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March 7, 1978

Letter Report 723.1

The Honorable Speaker of the Assembly
 The Honorable President pro Tempore of the Senate
 The Honorable Members of the Senate and the
 Assembly of the Legislature of California

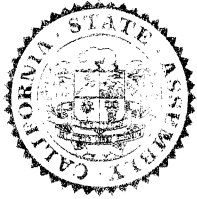
Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's letter report on the California Employment and Training Advisory Office Review.

The auditors are Kurt R. Sjoberg, Audit Manager, and Richard C. Tracy.

Cordially,

MIKE CULLEN
 Chairman



Joint Legislative Audit Committee

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March 2, 1978

Letter Report 723.1

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
Room 5144, State Capitol
Sacramento, California 95814

Dear Mr. Chairman and Members:

We have reviewed the Health and Welfare Agency's 60-day response to our report on the Comprehensive Employment and Training Act State Manpower Services Grant (SMS) (Report 276.1, October 1976). This review was conducted under authority vested in the Auditor General by Section 10527 of the Government Code. The scope of the review included interviews with California Employment and Training Advisory Office (CETA Office) management staff and analysis of updated financial reports, personnel rosters, current administrative procedures and the 1978 Governor's Special Grant Plan.

The following is a digest of the original report, including our recommendations, and an assessment of the progress being made by the CETA Office in implementing corrective action. Appendix A provides background information on the Comprehensive Employment and Training Act (CETA) and the SMS Grant. Appendix B explains CETA administrative cost provisions.

Limited Effort Toward Required Coordination Responsibilities

During the first 23 months of operation the CETA Office failed to fulfill its coordination responsibilities required by federal regulations 29 CFR 95.56 (c)(1) of the Comprehensive Employment and Training Act. Of 64 projects funded by the Four Percent SMS Grant, only six projects

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addressed the coordination activities required by federal regulations. Required activities are judged to be useful, legitimate and necessary to ensure effective and efficient use of federal manpower services funds.

Prior Recommendation

We recommended that the CETA Office develop and implement plans to address the mandated coordination responsibilities under regulations 29 CFR 95.56 (c)(1) of CETA. We further recommended that the Director of the CETA Office work closely with federal representatives from the Employment and Training Administration to resolve questions of legislative intent and to develop methods to fulfill the State's role as statewide coordinator of manpower services.

CETA Office Action

The CETA Office has developed plans that address the coordination responsibilities under federal regulations. Although approximately 75 percent of the funding remains classified under "optional activities," the CETA Office claims that many of the projects may be loosely termed coordinative. (Time constraints precluded individual analysis of all projects.)

Although CETA Office staff and federal representatives have reportedly worked together closely during the last year, they have yet to resolve questions relative to SMS Grant objectives and goals. Moreover, it is unclear whether effective state/local coordination of manpower services has been achieved by CETA Office activities.

Consistent Failure to Perform Grant Functions

The CETA Office did not develop procedures to provide for the timely expenditure of SMS funds. In addition, essential grant administration functions were not performed. Consequently, the grant was only 33 percent expended, funds were not spent during the grant year and \$9.3 million was carried over into the succeeding grant period.

The CETA Office also failed to meet goals and objectives because of continuing staff vacancies in key management and staff positions.

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Prior Recommendations

We recommended that the CETA Office develop plans and procedures to provide for the timely expenditure and use of SMS funds; that grant modifications be submitted on time; and that project funding procedures be streamlined. These are the specific actions recommended:

- Develop adequate advanced planning procedures; for example, preapplication requests or requests for quotes should be issued as soon as the availability of federal funds is known
- Establish formal work agendas and implement specific time schedules
- Create administrative systems that eliminate delay, standardize work tasks and promote prompt use of manpower resources
- Develop a system of follow-up and review to assure that the above recommendations are being properly implemented and program goals are being achieved.

We also recommended that the Director of the CETA Office fill vacant positions with qualified personnel without further delay.

CETA Office Action

At the end of fiscal year 1977, the CETA Office had expended 66 percent of their total SMS Grant received over a three-year period. While this is a 100 percent improvement from a year ago, the Office continues to have difficulty spending their funding allotment within the grant period. Approximately \$5.8 million of the fiscal year 1977 allotment has been "carried-in" and added to the \$8.3 million fiscal year 1978 allocation. Due to the untimely expenditure of the grant, CETA Office staff indicated the Department of Labor has required a detailed timetable for the expenditure of SMS Grant funds in fiscal year 1978.

The chief reason for expenditure delays is the continuing problem of a time-consuming state funding process. At present, according to an Employment Development Department memorandum, the request for proposal, analysis, decision, negotiation and contracting processes take an average of eight months, with half the time expended to accomplish a funding decision. It appears that while administrative processes have improved, SMS Grant objectives and project priorities remain unclear and ill-defined.

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Key management and staff positions have been filled. A CETA Office official stated that there are only seven vacant positions within the CETA Office's current position ceiling of 73.0.

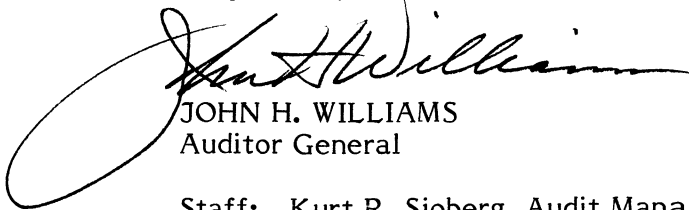
Summary Recommendation

The CETA Office has taken steps during the past year to correct many of the deficiencies described in our report of October 1976. They have failed, however, to take effective action to remedy problems relative to the SMS Grant goals, objectives and expenditure delays.

We recommend that the CETA Office develop a detailed policy that addresses the goals of the SMS Grant with respect to the coordination of statewide manpower services. The plan should provide the rationale for decisions on program objectives, project funding priorities and appropriate expenditure levels.

In addition, we recommend that the CETA Office include a description of this policy, and its progress toward implementation, in their next Annual Report to the Governor.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

Staff: Kurt R. Sjoberg, Audit Manager
Richard C. Tracy

Attachments: Written Response to the Auditor General's Letter Report

Director, California Employment and Training
Advisory Office

Appendix A--The Comprehensive Employment and Training
Act (CETA)

Appendix B--CETA Administrative Costs

CALIFORNIA EMPLOYMENT and TRAINING ADVISORY OFFICE

(State CETA Office)

800 CAPITOL MALL
SACRAMENTO, CALIFORNIA 95814

(916) 445-4546



February 23, 1978
77:13:pb

Mr. John H. Williams, Auditor General
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

The purpose of this letter is to respond to your draft report number 723.1 dated February 17, 1978 reviewing the progress being made by the State CETA Office in implementing corrective action since the October 1976 assessment.

We would like to acknowledge the generally positive tone of the current report after the rather harsh criticism of the 1976 assessment. We think your 1976 report did help us to take some positive steps toward significantly improving the administration of the grant. Although we may have a way to go as your follow-up indicates, we are proud of our progress in the last year and would like to outline it here.

First, we would like to address the timely expenditure of grant funds. As you indicate, we have made a "100 percent improvement from a year ago." We expect to continue this rate of improvement. For example, we should contractually obligate our FY 1978 monies by mid-March. At that time, we cannot legally obligate any more monies out of 1978 funds. However, we agree that March may be too late to complete obligations since this means that many contracts will "carry in" to FY 1979 (i.e. expenditures will occur in FY 1979 instead of FY 1978). Therefore, we intend to do the following to continue improvement in our rate of expenditure:

- 1) We plan to develop several dozen existing proposals and have them ready to start on October 1, 1978. Up to 50% of our FY 1979 grant will be ready to obligate on October 1, 1979 with proposals from our 1978 request for funding.
- 2) We plan to retain our 1978 funding priorities for FY 1979. Therefore, we will be able to send out a FY 1979 request for funding concepts several months prior to FY 1979.

We believe that the above two actions will eliminate any significant carry-over of grant monies. We have outlined the above plan of action to continue reducing our carry-over to the Department of Labor and they have found it fully acceptable.

Although we appreciate your concerns in this area, we would like to take exception to defining "the chief reason for expenditure delays is"... "a time consuming State funding process of the Employment Development Department." First, our proposal development process is essentially separate from EDD's. Secondly, in reviewing our records, we have concluded that it presently takes about five months from project approval to starting participants on the project. We would like to see this reduced to less than three. However, development of our subgrants may take longer than we would like because of the following:

- 1) Generally, subgrants are given to new subgrantees each year. It would be easier to contract year after year with the same deliverer of services but this would not meet our responsibility to develop innovative programs.
- 2) We receive proposals that are written as concepts rather than as developed, ready-to-be-implemented projects. CETA Office staff take time to help formulate concept proposals into viable project contracts. By starting with a concept, we find that many more ideas are generated in the process. Admittedly this takes time, but it appears to be a better course of action than to accept only "slickly" written project proposals.
- 3) The actual subgranting process is only a small fraction of the total five month time span. Our procedures in this regard are fairly well developed.
- 4) Finally, we spend extra time in coordinating the development of our projects with other manpower deliverers such as Prime Sponsors, EDD, and other State agencies. We put some effort into trying to obtain a commitment to "pick up" our demonstration project with other funding sources.

The second major area we would like to address is that of coordination. We feel that the CETA Office has made real progress in this difficult area during the last year.

As you know, the CETA Office, the State CETA Council and the Governor all have, under the CETA Act, shared responsibility for coordinating manpower programs but no essential authority to mandate coordination. Congress has been aware of this gap between authority and responsibility and is considering strengthening the State role under CETA reenactment. Prime Sponsors naturally oppose any infringement of their hegemony in administering their program funds as they see fit.

Therefore, the role of the State CETA Office, under current law, must be one of promoting and encouraging local planning and coordination of manpower programs including Prime Sponsors, State agencies, community based organizations and local

February 23, 1978

training facilities. To this end, we are involved in the following major efforts:

- 1) The State CETA Office has helped develop a State Employment and Training Policy and Goals Statement (adopted in SB 916) as a first step in the development of a State Employment and Training Plan. The Statement was finalized after statewide hearings administered by CETA Offices and ES Board staff. The above major effort is probably the most significant step any state can take in addressing coordination of manpower programs.
- 2) The CETA Office is developing Memorandum of Understanding (MOU) between the Council and the six Departments under the Health and Welfare Agency. A major concern of these MOU's is the development of processes for local planning, coordination and exchange of information between Prime Sponsors and local agencies (such as Rehabilitation, County Welfare, etc.).
- 3) The CETA Office has developed funding priorities that stress local coordination as one of only three areas we will consider for funding. As a result 18 of our 45 existing projects (40%) have been funded primarily for their coordinative activities (see attachment A for list of Projects). We will gladly provide a description of these projects if you desire.
- 4) The CETA Office has provided continual assistance to the California Association of Prime Sponsor Administrators (CAPSA). Besides funding meeting sites, CETA staff attend all CAPSA meetings and provide assistance as required. In November of this last year, CETA Office sponsored a joint CAPSA and CETA Council manpower conference where local planning and coordination was stressed.
- 5) The CETA Office is playing a major role in the development of the California Occupational Information System as mandated by the Vocational Education Amendments of 1976 and the Lockyer Bill, AB 2020. We have included a chart that shows the CETA Office coordination role in conjunction with the Department of Education's Vocational Education Unit. Frankly, there is so much coordination required in this area, that it sometimes gets confusing even to us (see attachment B).

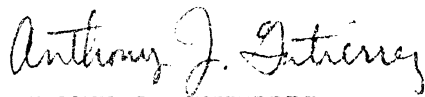
There are many other examples of State CETA Office coordination activities which have not been stated in this letter. Suffice to say that we are very concerned with developing an effective coordination role. In this effort, we have progressed from the barren desert to the foothills. We hope that the coordination activities identified above meet with your approval and welcome your suggestions for other activities.

Mr. John H. Williams, Auditor General -4-

February 23, 1978

We appreciate the opportunity to respond to this draft letter and look forward to working with you in the future.

Sincerely,

Handwritten signature of Anthony J. Gutierrez in cursive script.

ANTHONY J. GUTIERREZ
Director

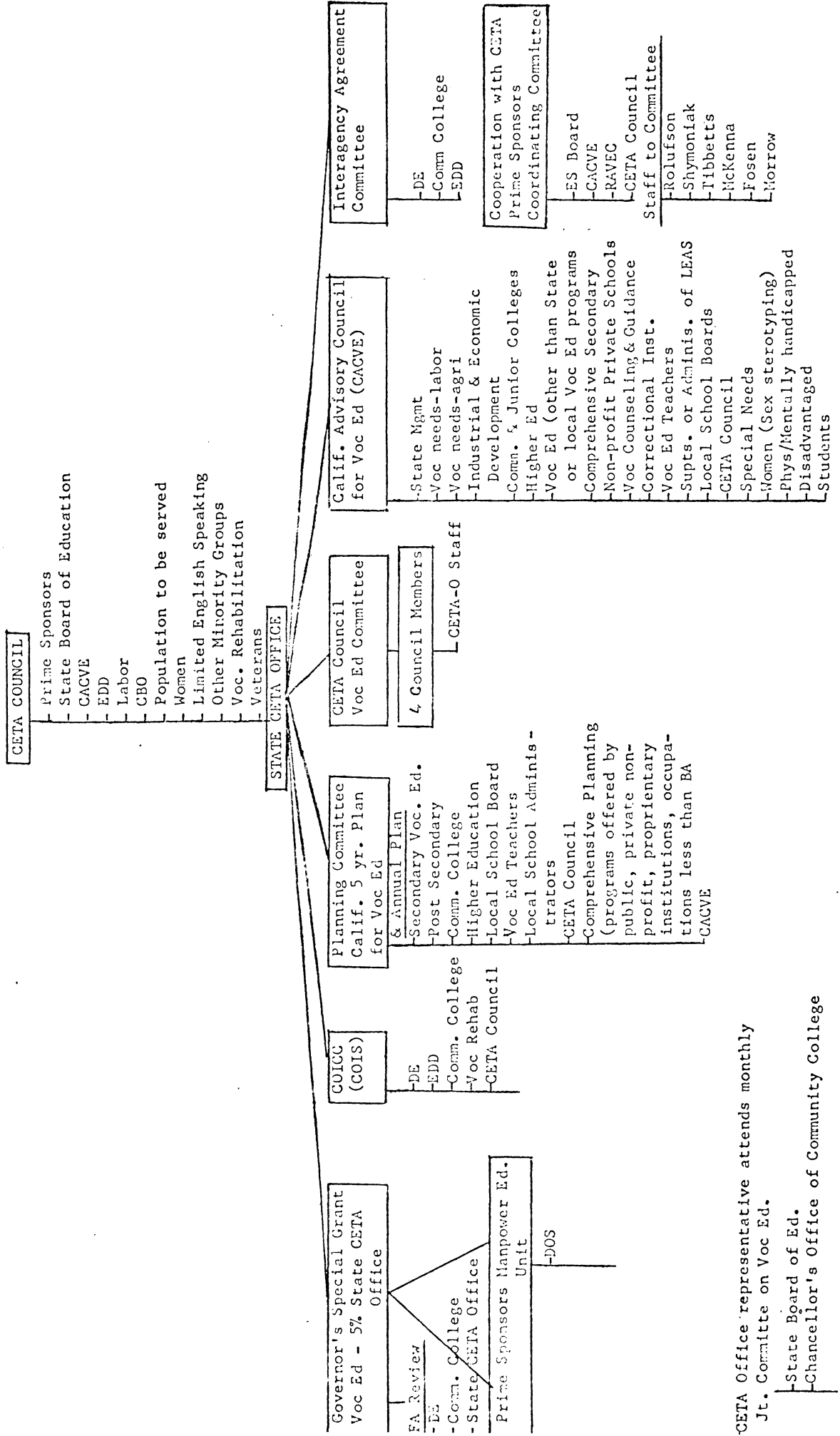
Attachments

Attachment A

The following subgrantees have been funded for primarily coordinative activities this year:

<u>Project Number</u>	<u>Subgrantee</u>
700-2629	Chicano Federation
700-5404	Sacramento/Yolo Employment & Training
700-6137	Orange County Manpower Commission
700-6584	Inland Manpower Association
700-8088	City of Torrance
700-8276	Orange County Manpower Commission
700-8451	Military Department
700-4581	County Of Imperial
800-1713	City of Stockton (Voc. Ed.)
800-2118	City of Stockton
800-3454	Department of Finance
300-3457	City of Stockton
300-3460	Calif. Human Development Corp.
PC-399	Amador Co. Employment Placement and Referral
PC-420	Santa Clara CETA/EDD
PC-869	EDD National Guard Project
76-5001-13	IMA-EDD

STATE CETA OFFICE AND/OR CETA COUNCIL HAS RELATIONSHIPS
WITH VOCATIONAL EDUCATION



CETA Office representative attends monthly
Jt. Committee on Voc Ed.
-State Board of Ed.
-Chancellor's Office of Community College

THE COMPREHENSIVE EMPLOYMENT
AND TRAINING ACT (CETA)

The purpose of CETA is stated in Section 2 of the Act:

...To provide job training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons, and to assure that training and other services lead to maximum employment opportunities and enhance self-sufficiency by establishing a flexible and decentralized system of federal, state, and local programs.

Authority for planning and operating a flexible, decentralized system of manpower services is vested in prime sponsors which, for the most part, are states and local governments with populations of 100,000 or more. Prime sponsors conduct a variety of manpower activities and programs including outreach and assessment, employment counseling, on-the-job training, work experience, classroom training, job development, public service employment and other supportive services.

The State of California has had two major responsibilities since enactment of CETA. First, it serves as prime sponsor for "Balance-of-State" (BOS) areas which do not fall within the jurisdictions of independently eligible prime sponsors. Second, it acts as provider of special manpower services and as coordinator/evaluator of statewide manpower activities.

Under Title I of CETA, four percent of total funds are made available to each state to provide state manpower services. Regulations implementing Section 106 of the Act specify six mandatory activities for improving the coordination and operation of the state agencies and local prime sponsors delivering manpower services within the State. The thrust of the SMS Grant is to develop state plans and procedures that will reduce duplication of effort and provide coordinated, comprehensive statewide manpower services. There are also five optional activities under the regulations implementing Section 106: (1) providing allowable services by state agencies, (2) getting manpower services to rural areas, (3) developing labor market information, (4) giving technical assistance to prime sponsors, and (5) sponsoring model training and employment programs for CETA enrollees.

Within the Employment Development Department (EDD), the California Employment and Training Advisory Office (CETA Office) is designated to administer the SMS Grant. The CETA Office supports its operations entirely by CETA funds. Located in Sacramento, the Office reports to the Director of EDD.

CETA ADMINISTRATIVE COSTS

Federal regulations require that CETA administrative costs be "reasonable" and provide for federal funds to be expended for direct program activities and services. If administrative costs exceed 20 percent for non-public service employment activities, the prime sponsor must provide an adequate reason and supporting documentation. Costs for public service employment other than wages and fringe benefits may not exceed 15 percent. Subgrantee and subcontractor costs must be included as a part of the whole administrative cost limitation.

The Federal Government scrutinizes this aspect of the CETA program. Yearly grants and modifications are approved based, in part, on the ability of prime sponsors to operate within the administrative cost limitations. Prime sponsors must be careful to stay within these parameters to ensure continued funding.

The State Manpower Services grant, however, is not subject to administrative cost restrictions.