

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**THE OFFICE OF ECONOMIC OPPORTUNITY
COULD IMPROVE ITS ADMINISTRATION OF
THE LOW INCOME HOME ENERGY
ASSISTANCE BLOCK GRANT**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

P-232

THE OFFICE OF ECONOMIC OPPORTUNITY COULD
IMPROVE ITS ADMINISTRATION OF THE LOW
INCOME HOME ENERGY ASSISTANCE BLOCK GRANT

AUGUST 1983

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August 30, 1983

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

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Office of Economic Opportunity's administration of the Low-Income Home Energy Assistance Block Grant.

Respectfully submitted,

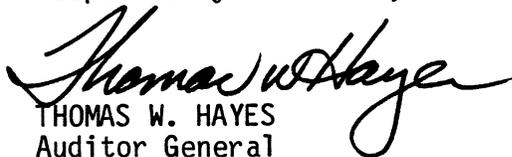

THOMAS W. HAYES
Auditor General

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SUMMARY

The Office of Economic Opportunity (OEO) has not adequately administered the block grant energy assistance programs authorized by the federal Low-Income Home Energy Assistance Act of 1981. The federal block grant for federal fiscal year 1981-82 was almost \$85.9 million; the block grant for 1982-83 is nearly \$90.4 million. The OEO has not maintained adequate control over eligibility and has not expeditiously and equitably distributed funds under the Home Energy Assistance Program, the Energy Crisis Intervention Program, and the Weatherization Program, the three programs for which the OEO is responsible. Moreover, the OEO does not always reimburse community agencies promptly nor allocate sufficient funds to all community agencies to cover their administrative costs.

Inadequate Control Over Eligibility

Under the Home Energy Assistance Program, the OEO provides cash assistance directly to recipients of Aid to Families with Dependent Children or Supplemental Security Income/State Supplementary Program to offset home energy costs. However, the OEO's procedures have unnecessarily restricted the number of eligible applicants for this program. The OEO's eligibility periods during federal fiscal years 1981-82 and 1982-83 prevented potentially eligible applicants from receiving assistance in meeting their home energy needs during those years. Furthermore, the OEO did not notify all potentially eligible applicants of the program's availability.

As a result, the OEO failed to serve at least 116,000 additional households during federal fiscal year 1981-82.

Additionally, the OEO does not ensure that it provides funds only to households eligible for the Home Energy Assistance Program. Although the OEO verifies that an individual applicant's income does not exceed the OEO's limit, 130 percent of federal poverty guidelines, the OEO does not review the incomes of other members of an applicant's household. As a result, some households may have received energy assistance payments even though the combined income of the recipients would have made those households ineligible.

Furthermore, the OEO has not offered all applicants who have been denied services under the Energy Crisis Intervention Program and the Weatherization Program the opportunity to appeal. This opportunity to appeal, required by federal law, provides applicants who may have been denied services inappropriately or whose applications are not acted upon with reasonable promptness an opportunity to seek a reversal of the decision.

Poor Distribution of Funds

The OEO has not always promptly reimbursed community agencies for the services they have provided. For federal fiscal year 1981-82, more than 40 percent of the invoices we examined for the Energy Crisis Intervention Program and the Weatherization Program had not been processed according to the time standards set by the OEO. Moreover, the OEO's procedures for processing invoices were even less efficient during the succeeding year: from October 1982 through April 1983 the OEO had processed only 15 percent of the Energy Crisis Intervention Program invoices and none of the Weatherization Program

invoices according to its own time standard. Because of the OEO's delay in processing invoices, some community agencies discontinued services until they received reimbursements, while other community agencies borrowed funds to continue services while awaiting reimbursement.

Moreover, the OEO does not consider differences in climate and utility rates in distributing funds under the Energy Crisis Intervention Program. As a result, households with the highest energy demands receive relatively less assistance than do households with lower energy demands.

Finally, although the portion of the federal block grant allocated for administrative costs appears adequate to cover the OEO's administrative costs, community agencies reported that the OEO did not distribute adequate funds to cover their costs of administering energy assistance programs. As a result, some community agencies had to use funds from other programs, or had to use private donations. One community agency declined an Energy Crisis Intervention Program contract in federal fiscal year 1981-82 because the OEO provided insufficient funding for administrative costs. Consequently, low income residents in the area served by this community agency were without energy assistance for most of federal fiscal year 1981-82.

Distribution of Payments

The OEO has generally distributed payments under the Home Energy Assistance Program during periods of high energy demand. During federal fiscal year 1980-81, the OEO distributed approximately 70 percent of its energy assistance payments during periods of highest energy consumption. However, during 1981-82, the OEO did not distribute any

payments during the winter period of highest energy consumption and distributed 35 percent of the payments during the summer months. In 1982-83, the OEO distributed 55 percent of the payments in the winter period of high energy consumption.

INTRODUCTION

In 1981, Congress enacted the Low-Income Home Energy Assistance Act of 1981, which established a block grant program to help low income households meet the costs of home energy. Congress authorized the Federal Department of Health and Human Services to allocate the block grants to the states. To receive a block grant, a state must submit a plan containing assurances that the state will implement energy assistance programs and provide fiscal controls. In California, the Office of Economic Opportunity (OEO) within the Governor's Office is responsible for administering the block grant and annually submits the state plan that outlines the energy assistance programs authorized by California's implementing legislation.

Section 16367.5 of the California Government Code authorizes the OEO to transfer up to 10 percent of the federal block grant to the Department of Social Services for social service programs; this same section restricts funds available for the OEO's administrative costs to 7.5 percent of the block grant. The California Government Code requires the OEO to allocate the remaining block grant funds to three programs that help specified low income households offset home heating and cooling costs and reduce these costs by implementing energy

conservation measures. The three programs are the Home Energy Assistance Program, the Energy Crisis Intervention Program, and the Weatherization Program.

Under the Home Energy Assistance Program, the OEO distributes cash payments ranging from \$88 to \$400 per year directly to households that receive assistance from the Aid to Families with Dependent Children (AFDC) program or the Supplemental Security Income/State Supplementary Program (SSI/SSP) and that have incomes at or below 130 percent of the Federal Office of Management and Budget Poverty Guidelines as adopted by the Federal Department of Health and Human Services. Payments to these households vary so that the largest payments are made to households with the lowest incomes and the highest energy expenses, taking into account family size.

The Energy Crisis Intervention Program provides emergency cash assistance to eligible households that do not have sufficient funds to establish service with a utility, to pay a current or delinquent utility bill, or to prevent termination of utility service. The California Government Code authorizes the OEO to allocate up to 7.5 percent of the block grant to this program.

In addition, the California Government Code permits the OEO to allocate up to 10 percent of the block grant for

the third program, the Weatherization Program. This program helps qualified low income households achieve long-term savings in energy costs through energy conservation. Services funded by this program include such conservation measures as insulating attics, caulking and weatherstripping, and making minor repairs to prevent unwanted movement of air into or out of the dwelling.

To provide the services under the Energy Crisis Intervention Program and the Weatherization Program, the OEO contracted with 94 community agencies (local public or private nonprofit agencies) in federal fiscal year 1981-82 to coordinate payment of utility bills with utilities and to employ work crews to provide weatherization services.* Twenty-nine of these community agencies provided services only under the Energy Crisis Intervention Program, 7 community agencies provided only Weatherization Program services, and 57 community agencies provided services under both programs.

Although both federal law and the California Government Code provide criteria for administering the block grant, the OEO can establish policies and procedures for more limiting criteria. For example, one provision in the

* Unless otherwise indicated, references in this report to a program year or fiscal year refer to the federal fiscal year.

California Government Code specifies that both the Energy Crisis Intervention Program and the Weatherization Program serve only low income households that receive assistance from AFDC, SSI/SSP, county general assistance programs, or the Food Stamp program, and households that are eligible to receive assistance from any of these programs. Also, one provision of the federal law limits eligibility to households in which the combined income of all members of the household does not exceed 150 percent of the poverty level of the state.* The OEO has narrowed these eligibility criteria to limit services available under these two programs to households that actually receive assistance from AFDC and/or SSI/SSP, or to those that receive or are eligible to receive food stamps. The OEO further limits eligibility to households in which total income does not exceed 130 percent of the federal poverty guidelines.

During federal fiscal year 1981-82, the block grant administered by the OEO was approximately \$80.22 million, with an additional \$5.67 million supplemental appropriation for the Energy Crisis Intervention Program. The OEO received approximately \$90.4 million in block grant funds for 1982-83. Since the OEO receives funding appropriations based upon the

* Federal law defines a household as all persons who live together as one economic unit and purchase residential energy in common or who make payments for energy in the form of rent.

federal fiscal year, the OEO operates its programs on a federal fiscal year cycle, which begins October 1 and extends through September 30 of the following calendar year.

SCOPE AND METHODOLOGY

We conducted an audit of the OEO's effectiveness in administering the Low-Income Home Energy Assistance block grant programs during fiscal year 1981-82. We also examined functions of the 1980-81 and 1982-83 programs when necessary to evaluate the ongoing operations of the energy assistance programs. We reviewed the OEO's system for establishing eligibility for the Home Energy Assistance Program and the timeliness of OEO's distribution of payments under the Home Energy Assistance Program. We also reviewed the OEO's administration of the Energy Crisis Intervention Program and the Weatherization Program. We analyzed the OEO's timeliness in providing reimbursements to the community agencies, the level of assistance provided under the Energy Crisis Intervention Program, and the OEO's compliance with federal law that requires hearings for applicants who are denied assistance. Finally, we determined whether the allocation of 7.5 percent of the block grant for program administration is sufficient to meet the OEO's administrative expenses and whether the OEO allocates sufficient administrative funds to the community agencies.

In conducting this audit, we examined federal and state mandates and regulations that authorize the OEO's energy assistance programs, and we reviewed the OEO's formal and informal policies and procedures for administering the block grant programs. We also interviewed federal and state officials, OEO management and staff, and officials from several community agencies. We visited eight community agencies throughout the State and examined relevant program records. The eight community agencies were located in the following counties: El Dorado, Fresno, Los Angeles, San Diego, San Francisco, and Santa Clara. Seven of the eight community agencies we visited provide services under the Energy Crisis Intervention Program, and seven provide services under the Weatherization Program. We also sent a detailed questionnaire to 92 community agencies requesting specific information about program operations. Sixty-five community agencies responded to our questionnaire; 59 of these agencies provide Energy Crisis Intervention Program services, and 42 provide Weatherization Program services.

To assess the timeliness of the OEO's Home Energy Assistance Program payments and the adequacy of the level of assistance provided under the Energy Crisis Intervention Program, we contacted six major utility companies to determine the months of high energy consumption and the costs of maintaining minimum household energy needs. The companies we

contacted--Pacific Gas and Electric Company, San Diego Gas and Electric Company, Southern California Gas Company, Southern California Edison Company, Sacramento Municipal Utility District, and the City of Los Angeles Department of Water and Power--provide energy to varied geographic and climatic areas of the State.

The OEO has experienced numerous personnel, management, and policy changes over the three years covered by our review. These changes have affected the continuity of the programs and also limited the amount of information available to us.

CHAPTER I

THE OFFICE OF ECONOMIC OPPORTUNITY COULD IMPROVE ITS MANAGEMENT OF THE HOME ENERGY ASSISTANCE PROGRAM

The Office of Economic Opportunity has restricted the number of AFDC and SSI/SSP recipients who apply for the Home Energy Assistance Program by limiting the eligibility period and by not adequately informing potentially eligible applicants about the program. Also, the OEO does not adequately verify that applicants' household income meets the Home Energy Assistance Program's income criterion. As a result, the OEO has not served the maximum number of households eligible for assistance and cannot ensure that it serves only eligible households.

THE OEO HAS RESTRICTED THE NUMBER OF APPLICANTS ELIGIBLE FOR THE HOME ENERGY ASSISTANCE PROGRAM

The OEO's limited eligibility period and inadequate notification procedures have restricted the number of recipients of AFDC or SSI/SSP benefits who apply for assistance under the Home Energy Assistance Program. During federal fiscal year 1981-82, the OEO could have provided assistance under the Home Energy Assistance Program to approximately 116,000 additional applicants.

Recipients of AFDC or SSI/SSP benefits are eligible for the Home Energy Assistance Program. However, in 1981-82, the OEO limited eligibility to applicants who had received AFDC or SSI/SSP benefits during the period from July 1981 to February 1982. In 1982-83, the OEO limited eligibility to persons who had received AFDC or SSI/SSP benefits during September 1982. As a result of these limitations, persons who had received AFDC or SSI/SSP benefits at other times during these years but who did not receive such benefits during the OEO's particular eligibility periods could not receive assistance under the Home Energy Assistance Program.

The OEO has also limited the number of applicants for the program by not adequately informing potentially eligible applicants of the availability of energy assistance. The OEO attempted to inform potential applicants by two methods: mailing applications directly to potential applicants and distributing applications through community agencies. For its direct mailing, the OEO used a list of names and addresses of AFDC and SSI/SSP recipients; the OEO enrolled some persons in the program and mailed applications to others. The OEO compiled the list from computer tapes maintained monthly by the Department of Social Services. However, even though the OEO's eligibility period in 1981-82 extended from July 1981 to February 1982, the OEO compiled its list of AFDC and SSI/SSP recipients from tapes covering only October 1981 for AFDC and

November 1981 for SSI/SSP. Consequently, persons who were not recipients of AFDC or SSI/SSP during the months covered by the computer tapes were not automatically enrolled in the program by the OEO or did not receive applications in the mail, even though they may have received AFDC or SSI/SSP benefits at another time during the eligibility period.

Furthermore, although the OEO attempted to reach other eligible persons by distributing applications to community agencies that provided services under the Energy Crisis Intervention Program, the OEO did not inform these persons that they were also potentially eligible for the Home Energy Assistance Program or describe how to apply for this assistance.

About 31 percent of the AFDC and SSI/SSP recipients who received applications directly from the OEO in 1981-82 applied for energy assistance. In the 1981-82 state fiscal year, an average of 34,000 new cases were added to the AFDC rolls each month.* If the OEO had mailed applications to all AFDC recipients every month during the 1981-82 program year, an additional 116,000 persons might have applied for and potentially been served by the Home Energy Assistance Program.

* Available statistics did not permit calculation of the number of SSI/SSP recipients added each month during state fiscal year 1981-82.

In 1981-82, the OEO paid an average of \$111 to over 468,000 applicants. The initial payment, which began in March 1982, averaged \$73 for each recipient; initial payments totaled approximately \$34 million. Because funds remained after the initial payment, the OEO made a second payment of \$38 to each eligible recipient; these payments totaled \$17.8 million. Most of the second payments were made in August and September of 1982. If the OEO had reached all eligible AFDC recipients during 1981-82 and if the total funds distributed by the OEO remained the same, it could have distributed a single payment of approximately \$89 to approximately 584,000 qualified applicants.

The OEO has not completed processing the 1982-83 applications. However, because the OEO estimates that only 310,000 persons who applied for the Home Energy Assistance Program will qualify, it will again have significant funds remaining in the program which may necessitate the OEO's making a second payment. We believe that in both 1981-82 and 1982-83, by lengthening the eligibility period and eliminating second payments to applicants, the OEO could have distributed the same amount of funds, served a greater number of applicants, and distributed larger single payments.

THE OEO DOES NOT ADEQUATELY
VERIFY INCOME ELIGIBILITY FOR
THE HOME ENERGY ASSISTANCE PROGRAM

The OEO restricts Home Energy Assistance Program benefits to households in which the total income does not exceed 130 percent of the federal poverty guidelines. However, the OEO does not adequately verify that a household's income meets this criterion. As a result, the OEO cannot ensure that it provides assistance only to eligible households.

The OEO determines whether an applicant's household meets the income criterion by using either the applicant's declaration of household income or information about the applicant provided by other state agencies. To verify an applicant's declared income, the OEO reviews computer data available from the Department of Social Services on combined wage and benefit income of SSI/SSP recipients. To verify declared wages, the OEO obtains records from the Employment Development Department.

The Department of Social Services and the Employment Development Department maintain information on a person's benefits and income in accounts listed by the person's social security number. However, the OEO's application form requests only the social security number of the applicant; the OEO does not request social security numbers for all members of the

household. Consequently, the OEO is able to verify only that the applicant's income meets the income criterion. Accordingly, because it does not verify the income of all household members, the OEO cannot determine whether an applicant's household income meets the income criterion for assistance under the Home Energy Assistance Program. As a result, the OEO may provide assistance to some ineligible households.

CONCLUSION

The Office of Economic Opportunity could more effectively manage the Home Energy Assistance Program. Although the OEO provides benefits to AFDC and SSI/SSP recipients, the OEO has restricted the number of applicants for assistance under the Home Energy Assistance Program by limiting the eligibility period and by not adequately informing eligible persons about the program. Also, the OEO does not collect sufficient information from applicants to verify that total household income meets the OEO's income criterion. As a result, the OEO cannot ensure that it serves only eligible households.

RECOMMENDATION

In order to provide Home Energy Assistance Program funds to the largest number of people, the Office of Economic Opportunity should extend the program's eligibility period to include all persons who receive AFDC and SSI/SSP assistance throughout the year. Also, the OEO should compile a mailing list that includes all potentially eligible recipients and mail an application for the program directly to each household. Finally, to prevent payments to households that do not meet the OEO's income criterion, the OEO should require all applicants to supply the social security numbers of all members of the household. The OEO should use available data to verify the income of the entire household when determining an applicant's eligibility for assistance.

CHAPTER II

THE OFFICE OF ECONOMIC OPPORTUNITY COULD IMPROVE ITS MANAGEMENT OF THE ENERGY CRISIS INTERVENTION PROGRAM AND THE WEATHERIZATION PROGRAM

The Office of Economic Opportunity has not ensured that all community agencies receive prompt reimbursement for services provided under the Energy Crisis Intervention Program and the Weatherization Program. Moreover, the OEO does not provide the highest level of emergency assistance to households with the highest energy costs under the Energy Crisis Intervention Program. Lastly, the OEO has not complied with federal law that requires the OEO to offer applicants who were denied assistance under the Energy Crisis Intervention Program and the Weatherization Program or whose applications are not acted upon with reasonable promptness the opportunity to appeal. As a result of these deficiencies, some community agencies in our review have waited up to two months to receive reimbursement for their services. One community agency waited almost three months for an OEO reimbursement. Some agencies discontinued services while awaiting reimbursement. In addition, Energy Crisis Intervention Program recipients with the highest utility bills have not received the highest level of service and applicants who may have been denied assistance

inappropriately under the Energy Crisis Intervention Program and the Weatherization Program did not always receive an opportunity to appeal.

THE OEO DELAYED REIMBURSEMENTS
TO COMMUNITY AGENCIES

The OEO has not always provided reimbursements to community agencies within established time limits. As a result, some community agencies sought alternative sources of funds to maintain program operations, while other community agencies temporarily discontinued services to applicants until they received reimbursement from the OEO.

According to the OEO's internal procedures, the OEO staff should prepare the Energy Crisis Intervention Program invoices for payment within 10.5 working days and prepare invoices for the Weatherization Program for payment within 15 working days. To assess the OEO's effectiveness in processing invoices, we examined all of the invoices for the 1981-82 program year that were submitted by the eight community agencies we visited. For each invoice, we attempted to determine the interval between the date the OEO received the invoice and the date the OEO completed processing the invoice for payment. We compared this interval to the OEO's standard, noting the number of invoices the OEO processed within its time limit and the number of invoices for which the OEO exceeded its

time limit for processing. We also computed the average number of working days the OEO took to process an invoice, and we determined the OEO's shortest and longest processing time. Table 1 below shows the results of our review.

TABLE 1
 OEO PROCESSING OF INVOICES SUBMITTED BY
 EIGHT COMMUNITY AGENCIES
FEDERAL FISCAL YEAR 1981-82

<u>Program</u>	<u>Total Invoices</u>	<u>Invoices With Date of Receipt</u>	<u>OEO Standard (Working Days)</u>	<u>Invoices Meeting Standard</u>	<u>Invoices Not Meeting Standard</u>	<u>Average Days to Process (Working Days)</u>	<u>Range (Working Days)</u>
Energy Crisis Intervention	71	49	10.5	29 (59%)	20 (41%)	12	3-44
Weatherization	29	6	15	2 (33%)	4 (67%)	22	9-38

As Table 1 indicates, for 1981-82, these eight community agencies sent to the OEO for reimbursement 71 Energy Crisis Intervention Program invoices and 29 Weatherization Program invoices. However, we were unable to determine the processing time for nearly half of these invoices because the OEO did not record the date of receipt on 22 Energy Crisis Intervention Program invoices and 23 Weatherization Program invoices. Of the 49 Energy Crisis Intervention Program invoices on which the OEO did record the date of receipt, the OEO did not process 20 (41 percent) within its standard of 10.5 working days. The OEO took an average of 12 working days to process the Energy Crisis Intervention Program invoices; the range was 3 to 44 working days. Of the 6 Weatherization

Program invoices that included a date of receipt, the OEO did not process 4 (67 percent) within its 15-day standard. The OEO took an average of 22 working days to process Weatherization Program invoices, with a range of 9 to 38 days.

To determine whether the OEO had improved its efficiency in processing invoices for payment during the following federal fiscal year, we reviewed 42 invoices submitted by seven of the eight community agencies from October 1982 through April 1983.* Table 2 below shows the results of our review. Again, our review of the invoices was limited because the OEO did not always record the date on which the invoices were received. We found that the OEO did not process within its time standards most of the 33 invoices that did include the date of receipt. By not processing invoices promptly, the OEO delayed reimbursements to community agencies.

TABLE 2

**OEO PROCESSING OF INVOICES SUBMITTED BY
SEVEN COMMUNITY AGENCIES
OCTOBER 1982 THROUGH APRIL 1983**

<u>Program</u>	<u>Total Invoices</u>	<u>Invoices With Date of Receipt</u>	<u>OEO Standard (Working Days)</u>	<u>Invoices Meeting Standard</u>	<u>Invoices Not Meeting Standard</u>	<u>Average Days to Process (Working Days)</u>	<u>Range (Working Days)</u>
Energy Crisis Intervention	32	27	10.5	4 (15%)	23 (85%)	21	5-59
Weatherization	10	6	15	0 (0%)	6 (100%)	32	16-45

* The OEO did not renew one community agency's contract for 1982-83.

As shown in Table 2, of the 32 Energy Crisis Intervention Program invoices submitted by the seven community agencies for payment in the 1982-83 program year, 27 included the date of receipt. For 23 (85 percent) of the 27 invoices, the OEO did not meet its standard of 10.5 working days. The OEO took an average of 21 working days to process these invoices, with a range of 5 to 59 working days. Of the 10 Weatherization Program invoices submitted for payment, 6 included the date of receipt. None of these invoices were processed within the OEO's standard of 15 working days. The OEO took from 16 to 45 working days to process these invoices; the average was 32 working days.

We found that the OEO's staff does not always promptly review and process payment on invoices because the OEO management does not provide adequate supervision of invoice processing. We found that some delays occurred because staff had other assignments or because staff members assigned to processing invoices were on vacation or on sick leave. For example, the OEO staff did not act upon some 1981-82 Weatherization Program invoices for two weeks while the OEO staff person responsible for processing the forms that accompany the invoices was on sick leave.

Moreover, some reimbursements were delayed because the community agencies did not always prepare their invoices correctly; the OEO staff had to revise the figures. The manager of the OEO Weatherization Program stated that the OEO changed the invoice forms several times during the 1981-82 contract term without providing sufficient detailed instructions to the community agencies to help them prepare the forms.

Because of the OEO's delay in processing 1981-82 invoices, some community agencies we reviewed had to wait months for reimbursement after sending their invoices to the OEO. One community agency waited almost six weeks to receive a \$46,600 reimbursement because the OEO took almost five weeks to process the invoice. Another agency waited almost eleven weeks to receive \$47,300 because the OEO took eight weeks to process the invoice.

Twenty-three of the community agencies providing Energy Crisis Intervention Program and Weatherization Program services that responded to our questionnaire indicated that because of late reimbursement they had temporarily discontinued services even though their contracts with the OEO had not expired. These community agencies cited untimely reimbursements as one of the causes of their inability to provide continuous services.

Some community agencies in the Energy Crisis Intervention Program send vouchers to utility companies, guaranteeing that they will pay utility bills when the agencies receive funds from the State. However, community agencies reported that at least four utility companies will not extend service more than two weeks while awaiting payment, that another utility company requires community agencies to pay within 30 days, and that one utility company grants community agencies 60 days to pay the utility bill before terminating service. Hence, when the OEO delays reimbursing community agencies for services provided under the Energy Crisis Intervention Program, community agencies in the areas served by these utilities may not be able to prevent termination of utility service or may be able to do so only if the agencies can obtain funds by other means. In fact, two community agencies we reviewed had obtained bank loans to provide continuous services while awaiting reimbursements from the OEO.

THE OEO DOES NOT PROVIDE THE HIGHEST
LEVEL OF ASSISTANCE TO HOUSEHOLDS WITH
THE HIGHEST ENERGY COSTS

The OEO does not consider differences in utility rates and climate when allotting emergency assistance to eligible households. As a result, households in areas with highest utility rates and households in areas with highest

energy demands receive relatively less assistance under the OEO's assistance procedures than do other households.

Federal law requires the OEO to provide the highest level of assistance to households with the lowest incomes and the highest energy costs, taking into account family size. In 1981-82, the OEO limited all eligible households to a total of \$200 in emergency assistance; the maximum amount of emergency assistance in 1982-83 was \$300. We determined that, because of differences in utility rates and climate, the assistance limit did not allow households throughout the State to receive relatively the same amount of assistance.

To identify variations in utility costs, we contacted four major private utility companies. We found that each utility company charges a different rate for gas and/or electricity. For example, in January 1982, households served by Southern California Gas Company paid 28 cents per therm of gas, while households served by San Diego Gas and Electric Company paid 37 cents per therm. In the same month, Pacific Gas and Electric Company charged its residential customers 7 cents per kilowatt-hour of electricity, whereas San Diego Gas and Electric Company charged 9 cents per kilowatt-hour.

Each of these utility companies has identified the amount of electricity or gas necessary to maintain the minimum

energy needs of residential households in its service area. These minimum needs differ throughout the State. For example, in January 1982, the cost of maintaining the minimum energy needs of a residential household in a mountain region served by San Diego Gas and Electric Company was \$144.58 per month. In contrast, during the same period, the cost of maintaining the minimum energy needs of a residential household in an area with a more temperate climate served by Pacific Gas and Electric Company was \$28.58 per month, a difference of \$116 per month.

One community agency that served households in coastal areas stated that during the winter of 1981-82, utility bills of applicants seldom exceeded \$200. Thus, this community agency could provide emergency assistance to the households in its area more than once during the year. However, two community agencies that served households in the foothills and mountain regions reported that, during the winter of 1981-82, applicants frequently requested assistance in paying utility bills that exceeded \$200; some bills exceeded \$700. Because of the OEO's assistance limit, these latter two community agencies could not provide applicants with sufficient assistance to pay their utility bills. Thus, because of the differences in utility rates and climate throughout the State, the OEO's assistance limit does not provide the highest levels of assistance to households with the greatest energy costs.

THE OEO HAS NOT COMPLIED WITH
FEDERAL LAW REQUIRING HEARINGS
FOR APPLICANTS WHO ARE DENIED SERVICES

Federal law requires that all persons whose applications for assistance are denied or whose applications are not acted upon with reasonable promptness be offered the opportunity for a fair hearing. This requirement notwithstanding, the OEO has not ensured that all applicants for assistance under the Energy Crisis Intervention Program and the Weatherization Program are given this opportunity. Consequently, applicants who are denied assistance cannot always appeal the decision.

In their contracts to provide Energy Crisis Intervention Program services, community agencies agree to inform applicants of their right to appeal denials of assistance. However, one of the seven community agencies in our review that provided emergency assistance under the Energy Crisis Intervention Program did not adhere to this agreement. Moreover, the OEO does not require community agencies providing weatherization services to inform applicants of this right to appeal. Consequently, six of the seven community agencies in our review that provide weatherization services did not inform applicants about the right to appeal denial of weatherization services. Without the right to appeal, applicants who may be inappropriately denied services cannot obtain reversal of

incorrect decisions. Although the OEO is currently drafting procedures for fair hearings for the Energy Crisis Intervention Program, the OEO has no current plans to establish fair hearing procedures for the Weatherization Program.

CONCLUSION

The Office of Economic Opportunity could improve its management of the Energy Crisis Intervention Program and the Weatherization Program. The OEO has not always promptly reimbursed community agencies for program expenses. Some community agencies in 1981-82 waited up to two months to receive reimbursement for program expenses; one community agency waited almost three months for its reimbursement from the OEO. As a result, some community agencies have sought alternative funding sources to continue services and other community agencies discontinued services while awaiting reimbursement.

The OEO's assistance limit does not provide the highest amount of Energy Crisis Intervention Program assistance to households with the highest energy costs. Because the OEO does not take into account the variation in utility rates and climate, residents of areas with high utility rates or a harsh climate

receive relatively less assistance than those households in areas with lower utility rates or a milder climate.

Finally, the OEO has not guaranteed that all applicants for the Energy Crisis Intervention Program and the Weatherization Program who are denied services are informed of their right to a fair hearing. As a result, households that may have been inappropriately denied services under these two programs do not always have the opportunity to appeal.

RECOMMENDATION

To ensure that community agencies receive prompt reimbursements for expenses they incur in providing services under the Energy Crisis Intervention Program and the Weatherization Program, the Office of Economic Opportunity should establish policies, procedures, and priorities that reduce the time necessary to process the invoices and reimburse the community agencies.

To better serve households with the highest utility costs, the OEO should establish assistance limits for the Energy Crisis Intervention Program that consider the variations in utility rates and climate.

To comply with federal law pertaining to the Energy Crisis Intervention Program and the Weatherization Program, the OEO should establish procedures for providing fair hearings to applicants who are denied services. The OEO should ensure that the community agencies inform applicants about hearing procedures through the duration of the contract.

CHAPTER III

THE OFFICE OF ECONOMIC OPPORTUNITY DOES NOT ADEQUATELY DETERMINE COMMUNITY AGENCIES' NEEDS FOR ADMINISTRATIVE FUNDS

The California Government Code limits funds available for administering the energy assistance programs to 7.5 percent of the total federal allocation provided by the Low-Income Home Energy Assistance Act. Although this amount appears sufficient to cover the Office of Economic Opportunity's costs for administering the block grant program, community agencies reported that the OEO has not allocated sufficient administrative funds to cover their administrative costs. As a result, some agencies borrowed funds from other sources to cover their administrative costs. At least one community agency refused an Energy Crisis Intervention Program contract because of the insufficient administrative allowance.

ADMINISTRATIVE FUNDS FOR THE OEO APPEAR TO BE SUFFICIENT

Section 16367.5 of the California Government Code states that the OEO shall allocate 5 percent of the total block grant for administrative costs, with an additional 2.5 percent of the block grant available upon request to the Department of Finance pursuant to Section 28 of the Budget Act. During federal fiscal year 1981-82, the block grant totaled

approximately \$85.9 million; assuming that the OEO could have received the full 7.5 percent for administrative costs upon approval by the Department of Finance, the OEO had almost \$6.5 million available for administering the block grant.

The Legislature requested that we estimate the OEO's actual administrative costs and determine whether the 7.5 percent limit for administering the block grant is sufficient. Since neither the California Government Code nor regulations of the Federal Department of Health and Human Services specifically define block grant administrative expenses, we reviewed the OEO's budgeting and expenditure records for 1981-82 and estimated the OEO's expenditures by three different methods. Because the OEO had not finalized its records as of May 1983, we used the OEO's reported expenditures and the latest available expenditure reports submitted to the OEO by the community agencies. Our calculations should be viewed as estimates.

For our first method of classifying the OEO's block grant expenditures and administrative costs, we used the OEO's own budget categories. Using these categories, we determined that the OEO's administrative costs totaled \$2,799,800, 3 percent of the block grant.

For our second method of classifying the OEO's administrative costs, we used the State Administrative Manual accounting procedures that state agencies can use in administering each federal contract or grant. These procedures differentiate program costs from administrative costs. Program costs, also called direct costs, are costs that can be identified with a specific program. For example, the OEO's block grant funds that are used for cash payments to recipients or utilities and the OEO's expenditures for weatherization services are considered program costs. Some of the costs of the OEO's administration of the Home Energy Assistance Program also can be considered direct costs because they can be readily identified with that program. In addition, the salaries of the OEO's and the community agencies' employees who are devoted specifically to one of the energy assistance programs can be considered direct costs.

Administrative costs, which are also called indirect costs, are expenses that cannot be readily charged to one specific program administered by the agency. These expenses include general overhead such as rent, office supplies, and telephones, as well as the salaries and benefits of management that cannot be charged specifically to any one energy program. Using this method of differentiating costs, we estimated the OEO's administrative costs at \$1,857,000, or 2 percent of the block grant.

For our third method of calculating the OEO's administrative costs, we used the Federal Department of Health and Human Services' (DHHS) final rules and regulations for block grants published in July 1982 in the Federal Register. The DHHS allowed the states to develop their own definition of administrative costs, but stated that as a general matter, administrative costs are all costs of program administration, whether or not they would be considered direct or indirect costs under other federal grants. Also, the DHHS stipulated that congress intended states to devote a very high percentage of their block grant funds to direct payments or services.

Using the DHHS guidelines to determine whether the OEO's administrative costs exceeded the 7.5 percent limit, we segregated the OEO's program expenses into two categories: administrative costs and direct benefits. Administrative costs include all costs incurred by the OEO and the community agencies in managing the energy assistance programs. The second category, direct benefits, reflects only the payments made directly to recipients or utility companies and the expenses directly related to installing weatherization measures. Using this third method of classifying expenses, we estimated the OEO's administrative costs at \$4,303,800, or 5 percent of the block grant.

Table 3 below summarizes our estimates of the OEO's 1981-82 administrative costs using the three different methods of classifying administrative costs.

TABLE 3

ESTIMATE OF THE OEO'S ADMINISTRATIVE
COSTS USING THE OEO'S BUDGET CATEGORIES,
STATE ADMINISTRATIVE MANUAL GUIDELINES,
AND FEDERAL DEPARTMENT OF HEALTH AND HUMAN
SERVICES GUIDELINES FEDERAL FISCAL YEAR 1981-82^a
(Unaudited)

	<u>OEO Budget Categories</u>	<u>State Administrative Manual</u>	<u>Federal Guidelines</u>
Total Administrative Costs	\$2,799,800	\$1,857,000	\$4,303,800
Percent of Block Grant	3%	2%	5%

^a Appendices A, B, and C show our estimates of the OEO's block grant expenditures for each program using the three methods for classifying expenses.

As the table indicates, even when using the more encompassing federal method for classifying administrative costs, we found that the OEO spent at most approximately 5 percent of the total block grant for administration. Thus, we conclude that, since none of the three methods of calculating the OEO's administrative costs indicate that the OEO spent more than two-thirds of the 7.5 percent allocation to administer the block grant programs, the 7.5 percent administrative limit

appears to have been sufficient to cover the OEO's administration of the block grant programs in 1981-82.

THE OEO DOES NOT ALLOCATE
ADMINISTRATIVE FUNDS TO
COMMUNITY AGENCIES BASED UPON NEED

The OEO allocates administrative funds to community agencies based on a fixed percentage of the total contract amount. However, community agencies have found this allocation insufficient to cover their administrative costs. As a result, some community agencies either had to borrow funds from other state or federal programs or had to use private donations. In addition, the insufficient administrative allowance discouraged at least one community agency from accepting an Energy Crisis Intervention Program contract in 1981-82.

In 1981-82, each community agency operating an Energy Crisis Intervention Program contract received an administrative allowance equal to 2.5 percent of the agency's allocation for direct benefits. The allowance for community agencies providing services under the Weatherization Program was 4.5 percent of the total contract award. However, the OEO does not require the community agencies to submit detailed administrative budgets to determine the agencies' actual needs for administrative funds. Moreover, the OEO has not verified

that the fixed percentages it allocates for administration are sufficient to cover actual administrative expenses incurred by the community agencies.

We examined the records of eight community agencies' expenses for administering the Energy Crisis Intervention Program and the Weatherization Program. None of the community agencies reported receiving full reimbursement for all costs incurred for administering the programs. However, because of its fixed percentage allocation for administration costs, the OEO did not reimburse the community agencies in our review for administrative costs that exceeded the OEO's limit. One community agency reported that it was unable to charge administrative costs of \$4,200 to its budget for the Weatherization Program in 1981-82. Another agency reported that it could not charge administrative costs of \$12,600 for its administration of the Energy Crisis Intervention Program. A third community agency reported that, although it cost \$31,800 to administer the Energy Crisis Intervention Program during fiscal year 1981-82, it could charge only \$11,000 of this total to the OEO. The remaining \$20,800 was charged to another program.

In addition to those community agencies whose records we examined, 48 of 60 community agencies that responded to our questionnaire stated that the OEO's allocation for

administrative costs was not sufficient to cover their expenses for administering the Energy Crisis Intervention Program, and 31 of 39 said the administrative allocation was not sufficient for administering the Weatherization Program. Community agencies stated that the portions of their administrative expenses that are not reimbursed by the OEO are absorbed by other program funding sources or private donations. Expenses that were commonly not fully reimbursed by the OEO were salaries of the executive director and other administrative staff, accounting fees, and overhead expenses such as rent.

At least one community agency, in a northern California county, declined to accept an Energy Crisis Intervention Program contract in 1981-82 because of the insufficient administrative allowance. In its letter declining the contract, this community agency stated that, "With the amount of work involved in the operation of this grant, it would be impossible to operate [the program] for the \$250 allowable in administrative costs." The contract was not assumed by another agency until June 1982, with only four months left in the fiscal year. Consequently, low income residents in this northern California county did not have emergency assistance available in 1981-82 to help pay their winter utility bills.

CONCLUSION

The Office of Economic Opportunity cannot expend more than 7.5 percent of the block grant for administrative purposes, an amount that appears adequate for the OEO's administration of the block grant. However, community agencies reported that the OEO's allocation of administrative funds was inadequate to cover their administrative costs. Although the OEO had funds available to reimburse community agencies for administrative costs, some community agencies still did not recover all costs incurred for administering the programs, and one community agency refused a contract because it regarded the OEO's allocation of administrative funds as insufficient.

RECOMMENDATION

To ensure that contractors receive sufficient funding for administrative expenses, the Office of Economic Opportunity should require community agencies to submit budgets outlining estimated administrative and program expenses and should determine administrative allocations to community agencies based on the agencies' needs.

To ensure that the OEO remains within the 7.5 percent limit on administrative costs set by the Government Code, the Legislature should enact legislation that clearly defines the administrative expenses to be included in the 7.5 percent limit. The Legislature may wish to choose the definition outlined in the State Administrative Manual or the Federal Register.

OTHER PERTINENT INFORMATION

The Legislature also asked us to determine whether the OEO has distributed Home Energy Assistance Program payments during the winter. However, since neither the Low-Income Home Energy Assistance Act of 1981 nor the California Government Code requires the OEO to distribute these payments in the winter heating period only and since warm-weather months in California also mean high energy demands, we reviewed the OEO's distribution of these payments with particular focus on the high energy consumption periods in California.

According to the six major utility companies we surveyed in California, the State experiences two periods of high energy consumption each year: one period occurs during winter months from December through February, and a second period during the summer months, generally from July through September. We examined the OEO's distribution of Home Energy Assistance Program payments during the high and low energy consumption periods of the 1980-81, 1981-82, and 1982-83 federal fiscal years. Table 4 on the following page shows the percentage of energy assistance payments distributed during periods of high and low energy consumption in these three years.

TABLE 4

PERCENTAGE OF ENERGY ASSISTANCE PAYMENTS
DISTRIBUTED DURING PERIODS OF HIGH
AND LOW ENERGY CONSUMPTION, FEDERAL
FISCAL YEARS 1980-81, 1981-82, AND 1982-83

<u>Period</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83^a</u>
<u>High Energy Consumption</u>			
December, January, February	33.1%	0%	55.2%
July, August, September	<u>36.2%</u>	<u>35.0%</u>	
Subtotal	<u>69.3%</u>	<u>35.0%</u>	
<u>Low Energy Consumption</u>			
March, April, May, June, October, November	29.8%	60.9%	15.4%
<u>Payments Made After the Fiscal Year</u>	<u>.9%</u>	<u>4.1%</u>	<u>---</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>---</u>

^a The figures for 1982-83 reflect payments made as of May 31, 1983.

As the table indicates, the OEO distributed approximately 70 percent of its energy assistance payments in 1980-81 during periods of high energy consumption. However, in 1981-82 the OEO distributed only 35 percent of the payments during months of high energy consumption; these payments were made in the summer period only. The OEO did not distribute any assistance to offset winter heating bills during the 1981-82 winter months.

The OEO did not distribute funds between December 1981 and February 1982 because of delays in processing applications for assistance. These delays were a result of poor program planning and a legislated change in the eligibility criteria after the application deadline. Because of poor initial program planning, the OEO experienced delays in processing applications for assistance throughout the 1981-82 program year. As of August 1981, the OEO had not developed its state plan that describes its method of administering the 1981-82 program. As of December 1981, the OEO had not yet distributed applications for the program nor had it developed a payment formula. Consequently, the OEO changed the final date of the application period, which had begun November 15, 1981, from January 15, 1982, to February 5, 1982.

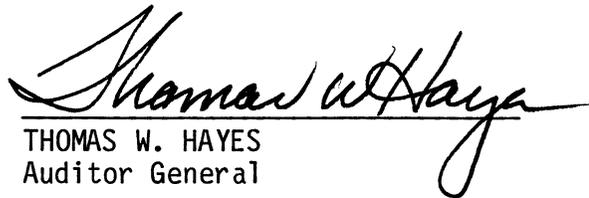
A change in legislation further contributed to the OEO's delay in processing applications for assistance. As a result of legislation, effective February 1982, which amended the program's eligibility criteria, the OEO was required to change its system for processing applications. Consequently, the OEO did not finish processing most of the applications for 1981-82 until June 1982.

In 1982-83, the OEO intended to distribute all available funds by January 15, 1983. However, the OEO distributed only 55.2 percent of the available funds by that

date. The OEO did not issue additional payments until April 1983 because the acting director, appointed by the Governor in January 1983, asked the OEO staff to revise the OEO's method of payment to make assistance checks payable to both the applicant and the utility company. Furthermore, as of May 31, 1983, the OEO had not processed all applications.

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

Date: August 15, 1983

Staff: Thomas A. Britting, Audit Manager
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July 29, 1983

Thomas W. Hayes
Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you and your staff for the time and effort you have devoted to the review of the Office of Economic Opportunity and the resulting report entitled "The Office of Economic Opportunity Could Improve Its Administration of the Low Income Home Energy Assistance Block Grant".

We concur with the conclusions and recommendations contained in this report. The current administration is in the process of developing a plan to implement these recommendations.

It is our understanding that progress reports are to be submitted to your office thirty (30) days, six (6) months, and one (1) year from the date of the report. We will conform to these reporting requirements.

Sincerely,

A handwritten signature in cursive script that reads "Gilbert Montano".

Gilbert Montano
Director

GM:lp

ESTIMATE OF THE OEO'S BLOCK GRANT EXPENDITURES
 USING THE OEO'S BUDGET CATEGORIES
 FEDERAL FISCAL YEAR 1981-82
 (Unaudited)

OEO Budget Category	Home Energy Assistance Program	Energy Crisis Intervention Program	Weatherization Program	OEO Costs	Transfer	Total (Percent)
Administration	\$ ---	\$ 203,800 ^a	\$ 132,000 ^a	\$2,464,000 ^b	\$ ---	\$ 2,799,800 (3%)
Program	52,784,900	10,361,200	3,108,700	---	---	66,254,800 (77%)
Unexpended Balance	4,435,300	797,600	1,934,300	1,642,400	---	8,809,600 (10%)
Transfer to Department of Social Services	---	---	---	---	8,022,200	8,022,200 (10%)
Total	\$57,220,200	\$11,362,600 ^c	\$5,175,000	\$4,106,400	\$8,022,200	\$85,886,400 (100%)

^a Administrative costs of the community agencies only.

^b Includes costs for administering the Home Energy Assistance program.

^c Includes the \$5.6 million supplemental appropriation.

ESTIMATE OF THE OEO'S BLOCK GRANT EXPENDITURES
 SHOWN AS INDIRECT COSTS OR DIRECT COSTS
 FEDERAL FISCAL YEAR 1981-82
 (Unaudited)

<u>Expense</u>	<u>Home Energy Assistance Program</u>	<u>Energy Crisis Intervention Program</u>	<u>Weatherization Program</u>	<u>OEO Costs</u>	<u>Transfer</u>	<u>Total (Percent)</u>
Indirect Costs (Administration)	\$ --- ^a	\$ 203,800 ^b	\$ 132,000 ^b	\$1,521,200	\$ ---	\$ 1,857,000 (2%)
Direct Costs (Program)	53,727,700	10,361,200	3,108,700	----	----	67,197,600 (78%)
Unexpended Balance	4,435,300	797,600	1,934,300	1,642,400	----	8,809,600 (10%)
Transfer to Department of Social Services	----	----	----	----	8,022,200	8,022,200 (10%)
Total	\$58,163,000	\$11,362,600 ^c	\$5,175,000	\$3,163,600	\$8,022,200	\$85,886,400 (100%)

^a Administrative expenditures for the Home Energy Assistance Program are considered Direct Costs for this program.

^b Administrative costs of the community agencies only.

^c Includes the \$5.6 million supplemental appropriation.

ESTIMATE OF THE OEO'S BLOCK GRANT EXPENDITURES
 SHOWN AS ADMINISTRATIVE COSTS OR DIRECT BENEFITS
FEDERAL FISCAL YEAR 1981-82
 (Unaudited)

<u>Expense</u>	<u>Home Energy Assistance Program</u>	<u>Energy Crisis Intervention Program</u>	<u>Weatherization Program</u>	<u>OEO Costs</u>	<u>Transfer</u>	<u>Total (Percent)</u>
Administrative Costs	\$ 942,800	\$ 1,569,500 ^a	\$ 270,300 ^a	\$1,521,200	\$ ---	\$ 4,303,800 (5%)
Direct Benefits	52,784,900	8,995,500	2,970,400	---	---	64,750,800 (75%)
Unexpended Balance	4,435,300	797,600	1,934,300	1,642,400	---	8,809,600 (10%)
Transfer to the Department of Social Services	---	---	---	---	8,022,200	8,022,200 (10%)
Total	\$58,163,000	\$11,362,600^b	\$5,175,000	\$3,163,600	\$8,022,200	\$85,886,400 (100%)

^a Administrative costs of the community agencies only.

^b Includes the \$5.6 million supplemental appropriation.

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