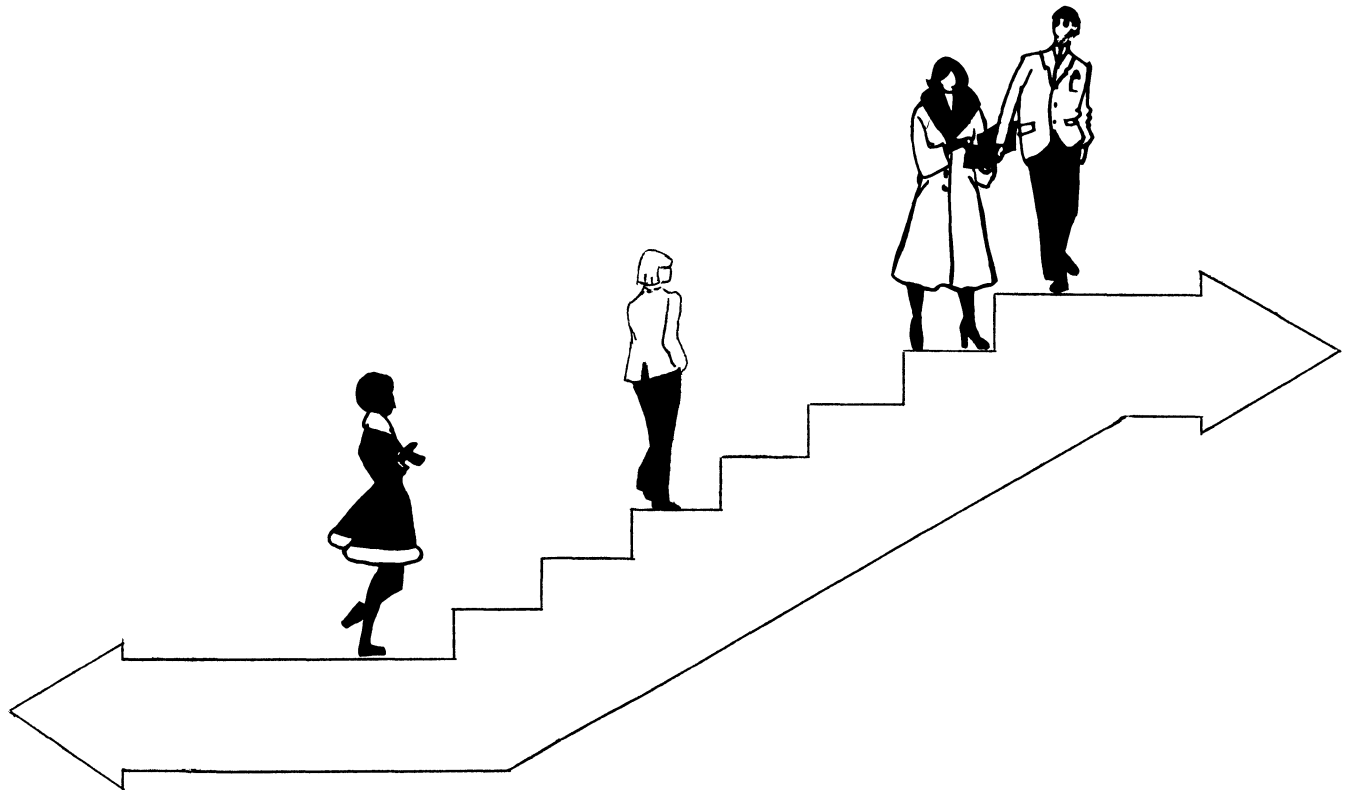




Joint Legislative Audit Committee
Office of the Auditor General

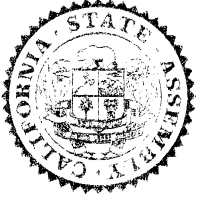


REPORT TO THE CALIFORNIA LEGISLATURE



OPERATIONAL IMPROVEMENTS FOR THE CAREER OPPORTUNITIES DEVELOPMENT PROGRAM STATE PERSONNEL BOARD

Office of the Auditor General
1955 - 1977



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



CHAIRMAN
MIKE CULLEN
LONG BEACH

MIKE CULLEN
CHAIRMAN

VICE CHAIRMAN
ALBERT RODDA
SACRAMENTO

ASSEMBLYMEN
DANIEL BOATWRIGHT
CONCORD

EUGENE A. CHAPPIE
ROSEVILLE

LEROY GREENE
SACRAMENTO

SENATORS
PAUL CARPENTER
CYPRESS

GEORGE DEUKMEJIAN
LONG BEACH

NATE HOLDEN
LOS ANGELES

October 12, 1977

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 submits the Auditor General's report on the Career Opportunities Development Program (COD) administered by the State Personnel Board and the Employment Development Department.

Since 1968, the COD unit has expended approximately \$33 million. An estimated 4801 disadvantaged persons have been placed in permanent public service at an average cost of \$6,874 for each placement, at a rate of two per day.

Legislative committees may wish to address the question of the social utility and effectiveness of the program, i.e, how much should each placement cost the taxpayer? Does the program significantly impact the number of all unemployed in California? If not, how many placements per day would satisfy legislative intent and justify legislative appropriation?

By copy of this letter, the Department is requested to advise the Joint Legislative Audit Committee within sixty days of the status of implementation of the recommendations of the Auditor General that are within the statutory authority of the Department.

The auditors are Gerald A. Silva, Audit Supervisor; Richard C. Mahan; and Jeffrey L. Mikles.

Respectfully submitted,

MIKE CULLEN
Chairman

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	1
INTRODUCTION	3
AUDIT RESULTS	
Need for Improved Program Efficiency in Developing Job Contracts	9
Recommendations	13
Need for Formal Monitoring System	16
Recommendations	19
Other Matters for Consideration	20
 WRITTEN RESPONSE TO THE AUDITOR GENERAL'S REPORT	 22

SUMMARY

In June 1968, the State Personnel Board (Board) established the Career Opportunities Development Unit (COD) to implement the Governor's Career Opportunities Development Program. The program is designed to develop new career opportunities for welfare recipients and other disadvantaged persons who have been unable to enter public service because of insufficient work experience or education.

Feasible opportunities exist for the Board to improve the operation of the COD program by increasing job contract development efficiency and implementing a formal monitoring system. Deficiencies in current COD program operations (1) prevented the Employment Development Department from receiving \$2.15 million in additional federal funding in fiscal year 1977-78 and (2) allowed job contractors and grantees to spend \$6.7 million without a system to monitor expenditures. The conditions are a result of:

- The lack of an effective management planning process within the COD Unit (see p. 9).
- The low priority given to monitoring COD job contracts by the Public Employment and Affirmative Action Division (PEAAD) resulting in a failure to develop an adequate monitoring system to formally account for funds spent (see p. 16).

Additionally, our survey concluded that the Board's diffused marketing approach, which consists of mailings to state and local government entities, has prevented the Board from identifying all prospective job markets (see p. 20).

We recommend the Board (1) implement a comprehensive management-by-objective system which includes workplans, performance standards and cost guidelines (see page 13), and (2) develop an on-site monitoring system for job contracts and grants (see p. 19).

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee we are examining the operations of the State Personnel Board (Board). As part of our study, we have reviewed the Board's Career Opportunities Development program (COD). The review was conducted under authority vested in the Auditor General by Section 10527 of the Government Code. This is the first in a series of reports concerning the Board's operations.

In June 1968 the Board established the Career Opportunities Development Unit to implement the Governor's Career Opportunities Development program. The Unemployment Insurance Code, Chapter 1 of Division 4 (commencing with Section 12000) authorizes the establishment of the COD program. The COD Unit is a part of the Public Employment and Affirmative Action Division. The unit was established to provide centralized direction and leadership in developing new career opportunities for welfare recipients and other disadvantaged persons who have been unable to enter public service because of insufficient work experience or education.

Since its inception in June 1968, through fiscal year 1976-77, the COD Unit has expended approximately \$33 million in state and federal funds, which resulted in an estimated 4,801 permanent

placements of disadvantaged persons in public service. Concurrently, the COD Unit awarded 38 grants totaling over \$3 million to local and state government entities to conduct COD projects.

The COD program consists of a jobs program and a grants program. The jobs program consists of three activities: (1) WIN-COD on-the-job training (OJT) contracts, (2) COD job contracts, and (3) the Department of Rehabilitation COD program. The WIN-COD and the Department of Rehabilitation COD programs are funded with state and federal monies; the COD job contract program receives only state funds. The grants program, which is financed by the General Fund, subsidizes career opportunity development projects and studies. The jobs program and the grants program are described in detail below.

Jobs Program

Work Incentive-Career Opportunities Development Program (WIN-COD)

The Work Incentive Program (WIN) is a federal program originated in 1967 under Title IV of the Social Security Act. WIN's purpose is to help people receiving Aid to Families with Dependent Children (AFDC) prepare for and obtain permanent career employment. The California Employment Development Department (EDD) administers the WIN program. In 1971 the WIN (federal) and the COD (state) programs combined efforts to provide WIN-COD funding assistance to employers who contract for on-the-job training placements (Unemployment Insurance Code, Chapter 3.5, Section 5250). The COD Unit is

responsible for contacting employers and negotiating OJT contracts for EDD referrals. EDD makes the job referrals and monitors the WIN-COD contracts. The COD funds are generally matched with WIN funds on a dollar-for-dollar basis, but the matching ratios have fluctuated according to the availability of funds.

COD Job Contract Program

The COD job contract program is administered solely by the Board's COD Unit. COD contracts are funded by monies left over from the WIN-COD fund match. Unlike the WIN-COD program, the COD program does not require federal AFDC eligibility so it is more flexible and broader in scope. COD job contracts are written in counties where EDD does not have field offices and for participants who are not eligible for AFDC. The COD Unit is responsible for contacting employers, negotiating and writing the OJT contracts, referring qualified applicants and monitoring the contracts.

Department of Rehabilitation COD Program

The State Personnel Board partially funds the Department of Rehabilitation's COD program. In addition to COD funds, the Department of Rehabilitation receives four-to-one matching funds from the Federal Government. The program's purpose is to obtain permanent employment for the disabled in public service agencies. During fiscal year 1976-77 the COD analysts began contacting employers in state agencies and negotiating the OJT contracts for this program. During fiscal year 1975-76 the Department of Rehabilitation negotiated

all of its own contracts and did not utilize Board resources.

The Department still refers applicants to all the jobs developed.

Grants Program

The COD Unit is responsible for the grants program, which is financed by the General Fund. Grants are awarded to cities, counties and public service entities for COD projects. During fiscal years 1975-76 and 1976-77 the COD grants were primarily used for job restructuring, classification reviews and developmental studies. The COD analysts are responsible for controlling the Request-for-Proposal process and developing the grant contracts. In addition, they are responsible for monitoring project progress and grant expenditures.

Grants and Jobs Programs' Funding

Under the grants program during fiscal years 1975-76 and 1976-77, the COD Unit awarded 17 grants totaling \$770,735 to local and state government entities. Table 1 summarizes the jobs program's estimated expenditures and results during fiscal years 1975-76 and 1976-77. Some of the figures in this table are estimates and change as contracts are developed or terminated.

TABLE 1
COD JOB PROGRAMS

	WIN - COD		COD		Department of Rehabilitation
	FY 1975-76	FY 1976-77	FY 1975-76	FY 1976-77	
Available Funds:					
State	\$6,103,949	\$ 6,358,298	\$5,116,539 ^{e/}	\$1,523,885 ^{f/}	\$1,388,052
Federal	1,529,890 ^{c/}	4,100,000	-	-	5,552,208
Total	\$7,633,839	\$10,458,298	\$5,116,539	\$1,523,885	\$6,940,260
Funds Contracted ^{a/}	\$2,517,300	\$ 8,934,413	\$3,984,513	\$ 609,274	Not Available ^{g/}
Actual Expenditures	\$2,001,182	Not Available ^{d/}	\$ 182,402 ^{d/}	Not Available ^{d/}	Not Available ^{d/}
Permanent Placements	285	249	260	2	0 ^{d/}
Transition Rate ^{b/}	73.1%	19.7% ^{d/}	34.5% ^{d/}	2.4% ^{d/}	0% ^{d/}

a/ Estimated amounts
b/ Transition rate is the ratio of permanent full-time placements to the number of trainees initially hired.
c/ Estimated federal carryover from FY 1974-75; new WIN funds were not available during FY 1975-76.
d/ Total data are not available because not all contracts have closed.
e/ Estimated \$5.1 million in excess funds resulting from FY 1975-76 WIN-COD match.
f/ Estimated \$1.5 million in excess funds resulting from FY 1976-77 WIN-COD match.
g/ The Department of Rehabilitation does not know how much money has been contracted.

(Unaudited)

Sources: State Personnel Board, Employment Development Department, Department of Rehabilitation.

Scope of Audit

The audit emphasis was on evaluating the efficiency of the Board's COD jobs and grant programs and determining how the efficiency and accountability could be improved. We reviewed the COD program for fiscal years 1975-76 and 1976-77, concentrating on contract development and monitoring in the jobs programs, and contract monitoring in the grant program. The audit approach included interviewing the Board's COD Unit staff and reviewing the Unit's management procedures and records. In addition, we interviewed EDD's WIN-COD staff and a sample of job contractors and grantees and examined appropriate records. Finally, we held conferences with both Board executive management and Employment Development Department program staff to discuss our conclusions and recommendations.

The Office of the Auditor General wishes to express its appreciation to the State Personnel Board management, Career Opportunities Development Unit staff and the Employment Development Department's WIN-COD staff for their assistance during this audit.

AUDIT RESULTS

NEED FOR IMPROVED PROGRAM EFFICIENCY
IN DEVELOPING JOB CONTRACTS

The Career Opportunities Development Unit's contract development efficiency is limited by the lack of an effective management planning process. The unit lacks contract development objectives, standard operating procedures and analyst performance standards. As a result of these inefficiencies the Employment Development Department lost an opportunity to receive \$2.15 million in additional federal funding for the fiscal year 1977-78.

The State Personnel Board purports to use a management-by-objectives (MBO)^{2/} planning process which produces two levels of plans, Board-wide and Divisional. The Board-wide plan is an executive office monitoring instrument which consists of strategic goals and key objectives. This plan represents the issues, concerns and objectives which are critical in the relationship of the organization to its various clients, concerned interest groups and the general public. The plan identifies areas that are considered to be of such importance as to require continuous monitoring by the executive office. The Divisional plans typically cover a fiscal year period and are a result of MBO plans developed by each organizational work unit. The current State Personnel Board MBO process is policy-oriented rather than operation-oriented in that it does not involve day-to-day operations.

^{1/} Planning is based on objectives derived from the goals of the organization. The objectives serve as performance measures for each work unit.

No performance measurements or benchmarks exist to evaluate the unit's effectiveness. The COD Unit's staff is not required to perform up to any established standards regarding number of employer contacts, number of placements or number of contracts processed. Unit and division management concede that the COD Unit has no MBO system but that such a system could be instrumental in improving the efficiency of the COD Unit's contract development process.

The inefficiencies that exist in the COD Unit's contract development process resulted in an uneven flow of contracts through the unit, a failure to process contracts in a timely manner and a significant decline in the number of contracts processed by the unit during fiscal years 1975-76 and 1976-77 as compared to previous years. These inefficiencies negatively impact on the COD program participants by reducing the number of participants that can be successfully placed. For example, the Employment Development Department lost an opportunity to receive an additional \$2.15 million in federal funds in fiscal year 1977-78 for the WIN-COD program because the COD Unit failed to process a sufficient number of on-the-job training contracts during fiscal year 1976-77. As a result, EDD was forced to carry over \$2.15 million in federal funds from fiscal year 1976-77 to 1977-78, thereby reducing the federal funding for fiscal year 1977-78 by the amount of the 1976-77 carryover. In addition, the State Personnel Board was late in signing an interagency agreement with EDD for fiscal year 1976-77 which resulted in EDD diverting \$2 million that was initially earmarked for WIN-COD to another WIN program. While the State Personnel Board and the Employment Development Department jointly conduct and share responsibility for the WIN-COD program; due to legislative mandate, the Board is ultimately responsible for the program's operation.

Another example of the adverse effects of the COD Unit's inefficient contracting process involves two recent contracts. In an attempt to earmark unspent funds late in the fiscal year, the Board authorized the program to pay extraordinary training costs totaling over \$100,000. The attempt was made to reduce the amount of funds carried over into the new fiscal year. EDD management states that these kinds of extraordinary expenditures inflate the cost per placement and defeat the program's purpose. The funds spent on extraordinary training could have been better spent to provide additional participants with gainful employment.

The Public Employment and Affirmative Action Division (PEAAD) management and COD staff have been very open and cooperative during this audit. Management is aware of its system deficiencies and is taking steps to correct them. On a divisional level, PEAAD is attempting to reverse the inefficient contracting process by developing the interagency agreement with EDD earlier in the fiscal year, thereby balancing the yearly contract flow to avoid the rush to process contracts and encumber funds at the end of the fiscal year.

Poor Interagency Communication

Lack of communication between the Board and EDD has also contributed to inefficiencies in the COD program. The Board analysts initiate the WIN-COD contract process by contacting employers and developing job proposals. They do not, however, always inform the field offices before

finalizing a contract. As a result, the Board analysts often work in a void.

A high degree of interagency communication is essential to meet employer needs and to avoid making commitments which cannot be met during the contract development process. The Standard Interagency Agreement between the State Personnel Board and the Employment Development Department states that the Board shall:

- Develop appropriate jobs with employers
- Not finalize negotiations until EDD has had three working days in which to provide feedback
- Provide EDD Central Office WIN-COD staff with a written summary of each contractor's past performance and current ability to perform.

Poor interagency communication is a detriment to program efficiency and effectiveness. For example, in two contracts, one with a city and one with a state department which accounted for 182 job slots and over \$1.8 million, EDD was unable to fill the job orders with quality applicants. The Board analysts finalized the contracts without asking EDD if it could fill them with quality applicants. This practice reduces the opportunities for a high transition rate into permanent employment, and may undermine employer confidence in the program.

CONCLUSION

The COD Unit needs an effective management planning process to improve contract development efficiency and to develop unit performance evaluation measures. Contract development inefficiencies have caused EDD to lose an opportunity to receive an additional \$2.15 million in federal funds for fiscal year 1977-78 and have potentially reduced the number of successfully placed participants. Furthermore, extraordinary training expenditures have inflated placement costs and reduced employment opportunities for program participants.

Finally, interagency communication between EDD and Board analysts needs to be improved during the WIN-COD contracting process. Communication and coordination are vital to meeting employer needs, avoiding unfeasible commitments and maintaining program effectiveness and efficiency. As a result of poor interagency communication, EDD was unable to provide quality applicants to fill two contracts totaling \$1.8 million.

RECOMMENDATIONS

We recommend that the State Personnel Board adopt an operationally-oriented management-by-objectives system as soon as possible and include the following features:

- Specific measurable unit objectives
- Appropriate procedures to achieve the objectives, i.e., face-to-face contact, letter, phone
- Performance/workload standards for unit staff, i.e., number of employer contacts and placements to be made weekly, monthly
- Standard operating procedures for day-to-day activities
- Formal staff workplans and scheduling, i.e., divide and assign workload, initial employer contact schedule, follow-up schedule, and grant and contract monitoring schedule.

We also recommend that:

- COD and EDD management establish written allowable cost guidelines for WIN-COD contracts as soon as possible. The guidelines should cover only the trainee's related training costs and not the instructor's salaries and travel expenses
- New and current Board analysts be oriented to EDD's function as soon as possible
- The Board analysts notify the local EDD field offices early in the contract development phase to determine if qualified applicants are available before completing the contracts

- COD and EDD management establish frequent, regularly scheduled meetings to conduct planning, evaluate results and deal with problems.

BENEFITS

Implementing these recommendations would provide the COD Unit with a more effective management planning process which should result in increased contract development efficiency and more successful job placements. Increased interagency communication should enhance contract development efficiency and aid in assuring that qualified participants are available to fill job contracts. Furthermore, allowable cost guidelines would decrease extraordinary training costs and increase the program's cost effectiveness.

NEED FOR FORMAL CONTRACT
AND GRANT MONITORING SYSTEM

The State Personnel Board has not monitored over \$6.7 million in COD job contracts and grants and Department of Rehabilitation COD fund expenditures during fiscal years 1975-76 and 1976-77. As a result, current program operations could potentially have allowed \$6.7 million to be misspent. The monitoring deficiencies have occurred because PEAAD has not assigned a sufficiently high priority to monitoring each program, and because there are no monitoring guidelines and schedules for each program.

Both the COD jobs agreement performance specifications and the contractor responsibilities section of the grant contract state that the job contractors and grantees must report to the Board on a regular basis. The job contractor is to report monthly on all participants and to cooperate with the Board regarding contract monitoring which includes on-site visits. The grantee must provide a grant status report on a quarterly basis and also submit a final report with the final invoice for reimbursement. In addition, the grantee must provide any and all monitoring and evaluation reports requested.

Division and unit management conceded that the COD job contracts and grants have not been appropriately monitored. The monitoring of the COD job contracts has been assigned a low priority; the monitoring of the COD grants has been assigned a high priority, but there is no grant

monitoring format to facilitate effective monitoring. Executive Board management stated that new criteria for a monitoring system should be established.

We examined the COD Unit's central files and found no COD job contract or grant progress reports, evaluations or final reports. The only information employers submit to the COD Unit is the COD trainee evaluation. These evaluations are submitted bi-monthly or quarterly and are maintained by unit analysts at their own desks as opposed to one centralized location. In addition, unit analysts seldom make on-site visits as they do not conduct on-going counseling or evaluation with their clients. Executive Board management conceded that on-site visits would be the most effective monitoring method.

We conducted five on-site visits to COD job contractors to determine if the contractors were completing the trainee evaluations and submitting them to the Board. All trainee evaluations reviewed were complete and have been submitted to the Board in a timely manner. The contractors stated that the Board never requested job contract progress or final reports. Additionally, the contractors stated that they had continuity problems with the unit due to its high personnel turnover.

We also conducted on-site evaluations of all COD grants larger than \$100,000 and ending in fiscal years 1975-76 and 1976-77 to determine if the funds were spent according to the criteria established in each

contract. All of the grant contracts evaluated were appropriately conducted and no funds were misspent.

The Department of Rehabilitation's 1975-76 COD contract and the 1976-77 COD program funds also have not been monitored. Unit management conceded that only in the last month have they tried to determine how the funds were spent during the past two fiscal years. Placement data has been requested from the Department of Rehabilitation.

Since this audit began, the COD Unit has developed and implemented grant monitoring guidelines and final grant report guidelines. The monitoring guidelines are intended primarily as a general guide for the on-site monitoring process. The report guidelines request specific information regarding the grant results and accomplishments.

CONCLUSION

The COD Unit has not established a system for monitoring COD job contracts and grants to formally account for funds spent. During fiscal years 1975-76 and 1976-77, job contractors and grantees spent \$6.7 million which was not monitored. Division and unit management conceded that job contract monitoring is a low priority and that a grant monitoring format is needed. A review of the COD Unit's central files did not reveal any COD job contract or grant program reports, evaluations or final reports. However, we conducted on-site

evaluations of a sample of job contractors and grantees and found that trainee evaluations have been prepared and that grant funds have been appropriately spent.

RECOMMENDATIONS

The State Personnel Board should improve the COD grant and jobs contract monitoring system by implementing:

- Scheduled on-site visits to grantees and job contractors
- COD job contract periodic and final report guidelines.

BENEFITS

Implementing these recommendations would provide a formal monitoring system for the COD job contract and grant programs. This monitoring system would account for all expended funds and aid in ensuring that funds are not misspent.

OTHER MATTERS FOR CONSIDERATION

COD Program Coverage

The COD unit has been using an ineffective diffused marketing approach which consists of mailings to state departments and local jurisdictions. COD unit management conceded that there is a need to identify the prospective market and develop a systematic marketing strategy. They further agreed that sales training for the COD analysts would be beneficial.

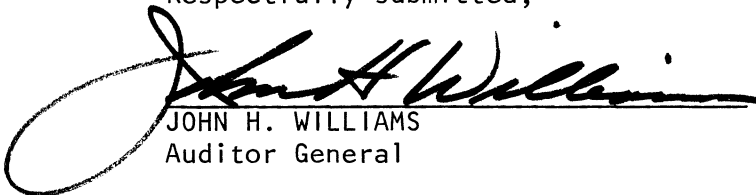
The seven Board analysts have not contracted with many large public service and quasi-public agencies such as fire, transit and utility districts because they spend about 80 percent of their time contacting state departments. The amount of time spent with state departments and local jurisdictions varies with each analyst. In addition, COD Unit turnover is high; six months is the average amount of analyst experience and one year is the maximum.

The COD program competes with the Comprehensive Employment Training Act (CETA) and the Work Incentive-Public Service Employment (WIN-PSE) manpower programs in local jurisdictions and with CETA in the state departments. EDD administers both the CETA and WIN-PSE programs in addition to providing applicants for the WIN-COD program. The CETA program, especially Title II and VI, is COD's chief competitor because there is no transition requirement to full-time employment, which

employers favor, and there is extensive program coverage in the field. CETA field coverage includes local jurisdictions which have received CETA grants to conduct employment programs, in addition to EDD field offices.

Division and unit management are currently questioning the COD Unit's level of involvement in local jurisdictions. They envision EDD writing and negotiating contracts with the state department field offices and local governments. The Board analysts, however, would still develop jobs at the state department headquarters level. This would allow the COD Unit to better utilize its resources and also benefit from EDD's field resources and employer contacts. In addition, client service may improve because the field representative would negotiate the contract and make the referral. This would increase the chance of a permanent employment placement and enhance job development efficiency.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

Date: October 7, 1977

Staff: Gerald A. Silva, Audit Supervisor
Richard C. Mahan
Jeffrey L. Mikles

CALIFORNIA STATE PERSONNEL BOARD

801 CAPITOL MALL • SACRAMENTO 95814



October 6, 1977

Mr. John J. Williams
Auditor General

Dear Mr. Williams:

Thank you for the opportunity to review your draft report on "Operational Improvements For the Career Opportunities Development Program of the State Personnel Board".

I find the conclusions and recommendations are instructive, and all are in the process of implementation.

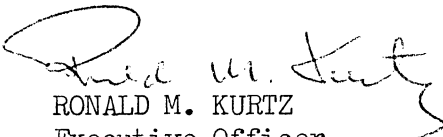
The report cites several actions resulting in operational inefficiencies which you attribute to the State Personnel Board. These were joint activities of the Employment Development Department and the State Personnel Board. In this regard I believe the report fails to acknowledge the responsibility of EDD for open communication and cooperation in facilitating the attainment of program objectives. To illustrate, I would offer clarifying information on two specific points.

On page 11, the first paragraph implies that the Board unilaterally authorized the program to incur extraordinary training expenses. The EDD WIN Unit participated substantially in the negotiations on these contracts, and the contracts were written by EDD.

Page 10, the last sentence, indicates that the State Personnel Board was late in signing the 1976-77 interagency agreement which resulted in a diversion of \$2 million from the WIN-COD Program. The interagency agreement was the product of joint negotiation between the two departments, which, unfortunately, was not finalized in a most timely fashion.

If you need further information, please contact Mr. Jack Padley of my staff at 445-2767.

Sincerely,


RONALD M. KURTZ
Executive Officer

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps