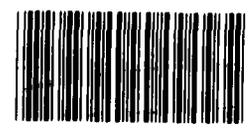


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M., DST
OCTOBER 6, 1981

STATEMENT OF
MORTON E. HENIG, ASSOCIATE DIRECTOR, HUMAN RESOURCES DIVISION
BEFORE THE
HOUSE SUBCOMMITTEE ON MANPOWER AND HOUSING
ON THE
CLOSURE OF THE COMMUNITY SERVICES ADMINISTRATION AND
IMPLEMENTATION OF THE COMMUNITY SERVICES BLOCK GRANT
PROGRAM

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Madam Chairwoman and members of the subcommittee, we are pleased to be here today to offer our comments and observations on the recent efforts by personnel from various Federal departments and agencies to simultaneously carryout the orderly closure of the Community Services Administration's (CSA's) activities and implement the Community Services Block Grant program in the Department of Health and Human Services (HHS). The CSA closure was effective on September 30 and the Community Services Block Grant program began on October 1.

Our comments are based on discussions with agency personnel and our analysis of agency documents made available to us which described the major issues that emerged as Federal officials proceeded to work toward a smooth transition from one program to another.

Our chronology and comments will focus on the interactions between the Office of Management and Budget (OMB), HHS, and CSA because of the major impact of their actions in the closure of CSA and the implementation of the Community Services Block Grant program. However, other Federal agencies, particularly the General Services Administration (GSA) and the Office of Personnel Management (OPM), played essential roles in the closure and transition processes.

We believe that the lessons to be learned from this recent experience by Executive Branch officials could be invaluable if and when future strategies for the termination of other Federal departments or agencies' programs, in whole or in part, are developed. Also, the Congress should ensure that sufficient

time and resources are made available to Executive Branch officials in such situations. In this manner, orderly phaseouts which safeguard the Government's interests and assets can be assured.

The actions taken from mid-March through September within the Executive Branch to close CSA and implement a transition to a block grant approach for providing community services were initiated without a central plan agreed upon by all participating agencies. The problems which occurred in the last 2 months are, in our opinion, a direct result of the lack of central planning.

CHRONOLOGY OF EVENTS

In order to appreciate the totality of the closure and transition processes, it is necessary to keep certain important sequential events in mind.

First, on March 18 the Director of OMB sent a memorandum to the Director of CSA with instructions to "begin now to plan carefully for the resolution of your agency's activities in 1981***". The Director of OMB stated that in fiscal year 1982 and beyond the authorities to carry out activities of the type financed by CSA would be incorporated within the authorities of the social services block grant, with the exception of CSA's economic development activities. However, with the resignation on February 27 of CSA's Acting Director, no one had been designated by the Administration to act in the capacity of Director of CSA. As a result, CSA was without leadership for several months.

Second, on May 1 President Reagan announced his intention to nominate a Director of CSA. The nomination was received on May 29 by the Senate for its consideration. On June 25, the new director was confirmed and he was sworn in on June 30. With his formal assumption of responsibility, the Director was able to accelerate CSA's transition planning and to make management improvements in the event that CSA was not terminated.

Third, on August 13 the Omnibus Budget Reconciliation Act of 1981 was enacted into law. Subtitle B of Title VI of the Act created the Community Services Block Grant program which provided that the Secretary of HHS would administer the block grant through the Office of Community Services, a new unit established by the law. About \$390 million was authorized for fiscal year 1982 and for each of the succeeding 4 fiscal years to carry out the provisions of this subtitle.

No specific amount of funds or reprogramming were authorized in the law for CSA closeout purposes, although OMB was made responsible for making necessary financial and administrative arrangements to implement CSA's closure.

Many actions took place as a result of these major events which had a direct impact on the orderly closure of CSA and the implementation of a block grant approach to community services.

After OMB's March 18 letter to CSA, an interagency team made up of representatives from the White House's Office of Policy Development, the Office of Management and Budget and the Department of Energy was assembled to look at the need

for a general plan for implementing the closure of CSA in the event of definitive congressional action. The interagency team cautioned that, while planning for the closure of CSA could proceed, actual termination could not be initiated until the block grant affecting CSA was enacted.

It was recommended that HHS administer the grants and contracts still in existence when the block grant program passed and CSA was closed. Also, HHS would handle audits and other closeout activities required after CSA was terminated. It was the interagency team's view that some CSA employees would need to be hired by HHS for temporary closeout duty because of their familiarity with the projects, but much of the work should be absorbed by HHS from the outset.

The interagency team concluded that all the problems and issues involving the closure of CSA could be resolved only if immediate steps were taken to develop a detailed plan of action. Among other actions deemed appropriate was the designation of a central management agency task force on administration management support chaired by OMB to coordinate the CSA termination process. Such a task force was never established.

On two occasions, in April and May, CSA and HHS officials met to discuss the issues of concern to the two agencies. By mid-May, HHS had begun block grant planning activities, including the formation of two task groups. One task group concentrated on transition assistance to States and another on grants and financial management.

In early June, Congress passed a Continuing Resolution which, among other things, funded CSA operations through September 30. However, no provisions were made to permit use of 1981 appropriations to begin the transition into the Social Services Block Grant program or to fund the closure of CSA.

Shortly thereafter, the Deputy Director of OMB in his June 10 testimony before the House Intergovernmental Relations and Human Resources Subcommittee stated that transitional funding was contemplated to ensure that all transitional concerns were addressed.

On June 17, the Director-designate of CSA requested that action be taken on the issue of funding as soon as possible. The memorandum to OMB stated that fiscal year 1981 funds would have to be diverted from program operations or that additional fiscal year 1981 or 1982 funds would have to be obtained for (a) interim funding for community action agencies, (b) severance and annual leave payments to CSA employees terminated at the end of September, and (c) the cost to support a small group of employees assigned to HHS for the closure of CSA's operations.

The weeks immediately before and after the Senate's confirmation of the CSA Director in late June were filled with congressional deliberations over the future of CSA. Although the Administration's preference for CSA to be included in the social services block grant had been included in bills introduced in both the House and Senate, S.1377, passed by the Senate on June 25, made provision for a community services block grant. On June 26, the House passed H.R. 3982 which

provided for community service activities to be included in a social services block grant. The House bill specifically addressed the issue of CSA's closure and gave the responsibility for the orderly closure of CSA to OMB. Both bills called for the termination of CSA by September 30.

As the new CSA Director took office on June 30, it was clear as to the congressional intent for the future of CSA. As a result, the new director took office realizing that although Congress had not yet formally decided CSA's fate, his primary mission was to accelerate CSA's transition planning and to make management improvements in the event that CSA was not terminated.

On July 2, only 2 days after his swearing in, the Director, CSA, wrote to OMB concerning the cost of closing out CSA's activities. He indicated that the total cost would be higher than earlier anticipated. He believed each item needed to be reviewed by both OMB and HHS to determine its reasonableness as well as how best to fund the anticipated costs. In the Director's view, it was extremely important to determine the sources from which funding would come although officials were not yet in a position to take any actions toward dismantlement of CSA.

On the same date, July 2, OMB established a block grant implementation task force to focus on the transition to block grants.

By July 6, the Director, CSA had formally established 13 task forces to develop recommendations for (1) actions which would be useful in the event Congress did not reauthorize CSA,

and (2) improving CSA management practices in the event CSA was not terminated. Upon congressional passage of the Community Services Block Grant Act on July 31, recommendations made by the task forces were combined with a draft CSA closeout plan developed by the Director's Management Improvement Team. This plan, approved by the Director of CSA, contained about 200 tasks required to be completed in less than 2 months to terminate CSA's activities.

On August 3, the Deputy Director of OMB requested the cooperation of certain Executive departments and agencies in the dismantling of CSA. Executive Branch officials were asked to respond promptly to requests from CSA for temporary staff resources and other assistance.

During the month of August, concerns were expressed in connection with the responsibilities within the Executive Branch for matters involving CSA closeout activities and, more specifically, which agency or agencies would have responsibilities for these matters after September 30. Although the Omnibus Budget Reconciliation Act placed this responsibility on the Director of OMB, this authority was delegated to the Director of CSA on the same day that President Reagan signed the bill into law. Among other things, the Director of CSA was specifically instructed to make arrangements with other Executive agencies for the final administration of liabilities, grants, and contracts.

On August 11, the Director of CSA wrote the HHS Secretary regarding the transition to the Community Services Block Grant program. The CSA Director recognized at that time that HHS

had been assigned no formal role in the CSA closeout, and that HHS was opposed to assuming responsibility for any CSA closeout functions. Nevertheless, he believed it was necessary to greatly accelerate the cooperative planning between HHS and CSA. For example, the administration of grantee letters of credit, the CSA national and regional grantee programs, and the community economic development program were issues which needed to be discussed. Also cited as an issue which needed attention was the uncertainty as to what HHS would require on the part of States and grantees on October 1.

On August 14, HHS' Office of Human Development Services was assigned responsibility for administering the implementation of the Community Services Block Grant program. This responsibility did not include any functions related to CSA's closeout.

At about this same time, the Director of CSA transmitted to OMB a revised estimate of \$30 million needed for CSA's closeout activities. The Director pointed out that certain closeout tasks would probably have to be performed in fiscal year 1982 by either GSA or HHS. However, as the Director's memo indicated, the Omnibus Budget Reconciliation Act did not authorize funds or reprogramming authority for this purpose.

The serious issue of maintaining a continuous accountability of CSA funds during the transition process was discussed in an August 18 meeting attended by an OMB representative and officials from 8 Offices of Inspectors General. The issue of HHS' opposition to assuming any outstanding CSA responsibilities,

including that of the CSA Inspector General, was discussed at the meeting.

A meeting was held on August 20 between the HHS Assistant Secretary for Human Development Services and the Director of CSA to discuss matters related to implementation of the block grant program. Formal liaison between HHS and CSA officials on various subjects was established at that time.

On August 25 a letter was sent by HHS to the governors of the 50 States. Information on the Community Services Block Grant program was forwarded with the letter. HHS requested that each State notify the appropriate HHS regional office by September 11 as to whether the State wanted to administer the block grant program for fiscal year 1982.

An August 26 memorandum from the Director of CSA to senior staff officials indicated that, while priority had been given to addressing the problems of delinquent and unresolved audits, the major part of the work remained to be done. CSA officials were cautioned not to create more serious management problems by violating agency regulations or ignoring sound business practices in performing these duties. A continuing problem of simply identifying the delinquent and unresolved audits was raised.

On August 31, the Director of CSA quantified the workload requirements for the maintenance and closeout of CSA grants during fiscal year 1982 in a memorandum to OMB. According to the memo, CSA grantees, including community action agencies, limited purpose agencies (including community development corporations), State economic opportunity offices, and Indian and

migrant organizations will have funding periods which expire at various times in fiscal year 1982. According to the Director of CSA, these active grantees have open grant files valued at over \$900 million. Each grant must be audited using the resources provided in the grant award. Each audit must be resolved, each grant file must be officially closed and documents disposed of in accordance with applicable Federal regulations.

In addition, as of June 30, 1981, there were 657 overdue audits, for grants totaling \$363 million, which CSA program managers had not obtained.

In a September 3 memo from the Secretary of HHS to the Director of OMB, the Secretary of HHS indicated that it was his understanding that GSA, not HHS, would be responsible for all actions to closeout CSA, with the exception of CSA's audit functions. He stated that GSA should move immediately to establish contact with CSA. According to this memo, the CSA-related audit and investigative functions would be performed by the HHS Inspector General. In closing, the Secretary of HHS urged OMB to convene a meeting with CSA, GSA, and HHS officials to address unresolved issues.

On September 4, OMB assigned the CSA Inspector General and his operations to HHS for fiscal year 1982. In fiscal year 1982, the CSA Inspector General will report directly to the Secretary of HHS. OMB has agreed to secure \$1.4 million in fiscal year 1982 funding for this work.

The following day, September 5, the Director of OMB formally notified the Secretary of HHS and the Director of CSA that HHS would provide needed services, such as grantee management and grantee closeout, to CSA grantees until the current grant funds were expended. According to the Director of OMB, this task will require 90 staff years and about \$4.6 million in funding.

On September 10, OMB responded to the CSA Director's request for clarification on the status of funding for CSA closeout activities after September 30. OMB stated that it had requested the congressional appropriations committees to take the actions necessary to provide funding authority for CSA closeout costs. It was OMB's position that, until the Congress acted, no closeout budget at any specific level could be approved.

As mentioned previously the responsibility for administering the Community Services Block Grant program had been assigned to the Office of Human Development Services, but the closeout responsibilities for CSA matters were not. In fact, on September 15--10 days after being instructed by OMB to assume these responsibilities--an HHS memo to HHS Regional Administrators indicated that a task force would be established in the HHS Under Secretary's office for this purpose. In the interim, HHS regional office officials were instructed to stop any and all activities related to CSA closeout. The only exception to this instruction was for those States which had not accepted the administration of the community services block grant in fiscal year 1982.

On September 18, HHS' Deputy Administrator for the Alcohol and Drug Abuse and Mental Health Administration was designated

by the Secretary, HHS, to be his representative for the CSA closeout activities.

In mid-September, the National Council of CSA Locals, American Federation of Government Employees filed suit against the Secretary of HHS in the U.S. District Court for the District of Columbia. The National Council alleges that HHS' assumption of certain activities formerly carried out by CSA represents a transfer of functions to HHS. Consequently, the plaintiffs argue that the employment retention rights of former CSA employees should be determined under the Veterans' Preference Act of 1944, 5 U.S.C. s 3503, which governs such matters. On September 22, the Court issued a Temporary Restraining Order preventing HHS from selecting employees to administer those CSA activities that it assumed on October 1 without using the Veterans Preference Act of 1944. On October 1 the parties further argued their case before Judge Penn who, on October 2, extended the Temporary Restraining Order to October 12, 1981, at which time a ruling on the case may be rendered.

OBSERVATIONS ON THE CSA CLOSURE
AND IMPLEMENTATION OF THE COMMUNITY
SERVICES BLOCK GRANT PROGRAM

We believe that the chronology of events which we have described indicates that had more timely decisions and coordinated efforts been made they would have helped insure a more orderly closeout of CSA's activities and more effective transition into the Community Services Block Grant program. Such actions might have avoided or substantially reduced the impact of the problems which surfaced in August and September.

For example:

- The delay in nominating and confirming a CSA director resulted in the loss of 4 months of time in which little meaningful agency planning for the closeout and transition took place because CSA had no leadership.
- The failure by OMB to form and chair a central management agency task force on administration management support to specifically coordinate the CSA termination process placed undue burdens on CSA officials to simultaneously plan and implement a complete agency termination with declining manpower resources and no closeout funding.

In our opinion, had a central contingency plan been developed by OMB as soon as the Administration's decision was made to close CSA and provide community services funding through block grants both CSA and HHS activities could have been accomplished in a more efficient and orderly manner. Of course, changes to the plan would have been required as congressional deliberations took place. In this manner, the Federal agencies involved in the eventual closeout and transition processes would have better understood their roles. HHS, in particular, would probably have accepted and implemented its CSA closeout responsibilities in a more timely manner.

Although certain Federal officials believed it would be illegal to plan for the termination of an agency before the Congress had officially decided its fate, we do not share this view. In our opinion, preliminary planning in such situations is necessary to safeguard the Government's interests and assets. For example, preliminary planning should have been initiated for such important issues as the funding and staffing resources needed for the closeout and transition processes.

The Director of CSA had tried on several occasions since July to determine from OMB the source of closeout funding and/or the strategy to obtain the funding from the Congress. However, failure to resolve this issue until September caused great concern among CSA employees that \$12.2 million for severance pay and annual leave payments would not be available for disbursement in a timely manner.

Staffing for the closeout activities was an issue which had been considered in early deliberations over the future of CSA. At that time it was assumed that CSA employees would be hired by HHS for temporary closeout duty because of their familiarity with the grantees and their ongoing programs.

During the course of the closeout work it became clear to CSA and other Federal officials that it would be advantageous to retain certain CSA employees on a temporary basis to handle the extra workload which the CSA closing created. However, HHS did not hire any CSA employees in connection with the antipoverty responsibilities it assumed on October 1.

The court case filed as a result of this situation means that efforts initiated in September by CSA officials to arrange for temporary HHS employment of up to 200 CSA employees must await the conclusion of the suit filed against the Secretary of HHS. Earlier attention to this issue might have prevented the need for court action and the uncertainty on the part of many CSA employees in regard to future employment.

CSA, under the leadership of its new director, did a creditable job over the past 3 months in planning for and implementing

those actions needed to closeout the agency and assist in the transition to the block grant program. As might be expected, CSA's responsibilities were made increasingly difficult by steadily decreasing staff morale and the loss of essential personnel to outside employment opportunities. Nevertheless, CSA's management team persisted in continuing ongoing program administration, developing and implementing internal and interagency transition activities necessary for a transfer to the block grant approach, and providing for agency closeout.

Unfortunately, the CSA data base used to support key agency reporting and management systems was highly unreliable in many respects. Portions of the financial management systems were inadequate for the special closeout demands.

Beginning on July 1, CSA took action to strengthen its financial management system. For example, a concentrated effort was begun to resolve disallowed costs identified in completed audits and obtain delinquent audits from grantees. Also the possibility of excess cash in the hands of grantees was addressed.

We believe that it will be necessary for the CSA Inspector General in his role in HHS to report on the effectiveness of the closeout activities, with special emphasis being placed on unresolved audits, delinquent audits, and excess cash in the hands of grantees. In this regard we are aware of an internal audit of CSA close down procedures and an internal audit of unobligated unexpended funds of CSA grantees, initiated by the CSA Inspector General on August 26 and 31 respectively.

The amount of time permitted by the legislation to actually close out CSA and implement the Community Services Block Grant program was only 48 calendar days. CSA identified about 200 tasks involving its headquarters, 10 regional offices, and 1,500 grantees which had to be accomplished during this time.

As discussed above, certain closeout responsibilities relating to CSA grantees were assigned to HHS on September 5. In HHS' view, problems have persistently been associated with striving to concurrently implement a Community Services Block Grant program and complete the remaining CSA closeout activities. In retrospect, if the Congress had provided a more reasonable amount of time for CSA to complete its activities, the closeout might have been done in a more orderly and efficient manner. The more CSA would have been able to accomplish, the less responsibility HHS would have had to eventually accept.

That concludes my prepared statement. We would be pleased to answer any questions you or other members of the subcommittee may have.