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December 30, 1982

Letter Report 272

Honorable Art Agnos
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

We have reviewed the request for proposal process used by the State Office of Economic Opportunity (OEO) to distribute funds under the Federal Community Services Block Grant (CSBG) program. The objective of the review was to determine whether the actions taken by the OEO in the request for proposal (RFP) process were equitable and prudent and whether they complied with the requirements of the CSBG program.

Inadequate management control limited the OEO's process for distributing funds under the CSBG program. Specifically, the OEO did not advertise the availability of discretionary funds as required; thus, eligible agencies may have been denied an opportunity to bid for the funds. In addition, the RFPs sent to prospective contractors contained errors that were not amended until late in the proposal process, thereby limiting the response time available to the contractors. Furthermore, the OEO did not fully assess alternatives for transmitting changes in the RFPs to agencies. As a result, the OEO spent \$62,360 to inform agencies of changes in the RFPs. Had the OEO used an alternative such as Express Mail or Federal Express, the cost would have been approximately \$4,000 or \$11,600, respectively. Finally, the OEO did not review its mailing list to eliminate duplicate listings of agencies. We could not verify whether any agency was intentionally denied an RFP.

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BACKGROUND

Subtitle B of the 1981 Federal Omnibus Budget Reconciliation Act (act) established the Community Services Block Grant program to help states eliminate the causes of poverty. To accomplish this goal, the CSBG program provides block grants to the states, which in turn award funds to eligible community agencies. In California, the State Office of Economic Opportunity administers the CSBG program.

The act stipulates that funds under the CSBG program will be used to provide services and activities having a potentially major impact on the causes of poverty. These services and activities include assisting the low-income population and the elderly poor. In the effort to eliminate poverty, the funds may also be used to provide emergency services, to coordinate governmental and other social service programs, and to encourage the private sector to become involved in antipoverty activities.

The act also requires that at least 90 percent of the funds allotted to a state must be granted to political subdivisions of the State to use directly or to migrant and seasonal farm work associations or to nonprofit, private community organizations that have tripartite boards.* However, states must also give special consideration to those locally designated community action agencies that are currently receiving federal antipoverty funds. Finally, the act specifies that funds used for state administrative expenses must not exceed 5 percent of the total block grant and that funds used for specified discretionary purposes must not exceed 5 percent.

During the 1982-83 federal fiscal year, the block grant for California is projected to be approximately \$29 million. About \$1.45 million of this amount has been set aside for discretionary projects, which are funded through a competitive bidding process and \$1.45 million has been retained for state

* One-third of the members of a tripartite board are elected public officials, one-third are elected low-income representatives, and one-third are from business, industry, labor, education, and religious groups in the community.

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administrative costs. Based on the state plan, the remaining \$26.1 million is reserved for migrant and seasonal farm worker organizations, recognized American Indian tribes, eligible limited purpose agencies, and for nonprofit community organizations. These funds are awarded through a noncompetitive, entitlement process that gives special consideration to community action agencies currently receiving federal antipoverty funds.

State Application and Plans

To receive funds under the CSBG program, a state must submit an application to the U.S. Department of Health and Human Services. A state is required to provide assurances that the funds will be allocated and used as prescribed in the federal act. In addition, each state is required to prepare and submit a plan describing how the state will carry out the assurances.

In accordance with the federal act, the OEO's application describes the State's strategy for serving the low-income population and includes the State's goals, priorities, eligible activities, and eligible entities. The State's application also includes spending and implementation plans. The spending plan describes how the State will allocate funds in accordance with the federal act, and it describes the provisions for distributing and reallocating funds and for setting aside funds for discretionary use. The OEO's implementation plan addresses policies and procedures for administering the grant, and it outlines a management control system. The implementation plan is designed to maintain administrative accountability.

SCOPE AND METHODOLOGY

The purpose of this audit was to review the OEO's request for proposal process for distributing funds under the CSBG program. We address the concerns that only a limited number of agencies received the RFPs, while others were denied copies, and that the time allowed to respond to the RFPs was insufficient. We also examined the OEO's using expensive telegraph services to send agencies the corrections to the RFPs instead of exploring lower cost alternatives for informing the agencies of the changes. In conducting this review, we interviewed OEO staff and examined the pertinent state and federal contracting guidelines.

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AUDIT RESULTS

Inadequate management control impaired the Office of Economic Opportunity's request for proposal process for distributing funds under the Community Services Block Grant program. Although the OEO's application and its plans for distributing CSBG funds comply with the federal act, the OEO did not advertise the availability of the competitive, discretionary funds; this may have denied eligible agencies an opportunity to bid for the funds. We were not able to verify whether any agency was intentionally denied an RFP, however. In addition, the OEO's initial RFPs contained errors that were not amended until late in the proposal process, thus limiting the amount of response time available to agencies. Further, the OEO did not fully explore lower cost alternatives for transmitting the RFP amendments; the method that the OEO used cost over \$62,000. Express Mail or Federal Express would have cost \$4,000 or \$11,600, respectively. Finally, the OEO did not review its mailing list to prevent mailing the RFPs and the corrections for the RFPs to agencies listed more than once.

Advertising and Distributing the RFPs

The OEO did not advertise the availability of the competitive, discretionary funds as required, and as a result, eligible agencies may have been denied an equal opportunity to bid for the funds. With certain exceptions, the Governor's Executive Order B83-81 requires every state agency to advertise all service and construction contracts with dollar values of \$500 or more in the California State Contracts Register before the contracting process begins. According to the manager responsible for preparing the register, the CSBG program funds awarded to community action agencies are exempt from this process, but the competitive, discretionary funds are not.

The OEO director said that the agency generally advertises available contracts in the California State Contracts Register. However, since 90 percent of the funds under the CSBG program were to be awarded to community action agencies on a noncompetitive basis, the director decided not to advertise any of the funding.

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On October 15, 1982, the OEO sent approximately 200 of the over 400 RFPs to agencies on the OEO's consolidated mailing list. The OEO mailed the remaining RFPs on October 22, 1982. The OEO's mailing list does not contain all of the organizations in the State that are eligible to receive CSBG funds, but the OEO director contends that additional copies of the RFPs were available and that any agency requesting an RFP was sent one. We were unable to determine whether any agency was intentionally denied copies of the RFPs pertaining to the CSBG program.

Errors in the RFPs

Between the first and second mailings of the RFPs, OEO staff found a variety of errors in the RFPs. The OEO director attributed these errors to poor staff work in preparing the RFPs. The OEO conducted four regional training sessions for community action agencies from October 19 to October 22 to discuss and amend the RFPs. However, the OEO staff also found errors in the second batch of RFPs. Subsequently, the OEO prepared an errata sheet between October 23 and 26 to amend the RFPs. On October 27, the OEO used a combination of 429 Western Union mailgrams and night letters to transmit the errata sheet to the agencies that had received the RFPs.

The Governor's Executive Order B83-81 requires state agencies to give potential bidders at least two weeks to respond to an RFP for a service contract. The OEO mailed the RFPs for the competitive, discretionary funds on October 15 and allowed the agencies until November 5 to respond. This would have been a reasonable amount of time for agencies to prepare adequate responses to the RFPs if the RFPs had been correct. However, because of the inaccuracies in the RFPs and because the errata sheet arrived after the RFPs, some agencies had only seven days to respond to the RFPs, which may not have been adequate time to prepare a bid. Nevertheless, the OEO did receive over 200 proposals from agencies applying for a total of \$1.45 million in discretionary funds.

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Cost of Sending
the Errata Sheet

In its haste to distribute the errata sheet, OEO management failed to search for the least costly method of transmitting the information. The OEO's principal objective was to get the changes in the RFPs to the prospective contractors within one day, thereby preserving the funding deadlines. Without obtaining a cost estimate and instead of using cheaper methods, the director authorized the use of Western Union telegrams. The 429 telegrams cost approximately \$62,360. In comparison, sending the errata sheet by Express Mail or Federal Express, both of which guarantee one-day delivery, would have cost approximately \$4,000 or \$11,600, respectively.

In addition, we learned that at least one agency received multiple copies of the errata sheet. Our review of the OEO's consolidated mailing list indicated that organizations with multiple offices could have received several copies of the RFPs and the errata sheet. The OEO's director stated that the mailing list had not been reviewed to eliminate duplicated listings of agencies. Consequently, the cost of informing the agencies of changes in the RFPs was further increased.

CONCLUSION

Inadequate management control has limited the Office of Economic Opportunity's process for distributing funds under the Community Services Block Grant program. The OEO did not advertise the availability of funds as required, and the RFPs contained errors that were not corrected until late in the proposal process. Therefore, eligible agencies may have been denied an opportunity to bid for the funds, and the amount of response time available was limited. However, we were unable to verify that any agency was in fact denied an RFP. Furthermore, the OEO spent an excessive amount of money to inform agencies of changes in the RFPs and did not eliminate duplicate agencies from its mailing list.

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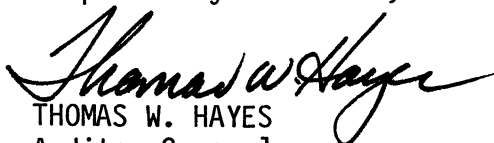
RECOMMENDATION

The State Office of Economic Opportunity should adopt the following measures to improve the request for proposal process pertaining to the Community Services Block Grant program:

- In accordance with Executive Order B83-81, advertise in the California State Contracts Register the availability of CSBG discretionary funds;
- Improve management controls to assure that RFPs are accurate before distributing them to applicants and to assure that applicants receive RFP amendments at least two weeks before the application deadline to allow sufficient response time;
- Assess the cost effectiveness of taking specific actions. This process includes identifying assumptions and alternatives, and obtaining cost estimates; and
- Review the consolidated mailing list to eliminate duplicate listings of agencies.

We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Staff: Thomas A. Britting, Audit Manager
Jeffrey L. Mikles

Attachment: Response to the Auditor General's Report
Office of Economic Opportunity

Memorandum

To : Mr. Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Date : December 14, 1982

Subject: 272

From : **OFFICE OF ECONOMIC OPPORTUNITY**
1600 NINTH STREET, ROOM 340
SACRAMENTO, CA 95814
(916) 322-2940

We have reviewed your draft copy of a letter report concerning the Request For Proposal (RFP) process of the Office of Economic Opportunity for distribution of funds under the Community Services Block Grant (CSBG) federal program. We feel the report generally reflects the situation which faced OEO at the time we chose to notify the various potential bidders by use of Western Union Services.

In our defense, I think it is appropriate to emphasize that the time constraints under which we were operating contributed to the decision to use Western Union services. Contrary to the statement in the letter report, we did attempt on two occasions to get an estimate from Western Union regarding the cost of the levels of service and in both cases we were told that the estimate would not be available without first having an opportunity to review the extent of the mailing list and the message material itself.* I must admit that we accepted this statement and did not pursue getting the estimate prior to transmittal, however, Western Union did, at the time of sending, inform us that the mailgram should be used where direct night letter service could not accomplish the goal of early receipt of the material.

Your report also indicates that no attempt was made to review the mailing list for duplicates.** This is also not completely accurate. The staff person who delivered the mailing list to Western Union did make an attempt to screen the list for duplication and succeeded in removing an estimated 100 duplicate mailings.

Since that time, OEO has reviewed the five different mailing lists used by the office and has consolidated, in so far as possible, those lists in order to avoid duplicate mailings of all types in the course of our normal business. In the conclusion of the letter report on page six, there is a statement made that we may have denied eligible agencies an opportunity to bid by failing to use newspaper ads and similar broad media distribution to announce the RFP process. There are approximately 4,700 potential interested agencies under this program, and we would agree that had there been more time

AUDITOR GENERAL'S NOTE: The above-referenced footnotes appear on page 9.

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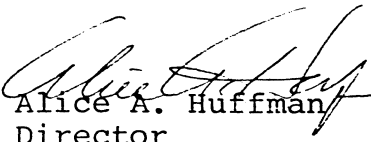
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available for distribution of the RFPs that public advertising would have been a desirable mode. I do not make this statement on the basis of a defense, but as an acknowledgement that your discussion is appropriate. I would certainly agree that in a situation where sufficient funds would be available to assure that a large number of agencies could be participants that public notices in the media should be used. However, in our present situation in which 90% of the funds are restricted to some 42 Community Action Agencies and a limited number of other agencies, that distribution of RFP information was restricted to those agencies having a track record of community service programs.

As you are aware, the \$62,000 Western Union cost has been acknowledged as an error. As a result of our review of the events related to this situation, we have taken steps to implement a control system to insure that proposals relating to discretionary funds are appropriately handled through the State Contracts Register. This control system requires that contract activities must first be approved by our Administration Division. Moreover, all of the recommendations contained in your report have been implemented and taken care of by our staff. Our Contracts Officer and program staff have been made completely aware of the situation, and we have instilled in appropriate staff the need for more deliberate consideration of all factors related to contract negotiation and use of appropriate methods for information distribution.

In our work with Jeff Mikles and other staff of your office, we have found an attitude of objectivity and a willingness to share their views on this situation, both informally and through your report, which I believe will assist this office in its program operations. The professionalism of your staff on this assignment was certainly appreciated.


Alice A. Huffman
Director

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* AUDITOR GENERAL'S NOTE: Our statement on page 6 does not say that the OEO did not attempt to get an estimate, only that the director authorized the use of telegrams without obtaining an estimate. The OEO could have received the estimate when it placed the order and could have decided at that moment to use an alternative to telegrams. The OEO chose to send the telegrams regardless of the cost.

** AUDITOR GENERAL'S NOTE: We did not say that the OEO made "no attempt . . . to review the mailing list for duplicates." Rather, on page 6 we report what the OEO's director told us: "that the mailing list had not been reviewed to eliminate duplicated listings of agencies."