection and sharing to assess school readiness**—The Plan also includes actions to enhance data collection and sharing to assess Arizona’s progress in preparing children for school. Specifically, the Plan directs FTF to enhance its own data collection and data systems, as well as collaborate with partners to securely share data. FTF is working with other state agencies to establish data-sharing agreements that will provide statistical health, education, and intervention information. Further, FTF is working with Arizona’s tribal communities to acquire data that these communities have identified as being useful to support decision-making. According to the Plan, FTF’s data sharing agreements will be completed by the end of fiscal year 2017, and FTF expects to use the data to track state-wide progress of all young children in Arizona against a set of ten school readiness indicators designed to provide a holistic picture of how Arizona is preparing its children for success in kindergarten (see textbox).

## Arizona school readiness indicators

### Indicators of children’s health:

- **Well-child visits**—Percent of Arizona children receiving at least six well-child visits within the first 15 months of life.
- **Healthy weight**—Percent of Arizona children ages 2 to 4 with body mass index in a healthy weight range.
- **Dental health**—Percent of Arizona children age 5 with untreated tooth decay.

### Indicator of family support and literacy:

- **Confident families**—Percent of Arizona families reporting they are competent and confident about their ability to support their child’s safety, health, and well-being.

### Indicators of child development and early learning:

- **School readiness**—Benchmark based on the Arizona kindergarten developmental inventory’s assessment of children demonstrating school readiness at kindergarten entry in the developmental domains of social and emotional ability; language and literacy; and cognitive, motor, and physical skills.
- **Quality early education**—Percent of Arizona children enrolled in an early care and education program with a Quality First rating of 3 to 5 stars.
- **Quality early education-special needs**—Percent of Arizona children with special needs/rights enrolled in an inclusive early care and education program with a Quality First rating of 3 to 5 stars.
- **Affordability of quality and early education**—Benchmark related to Arizona families that spend no more than 10 percent of the regional median family income on quality early care and education programs.
- **Developmental delays identified in kindergarten**—Benchmark related to early screening and intervention for children with developmental delays.
- **Transition from preschool special education to kindergarten**—Percent of Arizona children exiting special education preschool and entering regular educational kindergarten.

Source: Auditor General staff analysis of FTF documentation.

In some instances, reporting data for the school readiness indicators has required identifying new sources of data to be collected. For example, FTF is working with the Arizona Department of Education (ADE) to develop and implement a kindergarten developmental inventory that will be used to collect data for one indicator. This inventory will assess the developmental level of children entering kindergarten in areas such as physical well-being, motor skills, social and emotional ability, literacy, and general knowledge to inform teachers and families. According to a status update provided by ADE to FTF and reported during the national panel's April 2016 meeting, ADE was piloting the inventory in select classrooms and may be able to launch the kindergarten developmental inventory state-wide for the 2017-2018 school year.

## FTF should enhance reporting program outcomes

To more clearly demonstrate the impact of its programs, FTF should enhance its reporting of program outcomes. Specifically, FTF should include more outcome-related information in its annual report to better fulfill its statutory requirement to describe the outcomes of its programs for children and families. FTF should also enhance outcome data collection, as needed.

**FTF should enhance reporting of outcomes in annual report**—To more clearly demonstrate the impact of its funded programs, FTF should enhance its reporting of outcome-related information in its annual report. Arizona Revised Statutes (A.R.S.) §8-1151 declares voters' intent in establishing FTF, including that FTF's successes be measured by outcomes for children and families. Further, A.R.S. §8-1192 requires that FTF prepare an annual report that includes a description of the outcomes for children and families achieved by FTF's Board, regional councils, and grant recipients.<sup>19</sup> Auditors reviewed FTF's fiscal year 2015 annual report and found that it included information about the importance of early childhood development and health, program expenditures, performance measure data, anecdotal stories about individuals impacted by FTF programs, and other information about FTF's involvement in the educational system.

However, auditors found that the report included limited information about the outcomes of its funded programs. Specifically, the report included ten performance measures regarding the extent of services provided to children, families, and early childhood professionals. Some of these measures demonstrate the short-term outcomes of specific programs. For example, the report included the number of fluoride varnishes applied to children to protect against dental decay. Although this is a measure of services provided, it also represents a short-term outcome because fluoride varnishes can help prevent tooth decay. However, other measures, such as the number of professional development scholarships awarded, do not indicate whether the expected program outcomes were achieved.

FTF's annual report would be strengthened by including additional information related to program outcomes that is already available. For example, this information could come from the performance measure data collected from grantees; research that supports its funded strategies; completed and planned future studies, such as its 2016 oral health study and the Quality First program evaluation scheduled to be completed in 2017; and data from the school readiness indicators as it becomes available. In addition, FTF could include information from prior years in its annual report to show trends in the services provided, such as the increasing number of childcare and preschool providers that meet or exceed its quality early learning standards. Including this outcome information would help Arizona citizens and stakeholders better understand FTF's impact and help fulfill its statutory reporting requirements. Therefore, FTF should enhance its annual report by including more outcome-related information in it.

**FTF should enhance outcome data collection for some strategies**—To more fully report program outcomes, FTF should enhance its collection of outcome data for some strategies. Auditors reviewed the performance measures that FTF collected for 6 of the more than 50 funded strategies in fiscal year 2015, including nutrition and obesity, oral health, quality first scholarships, parent kits, home visitation, and family resources centers (see Table 1, pages 5 through 7, for more information about these funded strategies). Based on this

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<sup>19</sup> Additionally, FTF has published region-specific "impact reports" that include similar information as its annual report. As of June 2016, 26 of the 28 regional councils had published an impact report for fiscal year 2015.

review, auditors identified opportunities for FTF to strengthen its collection of outcome data for some strategies. For example:

- For the parent kit strategy, which provides educational materials to parents of newborns (see textbox), FTF collects data for one performance measure: the number of parent kits distributed in the State. FTF reported that, in fiscal year 2015, it distributed more than 75,000 kits.<sup>20</sup> Although reporting the number of kits distributed in the State supports FTF's understanding of the program's coverage, this measure does not demonstrate that the kits are actually being used by new parents. As a result, FTF does not know whether parents that received the kits took the time to review the DVDs and other materials or even had access to a DVD player. However, FTF is in the process of developing and implementing a survey of parents receiving parent kits in Arizona for fiscal year 2017 that will address whether parents found the items in the kit helpful.

Parent kits include:

- A set of 6 DVDs featuring topics such as health and nutrition, child safety, discipline, early literacy, and finding quality childcare
- A book to encourage early reading
- A refrigerator magnet with the toll free Birth to Five Helpline number
- An 80-page Arizona Parent Guide that includes resources like phone numbers and websites, and useful tips

Source: Auditor General staff review of FTF website.

- One goal for the family resource centers strategy—which connects families to information, resources, and services—is to improve parenting skills through parenting activities, such as informational workshops and support groups. Although FTF has performance measures regarding the number of parenting activities held, the number of people attending activities, and the number of families receiving referrals for services, these measures do not assess whether parents' participation helped them improve their parenting skills. Some information could be collected that would help FTF better assess whether these activities are helping participants improve their parenting skills, such as asking participants to complete a short questionnaire following the activity or a follow-up survey sent at a later date.

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

## Recommendations

- 5.1. FTF should enhance its annual report by including more outcome-related information in it.
- 5.2. FTF should enhance outcome data collection, as needed, to more clearly demonstrate its programs' impact in Arizona.

<sup>20</sup> According to the Arizona Department of Health Services, there were approximately 85,000 births in Arizona in calendar year 2015.



## FTF engages in media and community and parent outreach and awareness strategies

First Things First (FTF) engages in media and community and parent outreach and awareness efforts to help meet its statutory responsibilities to increase public information about the importance of early childhood development and health and to offer parent and family support, education, and information on early childhood development and literacy. In fiscal year 2015, FTF spent nearly \$1.4 million on its state-wide media efforts and approximately \$1.7 million on community outreach and awareness efforts. FTF uses various means to assess the impact of its media and community outreach efforts. These include reviewing summary reports prepared by its media consultants on how people are receiving FTF messages, as well as assessing specific measures of success like the number of individuals who sign up to receive more information from FTF and the number of referrals FTF receives to share information about early childhood development and health. Additionally, other FTF programs supporting parents involve media and outreach efforts as well.

Chapter 6 addresses the cost and purpose of FTF's media and outreach efforts, including an assessment of any impact studies of these efforts. This chapter contains no recommendations.

### FTF spent \$3.1 million on media and community outreach efforts in fiscal year 2015

In fiscal year 2015, FTF spent more than \$3.1 million on its media and community outreach efforts (see Table 8, page 38). Arizona Revised Statutes (A.R.S.) §8-1151 requires FTF to offer parent and family support, education, and information about early childhood development and literacy. Additionally, A.R.S. §8-1171 authorizes FTF to engage in efforts that increase public information about the importance of early childhood health and development. To help fulfill these responsibilities, FTF has a community awareness program goal area that includes three strategies related to media, community outreach, and community awareness (see the Introduction, pages 3 through 4, for information about FTF's program goals and strategies). According to FTF, these strategies are key to building parent and community awareness about the importance of early childhood development and health, which is one of its priority roles in the early childhood system. For its media strategy, FTF used two consultants to assist in planning and implementing its state-wide media and advertising efforts in fiscal year 2015. Regional partnership councils (regional councils) can choose to fund the media, community outreach, and community awareness strategies to raise awareness of the importance and availability of early childhood development and health programs within their regions.

**FTF spent nearly \$1.4 million on media strategy**—FTF's media strategy includes traditional advertising—such as television, radio, and billboards—as well as Internet advertising and social media marketing to increase awareness of the importance of early childhood development and health. In fiscal year 2015, FTF worked to execute this strategy using two consultants that hold state-wide contracts for marketing services with the State of Arizona. These consultants assisted with the planning, development, implementation, and assessment of the impact of its media efforts. In fiscal year 2015, FTF spent nearly \$1.4 million on its media strategy, including \$569,300 paid in advance for advertising through September 2015 (see pages 38 and 39). Specifically:

**Table 8**  
**Schedule of expenditures for FTF's media, community outreach, and community awareness strategies**  
**Fiscal year 2015**  
(Unaudited)

Description	Media	Community outreach	Community awareness	Total
<b>Education and program advertising<sup>1</sup></b>				
Television	\$ 751,605			\$ 751,605
Out-of-home, including theatres	271,267			271,267
Radio	123,909			123,909
Internet	55,871			55,871
Newspapers and magazines	26,175			26,175
Social media	22,633		\$ 164	22,797
Outdoor	14,476			14,476
Other <sup>2</sup>	700	\$ 166	120,720	121,586
<b>Total education and program</b>	<b>1,266,636</b>	<b>166</b>	<b>120,884</b>	<b>1,387,686</b>
<b>Total payroll and related benefits</b>		<b>1,117,093</b>	<b>2,919</b>	<b>1,120,012</b>
<b>Consulting services</b>				
Community outreach		137,996		137,996
Project management, media planning, and strategic planning	65,415			65,415
Social media program content and delivery	61,200			61,200
<b>Total consulting services</b>	<b>126,615</b>	<b>137,996</b>	<b>-</b>	<b>264,611</b>
<b>Program items</b>				
Children's books			72,876	72,876
Printed materials		1,175	63,496	64,671
Other program items			118,034	118,034
<b>Total program items</b>		<b>1,175</b>	<b>254,406</b>	<b>255,581</b>
<b>Total travel</b>		<b>41,290</b>		<b>41,290</b>
<b>Total grant and contracts</b>			<b>19,283</b>	<b>19,283</b>
<b>Total telecommunications</b>		<b>16,863</b>		<b>16,863</b>
<b>Total other</b>		<b>8,253</b>	<b>12,311</b>	<b>20,564</b>
<b>Total expenditures</b>	<b>\$ 1,393,251</b>	<b>\$ 1,322,836</b>	<b>\$ 409,803</b>	<b>\$ 3,125,890</b>

<sup>1</sup> Amounts include approximately \$569,300 that was paid in fiscal year 2015 but was for advertising through September 2015. According to FTF, the amounts were paid in fiscal year 2015 to secure the pricing and placement for its media campaign.

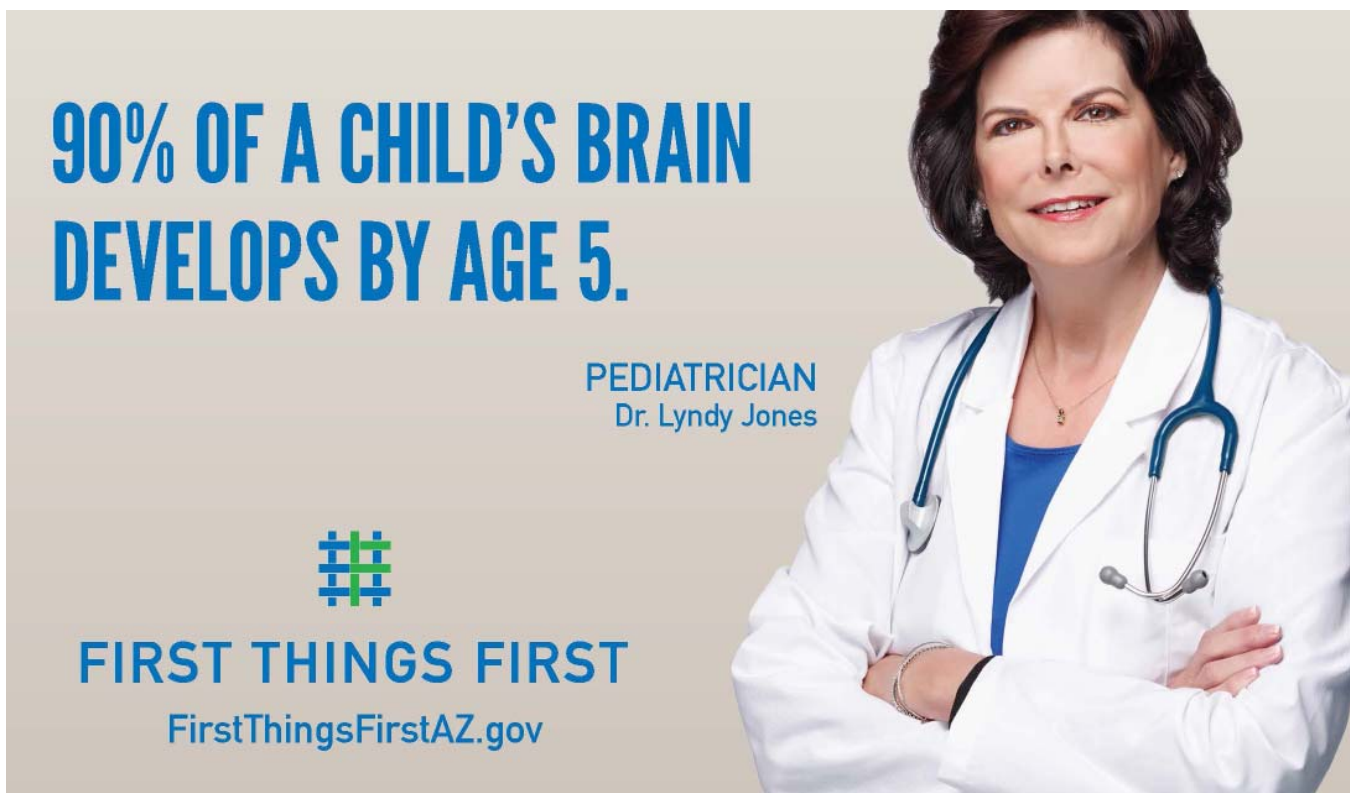
<sup>2</sup> Amount comprises over 50 vendors for which auditors did not review supporting documentation to determine the specific type of advertising. According to FTF, the vast majority of these payments was to support parent and community outreach efforts, such as the Arizona Child Abuse Prevention Conference, to increase awareness of the importance of early childhood development and health.

Source: Auditor General staff analysis of FTF's fiscal year 2015 accounting system financial transactions and other accounting information.



- Moses Inc. (Moses) assisted FTF in developing and implementing its fiscal year 2015 “Awareness” state-wide media campaign. This campaign was intended to raise awareness of the importance of early childhood development and health, and position FTF as a recognized and trusted voice in early childhood development and health. The campaign included a variety of paid media throughout the State, including television commercials, movie theater ads, radio ads, billboards, print media, and online advertising (see Photo 1 for an example). According to FTF staff, Moses consulted with FTF in developing the content for the advertising and selected the best way to reach the most people in different areas of the State. At the end of the campaign, Moses provided a summary of the total number of media impressions—exposure of a home or an individual to an advertisement—made and information on which types of advertising reached the most people. Auditors’ review of the summary report provided by Moses shows that the fiscal year 2015 campaign yielded over 40 million media impressions (See Table 9, page 40, for more information).<sup>21</sup> As shown in Table 9, outdoor advertising, such as billboards, yielded the most total impressions. The summary report provided by Moses is FTF’s primary method for measuring the impact of its paid media efforts. In fiscal year 2015, FTF paid Moses \$65,415 for media consulting services and \$1,243,304 to purchase advertising space, including approximately \$569,300 that was prepaid for fiscal year 2016 advertising through September 2015, which FTF reported that it did to secure pricing for its media campaign.

**Photo 1**  
**Example of a media piece from FTF’s 2015 campaign**



Source: Photo courtesy of FTF.

- Integrated Web Strategy, LLC (IWS) provided social media consultation services to FTF that included developing an annual social media plan. This plan involved determining the types of content to post on FTF’s Facebook and Twitter accounts, assisting in developing this content, posting the content, and reporting

<sup>21</sup> FTF staff reported that Moses used industry-standard media metrics to measure the number of impressions. For example, for radio and television advertisements, the radio and television stations provided Moses with affidavits showing when ads were played. For online advertising, digital tools tracked the impressions delivered.

on the performance of social media content. Social media content included information related to early childhood health and development. For example, FTF’s Facebook page included articles on ways to build a child’s writing skills, how to prepare a preschooler to read, and how good nutrition affects a child’s social development. IWS also assisted FTF in developing paid advertising through social media. Paid social media advertising includes content similar to unpaid social media posts but is used to reach a specific audience or demographic. For example, if FTF had a message that it believed should be targeted to mothers of young children, IWS and FTF might have created a paid Facebook advertisement that would only be displayed to Facebook users who are mothers of young children and who are on Facebook. Further, IWS sent FTF weekly and monthly reports showing the number of people reached through social media efforts. FTF staff also reported maintaining consistent communication with IWS regarding the impact of social media and having weekly editorial/strategy meetings, which were in-depth discussions of new tactics, best practices, strategy recommendations and new content, as well as tracking recent performance of social media efforts. According to FTF documentation, in fiscal year 2015, the number of FTF’s Facebook page “likes” increased by 62 percent, and the number of people engaging with FTF via Twitter increased by 34 percent. FTF paid IWS \$22,633 for social media advertising and \$61,200 for consulting services, research, and content development during fiscal year 2015.<sup>22</sup>

**Table 9**  
**Media impressions by advertising type<sup>1</sup>**  
**Fiscal year 2015**  
(In thousands)

Advertising type	Number of impressions
Television	9,130.9
Out-of-home, including theaters	9,913.5
Radio	528.0
Internet	9,504.4
Newspapers and magazines	539.4
Outdoor	10,751.2
<b>Total</b>	<b>40,367.4</b>

<sup>1</sup> Media impressions are the number of homes or individuals exposed to an advertisement.

Source: Auditor General staff analysis of Moses’ fiscal year 2015 campaign summary report.

**FTF spent approximately \$1.7 million on community outreach and awareness strategies—**

According to FTF staff, its community outreach and awareness strategies provide a community-based approach to raise awareness of early childhood development and health with parents, families, and other members of a target audience. These strategies are funded and implemented at the regional level, and FTF reported that it provides training, supervision, and support for these efforts. In fiscal year 2015, FTF’s regional councils spent more than \$1.3 million for community outreach and nearly \$410,000 for community awareness. Specifically:

- **Community outreach**—The community outreach strategy involves engaging people and organizations who can share information about early childhood development and health. If a regional council chooses to invest in community outreach, that council would hire a parent awareness and community outreach coordinator (coordinator) to work in that specific region. These positions can be full- or part-time.

Coordinators use various tactics to reach individuals and organizations regarding the importance of early childhood (see textbox, page 41). For example, according to documentation, FTF provides site tours of FTF-funded early childhood programs and provides speaker trainings so that FTF volunteers are equipped to speak about early childhood and FTF. FTF staff reported that there were 15 coordinators on staff and three vacancies as of April 2016.

- **Community awareness**—The community awareness strategy raises awareness of early childhood development and health through participation in the community. This strategy includes the purchase and distribution of printed materials, reinforcement items like dental kits, children’s books, and general parent education materials that provide information on early childhood development and health (see textbox, page 41, for definitions and examples). For example, in fiscal year 2015, FTF spent nearly \$73,000 on the purchase of children’s books. According to FTF documents, these books were distributed to parents and caregivers

<sup>22</sup> FTF also paid IWS \$164 for social media advertising for the community awareness strategy in fiscal year 2015.

## Community outreach tactics

- **Presentations, community events, networking, and one-on-one meetings**—These events allow FTF to share information about early childhood and FTF in order to raise overall general awareness and identify and recruit individuals who may be interested in becoming more involved with FTF.
- **Success stories**—Sharing success stories demonstrates the impact of FTF-funded early childhood programs and services to inspire action. These stories are shared through media, presentations, and by members of the community.
- **Site tours**—Site tours for community members, community leaders, and others of FTF-funded early childhood programs demonstrate the impact of early education, health, and family support programs on young children.
- **Speaker's trainings**—Speaker trainings instruct FTF volunteers on how to share consistent messages about early childhood and FTF.
- **Earned media**—Earned media involves working with local media outlets to share information on the importance of early childhood, share FTF updates, and share stories on the impact of FTF-funded services.

Source: Auditor General staff analysis of FTF documents.

## Community awareness tactics

- **Collateral materials**—Printed materials that provide audiences with information on early childhood development and health.
- **Educational reinforcement items**—These items should serve as a visual reminder of information that FTF volunteers or staff may have previously provided. For example, dental kits may be given to families to remind them of the importance of oral health.
- **Children's books**—FTF purchases books at a cost of between \$1 and \$4 each for distribution to families to reinforce the importance of early literacy.
- **Event participation**—This occurs when FTF has a table or booth, or distributes materials regarding early childhood at a community event.
- **Event sponsorships**—Although similar to event participation, event sponsorships include other benefits to FTF such as advertisements or being listed as a sponsor in event materials.
- **Hosting events**—FTF takes the lead in planning and hosting an event such as a family fun day.

Source: Auditor General staff analysis of FTF documents.

in conjunction with a message about the importance of reading to young children. Additionally, auditors observed an event where FTF distributed community awareness items such as magnets with toll-free parent and caregiver helpline information and a checklist for encouraging healthy development in young children. Staff were informative and judicious in giving out these items. Specifically, staff engaged participants and provided them with items based on the questions and issues raised by participants.

According to FTF, the community awareness strategy reinforces and complements FTF's general work as well as the community outreach strategy by sharing information about the importance of early childhood development and health through the sponsorship of, or participation in, community events. FTF reported that when a region invests in community awareness, the strategy is generally supported by a coordinator, a regional director, or both. These individuals coordinate the distribution of community awareness materials. During fiscal year 2015, 25 regions invested in community awareness.

FTF has various methods of assessing the impact of community outreach and community awareness efforts. For example, FTF has an online activity tracking form that coordinators and volunteers can complete whenever they attend an event. FTF is able to run reports from this tool to track its outreach activities. For example, coordinators fill in information regarding the number of event attendees and the type of audience represented at the event, such as business or nonprofit organizations, parents, or educators. FTF staff also provide the Board with information on the impact of these efforts using several metrics that measure the impact of community outreach and community awareness.

These metrics include the following:

- The number of volunteers who in some way support FTF's mission and act to build public awareness of the importance of early childhood development and health. FTF characterizes these individuals, depending on their level of involvement, as friends, supporters, and champions (see textbox). According to FTF documentation 6,032 friends, 1,098 supporters, and 367 champions were added in fiscal year 2015.
- The number of individuals that move from being a friend to a supporter or a supporter to a champion.
- The number of referrals FTF receives to present to someone in the community. FTF reported that it received 750 referrals to share information about early childhood development and health, and that these referrals resulted in 206 presentations in fiscal year 2015.
- The number of positive actions taken by supporters and champions to increase early childhood awareness. For example, a supporter or champion may write a letter to a newspaper's editor or share a message about early childhood with their professional network. According to FTF documentation, supporters and champions reported nearly 350 positive actions taken on behalf of young children in Arizona in fiscal year 2015.
- Qualitative information such as stories about individuals being impressed by tours of preschool facilities where children receive FTF scholarships.

**Friends are “Level 1” stakeholders**—Individuals who have a general awareness of early childhood development and health and FTF. They may have signed up to receive the e-newsletter or engaged FTF on social media.

**Supporters are “Level 2” stakeholders**—Individuals who have more than a general awareness of early childhood and FTF and are willing to share information about early childhood with their personal and professional networks.

**Champions are “Level 3” stakeholders**—Individuals who take an active role in spreading the word about early childhood. Champions have been trained to deliver FTF's message through organizing activities, recruiting others, providing trainings, and participating in other activities related to early childhood.

Source: Auditor General staff review of FTF documents.

## Other FTF strategies involve media and outreach

Other strategies that FTF funds involve media and outreach activities but are intended to accomplish goals beyond raising awareness. For example:

- FTF's parenting outreach and awareness strategy is intended to raise awareness of positive parenting practices, child development, and knowledge of available services and support. Unlike the community outreach and awareness strategies explained previously, the parenting outreach and awareness strategy is implemented by grantees. Components of this strategy include paid and unpaid media coverage, distributing resources like parenting tip sheets and child health fact sheets, and parenting activities such as parenting support groups and informational workshops. Although this strategy seems similar to community outreach and awareness, FTF staff explained that it is intended to encourage specific behaviors in parents, while community outreach and awareness works to spread general awareness of early childhood development and health. In assessing the performance of the parenting outreach and awareness strategy, FTF collects information on specific service units such as the number of books distributed and the number of workshops held. In fiscal year 2015, FTF's regional councils spent approximately \$1.2 million on this strategy, with the

majority of this amount awarded as grants to public libraries, tribal nations, the Arizona Board of Regents, and others.

- As discussed in Chapter 5 (see page 36), FTF's parent kit strategy provides parent kits to parents in Arizona. This is a state-wide strategy that is implemented through a contract. Parent kits include six DVDs about good parenting practices, a resource guide, and a book to encourage early reading. Although this strategy promotes general awareness of early childhood development and health, it also provides new parents with information on specific topics like health, nutrition, and literacy. FTF tracks the number of parent kits distributed in Arizona annually. In fiscal year 2015, FTF reported distributing 75,040 parent kits and spending \$1.45 million on this strategy.





## FTF fosters collaboration and coordination of early childhood services

First Things First (FTF) fosters the collaboration and coordination of early childhood services. Specifically, FTF was established as a collaborative agency in order to help coordinate early childhood development and health programs, and its tiered governance structure, including both its Board and regional partnership councils (regional councils), help enable its collaborative efforts. Additionally, FTF uses several processes to continually identify new opportunities for collaboration and coordination, which also help reduce the risk of duplicating services. These processes include conducting biennial needs and assets assessments, developing annual funding plans, participating in a national collaborative initiative, and hosting an annual early childhood summit.

Chapter 7 addresses FTF's processes for identifying potential areas of duplication or opportunities for collaboration among FTF-funded programs and other state agencies, and/or the education system serving similar child populations. This chapter contains no recommendations.

### FTF established as collaborative agency

FTF was statutorily designed as a collaborative agency to help coordinate early childhood development and health programs. Specifically, according to Arizona Revised Statutes (A.R.S.) §8-1151(B), FTF was created to provide the necessary coordination and funding for early childhood development and health programs. Its statutory objectives include working with parents, community leaders, local governments, public and private entities, and faith-based groups to improve the quality of and increase access to early childhood development programs in communities throughout the State, as well as giving Arizona's diverse communities a voice in identifying programs that address their particular needs. To help fulfill these objectives, FTF's mission is to be one of the critical partners in creating a family-centered, comprehensive, collaborative, and high-quality early childhood system that supports the development, health, and early education of all Arizona's children from birth to age 5.

Further, FTF's statutorily established tiered governance structure, which includes numerous stakeholders at the board and regional council levels, fosters collaboration and coordination. Specifically, at the board level, 3 of the Board's 12 members are ex-officio, nonvoting members from the Arizona Departments of Education (ADE), Economic Security (DES), and Health Services (DHS). Participating on the Board provides these agencies and FTF opportunities to be aware of each other's programs and enables them to coordinate their efforts. During the course of the audit, auditors noted numerous examples of FTF collaborating and coordinating with these agencies, as well as the Arizona Department of Child Safety (DCS). For example:

- **ADE collaborations**—Between 2011 and 2013, FTF reported that it collaborated with ADE to develop guidelines and standards based on national best practices for children in early childhood educational environments. These included Program Guidelines for High Quality Early Education: Birth through Kindergarten; Infant and Toddler Developmental Guidelines; and Early Learning Standards.

Additionally, ADE was awarded an \$80 million federal Preschool Development Grant in 2014, to be distributed over 4 years, to improve the quality of preschool programs for children from low- and moderate-income families in select high-need communities. FTF reported that in fiscal year 2016, ADE provided FTF monies

from the federal Preschool Development Grant to coordinate these quality improvement efforts through FTF's Quality First program.

- **DCS collaborations**—Although a representative from DCS does not serve as an ex-officio board member, FTF was required to report to the Joint Legislative Budget Committee on its collaborative efforts with DCS in February 2015 and February 2016.<sup>23</sup> According to the 2016 collaboration report, DCS and FTF have aligned their regional structures to help ensure that staff in the same geographic area can build effective collaborative relationships. Specifically, the report indicated that FTF and DCS have held learning sessions to build awareness among case managers of the existing FTF-funded services in their geographic areas to better support families through learning sessions. According to the report, these learning sessions also provided information on brain development in young children and the long-term impact of trauma on young children, which DCS staff indicated complemented and reinforced their training.
- **DES collaborations**—FTF and DES staff reported that they have shared data to help ensure that children receiving childcare subsidies from DES are not also receiving FTF childcare scholarships. According to FTF staff, FTF and DES shared and analyzed data in July 2013 and December 2015 to ensure no recipients were receiving more than a full day's worth of funding for childcare. FTF reported that if duplication was found, the recipient continued to receive DES funding but stopped receiving FTF funding. FTF also reported that, as of April 2016, it was working with DES to develop a monthly, automated process to perform this data match on a regular basis.

In addition, FTF expenditures have contributed to the federal state matching and maintenance-of-effort requirements for the federal Child Care and Development Fund block grant (CCDF) monies that DES has received.<sup>24</sup> Specifically, this grant provides states with federal monies to improve the affordability, availability, and quality of childcare. To draw down CCDF monies, states are required to contribute monies toward the grant's purpose to meet CCDF's state matching and maintenance-of-effort requirements. Since fiscal year 2011, FTF expenditures have been used to largely fulfill these requirements. For example, a 2015 memorandum of agreement between FTF and DES indicated that up to \$30 million of FTF expenditures in federal fiscal year 2016 would be used to meet these requirements. According to FTF documentation, these expenditures are for strategies within its quality and access goal area, such as Quality First scholarships and childcare health consultation. FTF's contributions to the federal requirements have helped the State draw down more than \$220 million in CCDF monies in fiscal years 2011 through 2016.

- **DHS collaborations**—In fiscal years 2013 through 2015, DHS provided FTF with monies from the Maternal Infant and Early Childhood Home Visitation federal grant to expand home visitation programs for families with young children in the Pima North and Yavapai regions. For example, DHS provided FTF with approximately \$1.4 million from this grant in fiscal year 2015.

Additionally, as discussed in Chapter 5 (see page 33), in 2014 and 2015, FTF partnered with DHS to coordinate a state-wide oral health study that included performing dental screenings of more than 3,600 kindergarten students. The study concluded that tooth decay prevention efforts have resulted in fewer Arizona kindergarteners with untreated tooth decay and dental pain or infections, and a reduction in the number of kindergarteners that have never been to the dentist, since the last comprehensive study undertaken in 2003. However, this study also reported that 52 percent of Arizona kindergarteners had experienced tooth decay compared to the national average for 5-year-olds of 36 percent. Further, many parents were unaware that their health insurance covered dental benefits.

- **Multi-agency collaborations**—As discussed in Chapter 5 (see page 34), FTF has developed ten school readiness indicators that are designed to provide a holistic picture of how Arizona is preparing its children for success in kindergarten. As part of this process, FTF is working with ADE to develop and implement a kindergarten development inventory that will be used to collect data for one of these indicators. FTF also

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<sup>23</sup> This reporting requirement continues through February 2017.

<sup>24</sup> The maintenance of effort requirement means that a state will spend a specified minimum amount of nonfederal monies to help eligible clients in ways that are consistent with the program involved, which in this case is applicable childcare programs.



reported that, as of April 2016, it was in the process of requesting data for two other indicators from the Arizona Health Care Cost Containment System (AHCCCS).

FTF has also collaborated with ADE, DCS, DES, and DHS to coordinate home visiting programs throughout the State.<sup>25</sup> Specifically, in 2010, these state agencies inventoried and mapped existing home visiting services in Arizona to help promote coordination of services and leverage state and federal resources for these programs. This coordination resulted in a 5-year strategic plan that guided these state agencies' efforts to deliver consistent, high-quality home visiting services from 2010 through 2015. FTF reported that, since 2015, this interagency team has met monthly to continually monitor these programs and to help ensure there is no duplication.

Finally, the regional councils are also structured to enable collaboration and coordination. Regional councils consist of both early childhood development professionals and community members who bring a range of backgrounds to the councils. Specifically, seats on each regional council are designated for a business person, a childcare provider, a faith community representative, a health service provider, a parent of a child age 5 or younger, a public school administrator, and others (see the Introduction, page 2, for additional information on the statutory requirements for regional council composition). These council members work together to make decisions regarding services to be funded in their communities through the needs and asset assessment and funding plan processes discussed in the next section.

## FTF uses several ongoing processes to identify opportunities for collaboration and coordination

FTF has implemented several ongoing processes to identify opportunities for collaboration and coordination. These processes include conducting biennial needs and assets assessments, developing annual funding plans, participating in a national collaborative initiative, and hosting an annual early childhood summit. FTF staff reported that collaborating and coordinating with other organizations allows them to mitigate the risk of duplication because, if organizations are working together, there is less chance that those organizations are unintentionally providing the same services to the same families and children. Similarly, in a review of federal early learning and childcare programs, the U.S. Government Accountability Office noted that coordinating the administration of early learning and childcare programs can help mitigate the effects of program overlap and potentially help bridge service gaps.<sup>26</sup> Although auditors did not identify a standard set of best practices for identifying opportunities for collaboration, auditors observed that FTF's processes appear to be working and help FTF to achieve its mission and meet its statutory intent. Specifically:

- **FTF's biennial needs and assets assessments promote collaboration and coordination**—As discussed in the Introduction (see pages 1 through 2), FTF conducts biennial needs and assets assessments to identify needed early childhood services<sup>27</sup> at both the state and regional levels. As required by statute, these assessments include identifying opportunities for increased coordination. For example:
  - FTF's 2013 state-wide needs and assets assessment report explained that Arizona's young children have higher rates of untreated tooth decay than the national average and that poor oral health can have a detrimental effect on children's quality of life and performance in school. The report explained that FTF planned to seek community collaborations to expand children's access to preventative oral health care. In its 2015 needs and assets assessment report, FTF stated that several partners, including DHS and Indian Health Services, formed a collaborative group that met quarterly and created a website where

<sup>25</sup> According to an Arizona State University report, in fiscal year 2014, these state agencies served almost 29,000 families through home visitation.

<sup>26</sup> United States Government Accountability Office. (2014). *Early learning and child care: Federal funds support multiple programs with similar goals*. Washington, D.C.

<sup>27</sup> FTF has data-sharing agreements with ADE, DES, DHS, and some tribal governments to obtain some information used in the needs and assets assessments. For example, data shared from DHS includes information on breastfeeding rates, rates of smoking during pregnancy, rates of women who did not receive medical care during pregnancy, and total number of births. DES shares enrollment data for the Temporary Assistance for Needy Families program and Supplemental Nutrition Assistance Program.

partners share information and resources related to oral health. Members of this group also participated in a coalition established to identify potential policy changes to promote better oral health for Arizona children. Additionally, in fiscal year 2015, FTF provided funding to DHS to complete a health study that focused on the oral health of kindergarten children (see Chapter 5, page 33, for additional information about the study).

- The East Maricopa regional council's 2014 needs and assets assessment report identified areas within the region with a need for additional medical services based on factors such as having too few primary care physicians or high poverty. In response, in 2016, the region issued a request for grant applications (RFGA) to address this need through FTF's care coordination/medical home strategy. According to the RFGA, through this grant, a care coordinator would work with families who have young children to link them with appropriate medical and community services. The coordinator would also work to integrate care between all of the organizations that could be involved in a child's health, including specialty care, hospitals, schools, and childcare providers.
- **Annual funding plans direct funded strategies and other collaborative efforts**—Based on the service gaps identified through the needs and assets assessments, FTF develops state-wide and region-specific funding plans annually to prioritize and fund needed services, which helps ensure that FTF is not funding duplicative or unnecessary services. Specifically, these funding plans include the strategies that will be funded by the Board and regional councils. Some of FTF's funded strategies specifically address coordination and collaboration (see textbox).

### Examples of strategies that specifically address collaboration and coordination

- **Service coordination**—This strategy connects the different organizations involved in early childhood development and health service delivery so that they operate as a whole. Regional councils that fund the service coordination strategy determine how to best implement the strategy in their region. For example, the Pima South Region funded a service coordination grant in fiscal year 2015 to assess available early childhood services and identify opportunities for collaboration among providers, while the San Carlos Apache Region has used the strategy to bring together a collaborative of FTF grantees and other service providers to discuss collaboration and how to avoid duplication. In June 2016, after the re-authorization of KidsCare, FTF solicited a state-wide grant to connect families of young children to health insurance enrollment assistance and increase the number of Arizona children from birth to age 5 who are enrolled in health insurance coverage by providing increased parent/guardian awareness of the availability of KidsCare.
- **Court teams**—This strategy focuses on improving how the courts, child welfare, and child-serving organizations work together, share information, and expedite services for young children in the child welfare system. For example, according to a 2016 report on FTF's and DCS' collaborative efforts, several organizations partnered in 2015 to start a program to address the increasing number of substance-exposed newborns in Mohave County. This program emphasizes ongoing communication and collaboration among the agencies working with families to maximize outcomes and prevent the recurrence of maltreatment of substance-exposed infants and children.
- **Care coordination/medical home**—This strategy places a care coordinator into a medical practice to assist at-risk families with young children in navigating Arizona's healthcare and social service systems. FTF documentation explains that FTF intends for the strategy to help families receive medical services that are coordinated, resulting in less duplication and unnecessary stress on the family. FTF also requires grantees providing care coordination/medical home services to coordinate the provision of services, such as developmental and sensory screening, parental education support, service planning, and assistance for the family in following up with referrals for other services.

Source: Auditor General staff analysis of FTF documents.

Awarding grants and other contracts is a key way in which FTF partners with other organizations to implement its funded strategies. In fiscal year 2015, FTF partnered with 109 organizations, including nonprofits, faith-based organizations, community colleges, municipalities, state agencies, and other governmental entities, to provide programs and services to families and children throughout the State (see Appendix B, pages b-1 through b-4, for a complete list of and total payments to fiscal year 2015 grant and contract recipients). Through partnering with these organizations to deliver services, FTF participates in regular collaboration and coordination with them.<sup>28</sup>

Further, regional councils identify and inventory opportunities for collaboration that do not require additional FTF monies as part of the process for developing regional funding plans. According to FTF, this process started as early as 2010 in some regions but was formalized for the fiscal year 2016 regional funding plans. These potential collaborations are referred to as unfunded approaches and are designed to create connections across the regions' early childhood system. For example, the Yuma Region's fiscal year 2017 funding plan includes an unfunded approach to work with the Yuma County Early Childhood Collaborative (Collaborative) to develop a shared vision and mission to achieve shared goals and prioritize the early childhood education system in Yuma County. The Yuma Regional Partnership Council has identified nearly 20 existing and potential partners to engage through the Collaborative, including Head Start, school districts, nonprofits, and government agencies.

- **Participation in a national initiative supports FTF's collaboration and coordination efforts—** FTF participates with the BUILD Initiative, a national collaborative focused on supporting state leaders in developing programs, policies, and services to establish a comprehensive system that serves the needs of young children and their families. The BUILD Initiative has developed collaboratives in 11 states, including BUILD Arizona in Arizona. BUILD Arizona consists of steering and leadership committees comprising FTF, other state agencies, community-based organizations, school superintendents, and other stakeholders working collectively to implement best practices in key areas such as health, professional development, parent engagement, and literacy. For example, in 2012, FTF partnered with BUILD Arizona to form the Professional Development System-Building Workgroup (workgroup) comprising numerous stakeholders, including ADE, DES, DHS, Arizona higher education institutions, Head Start, and nongovernmental organizations. Led by FTF, this workgroup identified a framework to benefit the Arizona early childhood workforce and, in 2015, established a professional development network for early care and education providers. The workgroup continues to support the state-wide professional development system by forming policy in areas such as professional standards, career pathways, and articulation agreements so early childhood educational credits transfer from one state institution of higher education to another.
- **Annual early childhood summit encourages collaboration—**Each year, FTF holds an early childhood summit that is designed to facilitate collaboration by helping attendees build relationships and learn more about early childhood health and development. According to summit materials, the 2-day event brings together more than 1,300 early child professionals, stakeholders, and supporters, and features professional development sessions, keynote and featured speakers, and an exhibitor expo. Some of the professional development sessions offered to attendees specifically address collaboration. For example, during the 2015 annual summit, FTF offered a session focused on how attendees could best engage faith communities in early childhood partnerships or collaborations. Similarly, the 2015 summit hosted a session on family support collaborations for family support providers to discuss challenges in recruiting, retaining, and supporting families and share ideas on how to best meet the needs of families. Additionally, the summit helps to foster collaboration between attendees and other stakeholders by including diverse exhibitors and sponsors from government, higher education, nonprofit organizations, healthcare, private businesses, and other sectors. Finally, the summit includes two optional events, a tribal gathering and a literacy summit, that require separate registration. These events are both collaborations. The tribal gathering provides an opportunity for tribal leaders, regional council members, tribal organizations, and community partners to discuss efforts to support

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<sup>28</sup> A.R.S. §41-2702(4) also requires that state agencies awarding grants encourage grant applicants to collaborate through community partnerships. Consistent with this requirement, in FTF's grant applications, applicants must explain how they would coordinate and collaborate with other service providers in the region and attest to coordinating with other programs in the same geographic area that serve similar populations.

early childhood in Arizona tribes and nations, while the Literacy Summit is provided through a collaboration with Read On Arizona and discusses early literacy.



The majority of First Things First's (FTF) programs are provided through grants and contracts funded by FTF's state-level board (Board) and its local-level regional partnership councils. During fiscal year 2015, FTF spent more than \$142 million on 254 grants and contracts that were awarded to 109 different recipients (see Appendix B for a list of total payments made to these grant and contract recipients in fiscal year 2015). This appendix provides additional information on the 32 grants and contracts that auditors reviewed.

**Table 10**  
**Grants and contracts reviewed by auditors**  
**Fiscal year 2015**

Recipient	Award/ contract amount	2015 ex- penditures	Funding source(s) <sup>1</sup>	Goal: Strategy <sup>2</sup>	Purpose of grant or contract
<b>Competitive</b>					
American Academy of Pediatrics – Arizona Chapter	\$ 436,983	\$ 413,432	East Maricopa and Southeast Maricopa Regional Partnership Councils	Health: Care Coordination/ Medical Home	Provided funding for pediatric care coordination to link children and their families with appropriate services and resources to achieve good health.
Arizona Partnership for Children, LLP	1,343,197	1,331,502	East Maricopa and Southeast Maricopa Regional Partnership Councils	Family Support: Home Visitation	Provided for home visiting services to help families learn and increase confidence in parenting skills, promote positive parent/child interactions, and increase links to community services.
Arizona Partnership for Children, LLP	167,439	73,780	Phoenix North and Phoenix South Regional Partnership	Family Support: Family Support Coordination	Provided for coordinated family education and information systems to support optimal child development.
Arizona's Children Association	273,752	259,648	Yavapai Regional Partnership Council	Family Support: Home Visitation	Provided for home visiting services to train and inform parents to improve their skills as their child's first teacher and to support early language and literacy development.

Recipient	Award/ contract amount	2015 ex- penditures	Funding source(s) <sup>1</sup>	Goal: Strategy <sup>2</sup>	Purpose of grant or contract
Association for Supportive Child Care	400,000	335,972	La Paz/Mohave Regional Partnership Council	Professional Development: Community Based Professional Development for Early Care and Education Professionals	Provided a series of community-based early childhood worker training opportunities to facilitate completion of educational milestones.
Casa de los Ninos, Inc.	1,163,503	1,088,670	Pima North and Pima South Regional Partnership Councils	Family Support: Home Visitation	Provided comprehensive home visitation services to assist at-risk mothers with prenatal care, ongoing healthcare services, and improving their parenting skills.
Chicanos Por La Causa, Inc. (dba Parenting Arizona)	389,966	353,432	Navajo Nation Regional Partnership Council	Family Support: Home Visitation	Provided home visiting services for expectant families or families with young children residing in the Navajo Nation Region. The goal of the program was to support the healthy development of children by building parent capacity and skills.
Child and Family Resources, Inc.	300,000	283,243	Southwest Maricopa Regional Partnership Council	Family Support: Home Visitation	Provided home visiting services for expectant families or families with young children residing in the Southwest Maricopa Region. The goal of the program was to help build parent capacity and skills.
Southwest Human Development	4,572,965	4,015,654	East Maricopa, Northwest Maricopa, Phoenix North, Phoenix South, Pima North, Pima South, Pinal, Salt River Pima-Maricopa Indian Community, Southeast Maricopa, Yavapai, and Yuma Regional Partnership Councils	Health: Mental Health Consultation	Provided oversight for the provision of quality mental health consultation within the regions. Included supervision of mental health consultants, mentoring and coaching, training and skill building, implementing a tuition-reimbursement program to increase the number of qualified mental health professionals, and led the effort to establish a young child mental health workforce.

Recipient	Award/ contract amount	2015 ex- penditures	Funding source(s) <sup>1</sup>	Goal: Strategy <sup>2</sup>	Purpose of grant or contract
Southwest Human Development	1,271,587	1,271,587	East Maricopa and Southeast Maricopa Regional Partnership Councils	Family Support: Home Visitation	Provided intensive home visitation for children younger than 5 years old, pregnant women, and members of their families to reduce stress, enhance family functioning, promote child development, support family self-sufficiency, and minimize the incidence of abuse and neglect.
Southwest Human Development	247,638	245,550	Phoenix North and Phoenix South Regional Partnership Councils	Family Support: Parent Education Community-Based Training	Continued and expanded the "Raising a Reader" program and introduced the "Common Sense Parenting" program to provide parents with skills and confidence to support their child's early language and literacy development.
Southwest Human Development	178,212	148,163	Board and all regions except the Cocopah Tribe, Hualapai Tribe, and Salt River Pima-Maricopa Indian Community Regional Partnership Councils	Quality and Access: Quality First Inclusion Warm Line	Implemented a state-wide toll-free telephone line (called a "Warm Line") that linked Quality First early childhood programs and information to specialized information and guidance about children's social-emotional development, physical health, and practices designed to promote inclusion of children with special needs in early care and learning settings.
Southwest Human Development	100,000	98,232	Board	Family Support: Birth to Five Helpline	Funded a toll-free helpline to assist parents, caregivers, and professionals who have questions or concerns related to children ages birth to 5 years old.
Southwest Institute for Families and Children	159,004	148,777	Southeast Maricopa Regional Partnership Council	Professional Development: Director Mentoring/ Training	Provided for mentoring, coaching, and technical assistance to 18 childcare directors or administrators whose programs were currently wait-listed for the FTF's Quality First early care and education program.

Recipient	Award/ contract amount	2015 ex- penditures	Funding source(s) <sup>1</sup>	Goal: Strategy <sup>2</sup>	Purpose of grant or contract
SPF Consulting, LLC	110,000	109,664	Board	Family Support: Parent Kits – State-wide	Provided for the ongoing distribution of parent kits through the State's 48 birthing hospitals, birth centers, and the Arizona Association of Midwives.
Summit Healthcare Association	400,000	400,000	Navajo/Apache Regional Partnership Council	Health: Care Coordination/ Medical Home	Provided to help challenged regions overcome barriers to providing care coordination and medical home services to families and the medical community serving families with young children.
Sun Life Family Health Center	330,000	205,318	Pinal Regional Partnership Council	Health: Oral Health	Prior to being canceled in March 2015, this grant provided a mobile dental clinic program to deliver oral health services for children and expectant mothers in Pinal County, including those living in remote areas of the region.
Teen Outreach Pregnancy Services	233,200	233,200	Pima North and Pima South Regional Partnership Councils	Family Support: Parent Education Community-Based Training	Provided pregnant teens and teenage parents family-centered education and support services within Pima County.
The Learning Center for Families	286,011	286,011	La Paz/Mohave Regional Partnership Council	Family Support: Home Visitation	Provided support to implement home visiting programs that provide parents and families with comprehensive parenting education and support.
United Way of Tucson and Southern Arizona	100,000	100,000	Pima South Regional Partnership Council	Coordination: Service Coordination	Provided funding to analyze and assess available early childhood services in specified target communities and convene service providers to engage in a collaborative process to facilitate resource development and facilitate professional development.



Recipient	Award/ contract amount	2015 ex- penditures	Funding source(s) <sup>1</sup>	Goal: Strategy <sup>2</sup>	Purpose of grant or contract
Valley of the Sun United Way	60,662,487	56,080,269	All regions except the Cocopah Tribe, Hualapai Tribe, Salt River Pima- Maricopa Indian Community, and San Carlos Apache Regional Partnership Councils	Quality and Access: Quality First Scholarships	Provided for full or partial Quality First scholarships paid to early care and edu- cation providers for low-in- come children to attend quality childcare and pre- school. Included adminis- trative oversight for accurate distribution of these scholar- ships.
Yavapai County Community College District	47,500	45,102	Yavapai Regional Partnership Council	Family Support: Parent Education Community- Based Training	Provided community-based family education and infor- mation programs for improv- ing parents' skills to support their children's early lan- guage and literacy develop- ment.

### Noncompetitive

Arizona Department of Health Services	149,949	142,166	Board	Evaluation: Oral Health Survey	Provided funding for con- ducting a 2015 oral health survey designed to obtain in- formation on the prevalence and severity of tooth decay among Arizona's kindergar- ten children.
Maricopa County Department of Public Health	399,986	386,718	Phoenix North and Phoenix South Regional Partnership Councils	Health: Prenatal Outreach	Provided prenatal outreach services to high-risk expect- ant mothers, including teen parents and those most at risk of poor birth outcomes or infant morbidity and mor- tality living in the central Phoenix area.
Maricopa County Department of Public Health	55,000	54,066	All regions except the Cocopah Tribe, Hualapai Tribe, and Salt River Pima Maricopa Indian Community Regional Partnership Councils	Health: Quality First Child Care Health Consultation	Provided training for child- care health consultants and childcare providers.

Recipient	Award/ contract amount	2015 ex- penditures	Funding source(s) <sup>1</sup>	Goal: Strategy <sup>2</sup>	Purpose of grant or contract
Paradise Valley Unified School District	144,254	122,209	Phoenix North Regional Partnership Council	Family Support: Family Resource Centers	Provided funding for the Paradise Valley Family Resource Center that offered programs, resources, community connections, and parent education classes to families with children birth to age 5.
Pendergast Elementary School District	362,500	350,238	Northwest Maricopa, Phoenix South, and Southwest Maricopa Regional Partnership Councils	Family Support: Family Resource Centers	Provided funding for the Pendergast Family Resource Center that provided parent education throughout the year focused on parenting skills; early childhood development, including language and literacy; cognitive, physical, and motor development; and child health.
Safford City – Graham County Library	130,000	116,701	Graham/Greenlee Regional Partnership Council	Family Support: Parent Outreach and Awareness	Provided families in the Graham/Greenlee Region with age-appropriate books (birth to age 5) and educated parents about emergent language and literacy, as well as early brain development.
United Food Bank	70,000	70,000	Southeast Maricopa Regional Partnership Council	Family Support: Food Security	Provided funding to address the food and nutritional needs of low-income families with children from birth to age 5.
Arizona Board of Regents for and on behalf of the University of Arizona, Mohave County Cooperative Extension	60,341	56,338	Colorado River Indian Tribes and La Paz/Mohave Regional Partnership Councils	Health: Quality First Child Care Health Consultation	Provided child care health consultation services and technical assistance to regulated childcare providers in the La Paz/Mohave Region.
Young Unified School District	15,000	13,838	Gila Regional Partnership Council	Family Support: Parent Education Community-Based Training	Provided funding for a play-based program for infants through preschool children and their parents focused on providing parents and caregivers opportunities to develop parenting skills, as well as nurture strong relationships with their children.

Recipient	Award/ contract amount	2015 ex- penditures	Funding source(s) <sup>1</sup>	Goal: Strategy <sup>2</sup>	Purpose of grant or contract
Yuma Community Food Bank	50,000	50,000	Yuma Regional Partnership Council	Family Support: Food Security	Provided families with children from birth to age 5 in the Yuma Region access to nutritious food, resources, and information.

<sup>1</sup> Grant and contract funding was provided by one or more regional partnership council(s) and/or the Board.

<sup>2</sup> Indicates the goal area and the strategy for which the grant or contract was awarded. See the Introduction, pages 3 through 7, for additional information on FTF's goals and strategies.

Source: Auditor General staff analysis of FTF grant files and FTF-provided financial information for fiscal year 2015 expenditures.





The majority of First Things First’s (FTF) programs are provided through grants and contracts. During fiscal year 2015, FTF spent more than \$142 million on 254 grants and contracts that were awarded to 109 different recipients. Table 11 presents the total payments to these recipients in fiscal year 2015. As shown in Table 11, FTF awarded grants and contracts to various types of recipients, including nongovernmental organizations, state agencies, and other governmental entities, such as counties, schools, municipalities, and Indian tribes. Some of these recipients had more than one grant and/or contract during the fiscal year.

**Table 11**  
**Total payments to grant and contract recipients**  
**Fiscal year 2015**

Recipient	Amount paid
<b>Nongovernmental organizations</b>	
Ajo Community Health Center (dba Desert Senita Community Health Center)	\$ 108,547
Alliance of Arizona Nonprofits	299,948
American Academy of Pediatrics – Arizona Chapter	1,136,158
Arizona Partnership for Children, LLP	1,405,282
Arizona's Children Association	1,761,489
Association for Supportive Child Care	4,484,713
Casa de los Ninos, Inc.	2,213,051
Chandler Christian Community Center	391,761
Chicanos Por La Causa, Inc. (dba Parenting Arizona)	1,732,474
Child and Family Resources, Inc.	3,012,870
Children's Action Alliance	698,012
Community Counts (formerly Youth Count)	123,465
Crisis Nursery, Inc. (dba Child Crisis Center)	1,473,805
Dignity Health Foundation – East Valley	575,966
EAR Foundation of Arizona	566,981
Easter Seals Blake Foundation	2,079,560
Graham County Interfaith Care Alliance, Inc.	12,000
International Rescue Committee	528,267
Landrum Foundation	139,108
Lutheran Social Services of the Southwest	750,878
Make Way for Books	238,304

Recipient	Amount paid
Mariposa Community Health Center	71,311
North Country HealthCare	484,919
Phoenix Children's Hospital	475,320
Pilgrim Rest Foundation	488,267
Prevent Child Abuse Arizona	311,596
Raising Special Kids	61,336
Southwest Human Development	15,627,743
Southwest Institute for Families and Children	148,777
SPF Consulting, LLC	109,664
St. Jude Food Bank	89,453
St. Mary's Food Bank Alliance	252,802
Summit Healthcare Association	749,543
Sun City Area Interfaith Services, Inc. (dba Benevilla)	625,605
Sun Life Family Health Center	205,318
Tanner Community Development Corp.	1,084,461
Teen Outreach Pregnancy Services	613,200
Tempe Community Council	422,601
TERROS	116,077
The Learning Center for Families	286,011
United Cerebral Palsy of Central Arizona	120,250
United Food Bank	70,000
United Way of Pinal County	406,891
United Way of Tucson and Southern Arizona	3,504,500
Valley of the Sun United Way	68,448,762
Verde Valley Medical Center	242,899
Yavapai Regional Medical Center	249,489
Yuma Community Food Bank	50,750

<b>Total payments to nongovernmental organizations</b>	<b>119,050,184</b>
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**Other state agencies and governments**

**County governments and related entities**

Coconino County Public Health Services District	189,603
Coconino County Superintendent of Schools	222,363
Gila County	151,676
Gila County Library District	130,543
Maricopa County Department of Public Health	4,503,809
Mohave County Superior Court	382,546

<b>Recipient</b>	<b>Amount paid</b>
Navajo County Library District	60,000
Navajo County Public Health Services District	1,059,797
Pima County Health Department	735,463
Yavapai County Community Health Services	387,939
Yuma County Public Health Services District	65,125
<b>Total payments to county governments and related entities</b>	<b>7,888,864</b>
<b>Other state agencies and state universities</b>	
Arizona Department of Economic Security	220,345
Arizona Department of Education	491,948
Arizona Department of Health Services	1,509,921
Arizona State University	800,555
University of Arizona	2,506,835
<b>Total payments to other state agencies and state universities</b>	<b>5,529,604</b>
<b>Pre-Kindergarten through 12 schools</b>	
Buckeye Elementary School District	211,906
Chandler Unified School District	398,568
Deer Valley Unified School District	245,544
Gila Crossing Community School	62,539
Glendale Union High School District	33,750
Globe Unified School District – Copper Rim Schools	34,411
Hayden/Winkelman Unified School District	5,310
Holbrook Unified School District	47,125
Maricopa County School District	80,902
Miami Unified School District	38,779
Paradise Valley Unified School District	122,209
Pendergast Elementary School District	350,238
Peoria Unified School District	155,591
Sunnyside School District	1,308,000
Tonto Basin School District	9,419
Washington Elementary School District	155,889
Whiteriver Unified School District	34,669
Young Unified School District	13,838
<b>Total payments to Pre-Kindergarten through 12 schools</b>	<b>3,308,687</b>
<b>Indian tribes and related entities</b>	
Cocopah Indian Tribe	68,811
Colorado River Indian Tribes	82,619

<b>Recipient</b>	<b>Amount paid</b>
Ft. McDowell Yavapai Nation	139,110
Gila River Health Care Corporation	250,804
Havasupai Tribe	130,863
Hualapai Tribe	104,861
Hualapai Tribe Cultural Resource Department	10,085
Pascua Yaqui Tribe	129,803
Salt River Pima – Maricopa Indian Community	124,930
San Carlos Apache Tribe	164,912
Tohono O'odham Nation	272,757
<b>Total payments to Indian tribes and related entities</b>	<b>1,479,555</b>
<b>Municipalities and related entities</b>	
Apache Junction Public Library	270,421
City of Avondale	172,496
City of Chandler Police Department	19,283
City of Phoenix Library	373,684
City of Scottsdale	160,380
Safford City – Graham County Library	116,701
Town of Gila Bend	196,293
<b>Total payments to municipalities and related entities</b>	<b>1,309,258</b>
<b>Community colleges</b>	
Cochise Community College District	39,801
Coconino County Community College District	45,386
Diné College	14,890
Maricopa County Community College District (Paradise Valley, Phoenix, and Rio Salado Colleges)	575,374
Pinal County Community College District (Central Arizona College)	297,921
Navajo County Community College District (Northland Pioneer College)	361,815
Yavapai County Community College District	45,102
<b>Total payments to community colleges</b>	<b>1,380,289</b>
<b>Other recipients</b>	
Maricopa Integrated Health System	2,043,314
U.S. Department of Health and Human Service, Indian Health Services, Whiteriver Service Unit	184,723
<b>Total payments to other recipients</b>	<b>2,228,037</b>
<b>Total payments to other state agencies and governments</b>	<b>23,124,295</b>
<b>Total payments to all recipients</b>	<b>\$ 142,174,479</b>

Source: Auditor General staff analysis of FTF-prepared schedule of fiscal year 2015 grant and contract recipients.





## Methodology

Auditors used various methods to address the issues in this report. These methods included interviewing First Things First (FTF) management and staff and reviewing applicable state laws, policies and procedures, and information obtained from FTF's website and staff, such as needs and assets assessment reports and annual funding plans. Auditors also used the following specific methods to meet the report objectives:

- To review FTF's fiscal year 2015 revenues and expenditures, auditors:
  - Compiled and analyzed information from FTF's financial statements, audited by an independent certified public accounting firm and filed with the Office of the Auditor General in accordance with Arizona Revised Statutes §8-1186(B), for fiscal years 2011 through 2015; FTF's internal accounting system for fiscal year 2015; Arizona Financial Information System (AFIS) information for fiscal years 2014 and 2015; and Arizona Department of Administration Human Resources Information Solution information for fiscal year 2015;
  - Tested FTF's fiscal year 2015 reconciliation of AFIS to its internal accounting system and its internal accounting system to its grants management system;
  - Determined whether the fiscal year 2015 tobacco tax revenues were deposited into FTF's program and administrative accounts in accordance with statute and if FTF's fiscal year 2015 allocation of its program account monies to the Board and regional partnership councils (regional councils) were made in accordance with statute;
  - Reviewed approximately 88 percent of FTF's fiscal year 2015 professional and outside services expenditures and approximately 91 percent of its other operating expenditures, including all media consultant and purchasing card expenditures; approximately 48 percent of FTF's fiscal year 2015 grants and contracts expenditures; and approximately 12 percent of FTF's fiscal year 2015 travel expenditures to determine the purpose of these expenditures and if FTF retained appropriate supporting documentation;
  - Reviewed information on national tobacco use trends; and
  - Reviewed FTF's sustainability plan, strategic partnership and investment plan, and the 2012 and 2014 tobacco tax revenue projections and forecasting models that FTF commissioned from the L. William Seidman Institute, W.P. Carey School of Business at Arizona State University.
- To assess FTF's internal control procedures for processing various financial transactions—including cash receipts, purchasing, payroll and personnel, travel and purchasing cards, and payments to grant and contract recipients—auditors reviewed these procedures and compared them to the policies and procedures required by the *State of Arizona Accounting Manual* (SAAM). Auditors also tested the following fiscal year 2015 financial transactions for compliance with FTF's procedures and the SAAM:
  - 93 professional and outside services and other operating expenditure transactions, which comprised 88 and 91 percent of these expenditures made in fiscal year 2015, respectively, excluding transactions made using purchasing cards;
  - All transactions made using purchasing cards;
  - A judgmental sample of 5 payroll expenditure transactions;

- 32 payments to grant and contract recipients, consisting of payments made to a sample of 22 competitive grants active in fiscal year 2015 (see below) and a random sample of 10 contracts active in fiscal year 2015;
- A judgmental sample of 15 travel claim reimbursements and 97 purchases made on FTF's central travel account, a type of commercial credit card used for travel-related purchases;
- A random sample of 5 deposits included on FTF's cash receipt log, and reconciled the amounts on the cash receipts log to the amounts deposited; and
- All wireless device usage records.
- To assess FTF's grants management procedures, auditors reviewed applicable documentation, including FTF's request for grant application templates, grant cycle procedures and process guidelines, evaluation guidance documents, and quality assurance procedures. Auditors compared these procedures against statutory requirements and best practices for grant making.<sup>29</sup> To test FTF's compliance with these procedures and guidelines, auditors:
  - Reviewed documentation for a sample of 22 competitive grants active in fiscal year 2015, including documentation related to the grant solicitations, submitted grant applications, evaluation score sheets, conflict of interest disclosures, and grant awards. Auditors randomly selected 21 of the 22 grants and judgmentally selected the largest grant awarded in fiscal year 2015 for review. These 22 grants were initially awarded between fiscal years 2012 and 2015;
  - Reviewed regional council member training materials, conflict of interest training materials, and grantee orientation materials;
  - Reviewed data reports generated from FTF's grants management system, including information on performance measures submitted by grantees and grant close-out reports. Auditors also conducted a high-level review of FTF's security controls for the system;
  - Reviewed documentation for the 11 quality assurance site visits FTF conducted between December 2013 and December 2015, and the 6 on-site financial reviews FTF conducted between September 2014 and November 2015, for the 22 grants;
  - Observed a regional council meeting where the members discussed and approved the regional council's fiscal year 2017 funding plan, which included the budget for funding goals and strategies;
  - Observed FTF-hosted seminars for potential grant applicants and a training for grant evaluation committee members; and
  - Reviewed a 2010 consultant study that analyzed FTF's grant procedures and made recommendations for improvement; grant process feedback from grant evaluators, prior grant applicants, and potential grant applicants that FTF collected through surveys in 2015; and 2016 meeting minutes from an internal grants procedures improvement committee.
- To assess FTF's processes for evaluating the effectiveness and outcomes of funded programs, auditors reviewed FTF's fiscal years 2013 through 2017 research and evaluation plan, school readiness indicators, FTF's 2015 annual report, and fiscal year 2015 regional council impact reports. In addition, auditors observed FTF's April 2016 meeting with the panel of national experts that FTF convened to consult on its research and evaluation activities, and reviewed reports from its 2012 and 2014 national expert meetings. Additionally, auditors reviewed performance measurement data, strategy overviews, standards of practice, and targeted

<sup>29</sup> Auditors reviewed best practices from the federal government that apply to agency grant-making functions, guidance from other states' grant-making agencies, and practices related to nonprofit and philanthropic organizations' grant making.

service unit guidance for six strategies.<sup>30</sup> Auditors also reviewed evaluation studies and surveys that were completed or commissioned by FTF.

- To assess the purpose of FTF's media and outreach efforts, auditors:
  - Reviewed applicable documentation, including FTF's fiscal years 2014 through 2017 strategic communications plan; media-related reports prepared by FTF's two media consultants; and FTF's standards of practice for the community outreach, community awareness, parent kit, and parenting outreach and awareness strategies;
  - Reviewed FTF's social media presence to gain an understanding of the type of content FTF posts on social media and how FTF interacts with social media users;
  - Reviewed FTF's online activity tracking form that FTF coordinators and volunteers complete whenever they attend an event for FTF; and
  - Attended a community outreach event and observed FTF's participation in the event and its distribution of community awareness items.
- To gain an understanding of FTF's processes for identifying potential areas of duplication or opportunities for collaboration, auditors reviewed applicable documents, including FTF's standards of practice for the service coordination, court teams, and care coordination/medical home strategies; reports related to FTF's coordination of home visiting services with other state agencies; documentation related to FTF's role in obtaining federal grant monies for Arizona; service coordination guidance for regional councils; select minutes for board and regional council meetings held between fiscal years 2012 and 2016; data sharing arrangements with other state agencies and Indian tribes; and the websites for stakeholder organizations with whom FTF partners.

The Auditor General and staff express appreciation to FTF's Board, Chief Executive Officer, and staff for their cooperation and assistance throughout the audit.

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<sup>30</sup> The six strategies were family resource centers; home visitation; oral health; parent kits; Quality First scholarships; and nutrition, obesity, and physical activity. Auditors judgmentally selected these strategies based on state-wide versus regional coverage, fiscal year 2015 spending, and inclusion in auditors' grant file review.



# AGENCY RESPONSE



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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.

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

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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.

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

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### 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.

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

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**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.

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*"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*

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## 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.

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*"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

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**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.

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*“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*

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## 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.

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*“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*

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

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