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DEPARTMENT OF AUDITOR-CONTROLLER

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TO: Supervisor Zev Yaroslavsky, Chairman
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FROM: J. Tyler McCauley
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SUBJECT: **REFUGEE IMMIGRANT TRAINING AND EMPLOYMENT PROGRAM (RITE) COST ANALYSIS**

As directed by the Board, we have reviewed the cost analysis related to the provision of case management services to the Non-English/Spanish (NE/NS) speaking CalWORKs participants through the Refugee Immigrant and Employee Training Program (RITE). The Department of Public Social Services (DPSS) and Department of Community and Senior Services (DCSS) staff prepared the analysis utilizing a Proposition A costing model to evaluate the cost effectiveness of continuing to have DPSS contract through DCSS to provide RITE services versus having DPSS directly provide the services.

Background

DPSS provides case management services to NE/NS speaking CalWORKs participants through RITE. Currently, DPSS maintains an interagency agreement with the DCSS to deliver these services. In turn, DCSS contracts with a number of community based agencies that provide the actual services to the CalWORKs participants. The RITE service providers are compensated at rates that are established in their contracts with the DCSS. DCSS is reimbursed by DPSS for its costs of monitoring the RITE service providers.

DPSS' FY 2002-03 budget request assumed that the existing RITE Program would be discontinued and that such services would be performed in-house by County employees. At the June 26, 2002 meeting, your Board determined that it would be inappropriate to terminate the RITE provider contracts without an independent review of the cost analysis referred to above.

Scope of Review

We reviewed the cost analysis, which compared the estimated cost of DCSS serving NE/NS participants through an interagency agreement with DCSS to the estimated cost of having these services performed in-house by DPSS employees. DPSS prepared this analysis with input from DCSS. Our review consisted of interviews with DCSS, DPSS and CAO representatives, and a review of documentation that supported estimates and other amounts included in the study.

We did not review the caseload projections included in the analysis. However, DPSS, DCSS and the CAO agree on the estimates of annual caseload and intakes, the number of participants in components, utilization rates, as well as job placements reflected in the Study of County Avoidable Costs. DPSS represented that the caseload estimates are their best point-in-time projections of the RITE caseload, but cautioned that due to limited historical data and uncertainties concerning the effects of 60-month time limits on those projections, actual results could vary from the projected caseload by a wider than normal margin.

It should be noted that the cost estimates included in DPSS/DCSS' cost analysis are based on various assumptions and assertions that are difficult to verify. Accordingly, actual costs could vary from those estimates significantly.

We were also requested to perform an analysis comparing DPSS' avoidable cost of directly administering and monitoring the contracts with the RITE Service Providers to DCSS' estimated avoidable cost of administering and monitoring the agreements.

Results of Review

Review of Cost Analysis

The existing contracts with the RITE Service Providers expired on June 30, 2002 and these contracts are currently on a month-to-month basis until December 31, 2002. Based on the rates included in the existing contracts, it is estimated that RITE Service Provider payments and the avoidable portion of DCSS' 10% monitoring charges would be approximately $10.265 million for the period October 1, 2002 to September 30, 2003 through an interagency agreement with DCSS. By law, the RITE Service Providers cannot perform eligibility functions such as exemption determination and the imposition of sanctions. DPSS estimates that the cost of County staff to perform eligibility determination functions would be approximately $323,000 annually for a total cost of $10.588 million. In contrast, DPSS estimates its cost of providing these same services in-house at approximately $8.344 million. Under this scenario, we determined that the RITE participants could be served in-house at a cost of $2.244 million less than would be incurred if the services were delivered through an interagency agreement with DCSS.

DCSS also indicated that they have informally negotiated a reduction in the rate paid for case management services with the RITE Service Providers from $60 per participant to $50 per participant. Assuming a new contract reflecting the reduced rate for case management is in place by the end of the calendar year, it is estimated that the RITE program could be delivered through an interagency agreement at the cost of approximately $9.894 million (including the cost of DPSS eligibility determination staff). Under this scenario, these services could be provided by DPSS at a cost savings of $1.550 million.

It should be noted that the savings for both scenarios are calculated before subvention. DPSS advised us that the subvention rates would be the same whether this program is provided in-house, or through DCSS and the RITE providers. DPSS also advised us that it anticipates that its fiscal year 2002-2003 CalWORKs funding allocation will be exceeded. Accordingly, the costs under either scenario will be funded either from Net County Cost, or from available performance incentive funds.

As part of our review, we verified the arithmetical accuracy of DPSS' calculation of avoidable County costs. In addition, it should be noted that DPSS has made a number of representations to us that impacted our review. In several instances these representations served as justification for not including certain items of cost in the Department's calculation of County avoidable costs. In other instances, we relied on representations regarding DPSS' ability to provide necessary services to the NE/NS participant population. These representations are as follows:

- Countywide, DPSS currently has GAIN Services Workers (GSWs) with the language and cultural skills to serve 99.2% of the NE/NS speaking CalWORKs participants. DPSS certifies that it will reassign GSWs as necessary to meet participants' needs.

- DPSS has indicated that no additional workspace would be required to serve participants living in the five GAIN Regional service areas currently managed directly by the County. According to DPSS, currently encumbered GSW staff that are already housed at DPSS facilities in these service areas would serve the RITE participant population. Based on these representations, no provision for space costs was included in the cost analysis for service areas currently managed by the County.

  The remaining two GAIN Regional service areas are managed under contract. In one of these service areas (GAIN Region VII), DPSS had planned to locate staff at a nearby CalWORKs District Office (Glendale). However, due to concerns that increased participant and employee populations would create parking problems at the Glendale office, DPSS is in the process of identifying alternative space. DPSS has included $234,000 in the cost analysis to cover the estimated cost of the additional space and related costs such as utilities, maintenance, etc. for staff located in GAIN Region VII. This appears to be a conservative estimate and actual costs may be lower.

We performed a limited review of parking capacity at the other six GAIN Regional offices and nothing came to our attention that would indicate that the available parking spaces would be insufficient to serve County staff and participants.

GAIN Region II is also managed under contract. According to DPSS, arrangements have been made with the contractor to co-locate staff that will serve the NE/NS in the facilities currently occupied by the contractor. Based on this representation, no provision for space costs was included in the cost analysis for GAIN Region II.

- DPSS indicated that utilizing six of the existing seven GAIN Regional offices, along with additional space procured in GAIN Region VII, it can provide the NE/NS speaking population with the same degree of access to GAIN services as that afforded to English/Spanish speaking participants. To the extent hardships would occur, workers outstationed at CalWORKs District offices would provide needed services.

- DPSS had determined that existing GAIN Regional managers are capable of overseeing the staff that would serve all of the NE/NS speaking participants. Based on this representation, no provisions for additional administrative and administrative support positions were included in the Study of County Avoidable Costs.

- DCSS has objected to the analysis because it does not include the cost of certain transitional functions that DPSS has indicated it could perform with existing staff and equipment. If DPSS is correct, the costs should not be included because they are not incremental. If these are actually out-of-pocket costs as DCSS contends, they should be included in the analysis.

  DCSS also contends that transitional orientation and appraisal sessions would be necessary for each NE/NS participant transferred to the County from the RITE providers. DPSS believes that the County operated program and the program delivered by the RITE Providers are consistent with one another and that transitional orientation and appraisal sessions would not be needed. Again, if DPSS is correct, these costs were correctly excluded from the analysis. However, if DCSS is correct, they should have been included.

  However, because it is assumed that DPSS would perform these functions for at least several years, these transition costs, which DCSS contends will total approximately $1.049 million, should be considered over a several year period. Because the estimated savings are in excess of $1 million per year, including these costs would not change the conclusion of the analysis, but would reduce the estimated savings.

It should be noted that the cost estimates included in DPSS/DCSS' cost analysis are based on various assumptions and assertions that are difficult to verify. Accordingly, actual costs could vary from those estimates significantly.

Comparative Cost of Administering and Monitoring RITE Contracts

DCSS has identified nine avoidable positions that are responsible for administering and monitoring the RITE Provider Contracts. The Salaries and Employee Benefits (S&EB) costs associated with these positions are estimated at approximately $394,000 annually. DPSS estimates that seven avoidable positions would be needed to administer and monitor the RITE contracts. The estimated S&EB cost associated with these positions is $422,000 annually.

Because the $28,000 difference in avoidable costs is small, and since these costs are based on estimates, we conclude that cost options of having DCSS administer and monitor the contracts versus having DPSS perform this function are comparable.

It should be noted that DCSS' estimated actual billings to DPSS for monitoring would be approximately $985,000. This is because the billings would include, in accordance with Federal cost allocation procedures, not only avoidable direct costs, but also unavoidable allocated costs (overhead). While the avoidable costs are similar, the billing of overhead to DPSS will require them to finance it and this will affect their Net County Cost, or performance incentive funds. A similar effect may occur for DCSS if they no longer provide the service and cannot bill DPSS for the overhead.

If you have any questions, please contact me at (213) 974-8301, or your staff may contact DeWitt Roberts at (213) 974-0301.

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