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STATEMENT OF
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COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON THE
PRESIDENT'S NEW FEDERALISM PROPOSALS



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I welcome the opportunity to appear this morning to discuss our views on various aspects of New Federalism.

You asked that we address several points. I would like to turn first to the question of criteria for determining which responsibilities are national in scope, properly handled at the Federal level, and those which should appropriately reside at the State and local government level.

In my judgment, there are no simple right or wrong answers to these questions. The issues are profoundly political in nature and require consideration of the constitutional relationships between States and the Federal Government.

The General Accounting Office long has supported reform of the intergovernmental system but the choices involve tradeoffs. Analysis can tell us what these tradeoffs are, but only the people and their elected representatives can decide how to make them.

Take the example of education. We as a Nation have a long-standing tradition of State and local control of public education. Few challenge that basic tradition. But in the period since the Second World War, it has become apparent that the quality of education, and equality of access to it, are issues having significant national consequences. They affect both economic growth and social stability. But it must be left to our constitutional political processes to determine the extent to which these national consequences warrant intrusion on local control.

These tradeoffs can be grouped into general categories, such as:

--Efficiency and effectiveness. In some functions there are clear economies of scale favoring a national operation. In other cases, program effectiveness may be promoted by the consistent application of a single set of standards on a nationwide basis. Sometimes, however, efficiency and effectiveness may depend on the ability to respond to widely varying local conditions. These circumstances would tend to favor greater State and local discretion.

--Demonstrated capacity. Some functions, such as welfare, moved into the Federal arena because of perceptions that State and local governments could not cope with the problem in the 1930's. In considering change with respect to functions which were previously in the domain of State and local government, one should examine the original reasons for Federal involvement and see if those reasons still apply.

--Historical relationships. There is value to maintaining relationships to which people are accustomed. Disrupting those arrangements can produce wasteful confusion and disharmony. On the other hand, when such historical arrangements have proved to be ineffective they should be changed.

Each of these factors is an appropriate consideration in reaching a judgment as to whether Federal, State or local government should be responsible for a particular function. It is also

appropriate for those judgments to be reexamined from time to time and changed if circumstances warrant. The Nation has been going through just such a process in recent years.

One factor in the sorting-out process is the capacity and willingness of various governmental levels to carry out particular functions. You asked that we address the issue of State fiscal and administrative capacity, so I would like to turn to that subject. And I must say, capacity is difficult to measure. In addition, one cannot generalize because conditions vary so widely from one State to another.

With respect to fiscal capacity, the situation in each State depends on the nature and condition of that State's economy, its tax structure, and the level of services it has historically provided. A State with a strong, growing economy is in a better position to assume added responsibilities than a State with a weak or stagnant business climate. Each State's fiscal capacity, however, is influenced substantially by the condition of the national economy, a factor over which the States have little control.

It is also difficult to generalize about administrative capacity, but it is reasonable to presume that capacity in general has increased in recent years. Most States have experienced growth in professionalism in the civil service and have adopted more modern management practices. We hope to see a continuation and acceleration of those trends. I suspect some States will find it relatively easy to take over the management responsibilities contemplated under New Federalism. Others may find it much more difficult.

Of course, Federal administrative capacity in assuming responsibility for State administered programs can be a problem as well. This is perhaps best exemplified by the problems we at GAO identified when the Supplemental Security Income Program was taken over by the Federal Government in 1974.

Once the decision has been made to shift responsibility from one level of government to another, there remains the job of assuring that the transition is as smooth as possible and that the legislation accomplishes its intended purposes. It is by keeping the Congress informed on these issues that GAO can make its greatest contribution.

I intend to place major emphasis on this area over the next few years, concentrating on the following matters:

- Monitoring the transition to block grants;
- Reviewing State and local government auditing coverage;
- Reporting on services provided under block grants; and
- Evaluating the effectiveness of block grant programs.

I would like to turn now to discussing our first major effort under this plan, monitoring the transition to block grants under the Omnibus Budget Reconciliation Act of 1981.

EARLY EXPERIENCE WITH THE FIRST PHASE OF THE NEW FEDERALISM

This legislation took effect on October 1, 1981. In December we initiated our field work to examine the transition process and early implementation of these grants. We have visited 13 States across the country which account for over 45 percent of the funds and an equivalent proportion of the nation's population. We have

talked with over 600 State and local officials as well as representatives of the cognizant Federal departments.

Our work is not yet complete and it is still very early in the transition process. Right now the States' primary concern is maintaining service continuity. Some States, however, have begun to put their own imprint on program priorities and others are contemplating such changes. Thus, a definitive picture will not be available for some time. Some of our preliminary observations, however, may assist the Congress in considering new block grant proposals and other New Federalism initiatives.

Prior State experience should be a determinant in designing transitions

One important factor which has helped facilitate the initial transition period for most of the block grants is the States' considerable involvement in the predecessor categorical programs. To the extent this involvement existed, administrative frameworks and institutional knowledge were in place.

For example, social service and low-income home energy assistance funds already flowed exclusively through the States. Similarly, to varying degrees, States were involved with the categorical programs which formed the Maternal and Child Health; Preventive Health; and Alcohol, Drug Abuse and Mental Health block grants, through direct program administration, developing comprehensive plans, and contracting for State funded programs with some of the same grantees.

Categorical funds now included in the Community Services block grant were primarily provided directly by the Federal Government to the Community Action Agencies or other local grantees. Although

States had some knowledge of these programs, those opting to implement the Community Services block grant generally have had to expand and develop an administrative and programmatic framework. Of the 13 States we visited, 5 have deferred assuming responsibility for this program.

The other three block grants which had a heavy direct Federal-local component--Small Cities Community Development, Primary Care, and Education--have not yet become operational. States are determining what adjustments will be needed to implement these grants and considering whether to pick up the optional Primary Care and Small Cities grants.

Current State involvement should be considered in setting transition schedules for future block grant and turnback legislation. For example, employment and training programs have been primarily operated by local governments and private organizations. Although the absence of prior State involvement does not mean a State would be unable to take over a function, it does say a great deal about the time which may be needed to make the necessary adjustments.

Continuation of Federal outlays from past commitments proves to be a transition aid

The transition to the three health and Community Services block grants has been eased because many grantees have continued to receive direct Federal funding from fiscal year 1981 awards. Almost all of the predecessor programs were project grants, or had a project grant component, funded for at least a 12-month

period. Because they were funded at various times in the Federal fiscal year, many in the July through September period, these projects continue to operate well into fiscal year 1982 with the prior year's funds. This has allowed States some breathing room in making the initial adjustments to the block grants and to the reduced budget levels.

Federal executive branch should
provide advice on national policy
requirements

There are a number of crosscutting national policy requirements which were enacted through legislation other than the Reconciliation Act. These requirements, such as uniform relocation assistance, merit personnel systems, fair labor standards, environmental protection, political activity constraints, and various civil rights statutes, apply to a wide range of activities receiving Federal financial assistance. There are general references to the civil rights statutes in all but the Social Services and the Elementary and Secondary Education block grant statutes. Agency regulations make them applicable to those programs as well.

By and large the Reconciliation Act is silent on the other crosscutting requirements and so are agency regulations. The effect of this is that the States are left to determine the applicability of Federal crosscutting statutes.

Given the short time available to plan and administer the new block grant programs, States are just now considering these issues. Some State officials are uncertain as to the applicability of these requirements to the block grants and believe that Federal

advice on this matter would be helpful. We believe the Federal agencies responsible for implementing these requirements should clarify for the States whether they apply to the block grants. If the Administration considers an applicable requirement to be inappropriate, then it should propose remedial legislation to the Congress.

Reduced Federal role
in assuring accountability

Traditional forms of Federal oversight, such as approval of State plans, have been largely eliminated. As greater reliance has been placed on the States' own laws and procedures, Federal regulations and reporting requirements have been reduced.

The act calls for the Secretary of Health and Human Services (HHS) to consult with GAO and the States concerning the form and content of the health block grant annual reports. Our staff has met with HHS officials and it appears that the department will not prescribe the form or content of these reports. HHS expects the States to develop an annual report that meets the requirements of the law.

The States have been working through the Association of State and Territorial Health Officers to modify that organization's health data reporting system to meet the reporting requirements and provide consistent information among States. HHS has apparently been supportive of these initiatives and is exploring whether block grant funds might be used to support this reporting system. There are some indications that States are working together in developing similar reporting approaches for other

block grants as well. It is too early to tell if this approach will produce sufficient information needed for national policy-making.

Role of audit

With the great reduction in information available through the application and reporting processes, the audit has become a primary vehicle for assessing compliance with Federal law. As part of our transition study, we have been discussing with State and Federal officials how they plan to audit block grant funds.

Plans are underway to develop such audit strategies, and many questions have arisen concerning what will be required to satisfy the block grant audit requirements. These questions include the relationship between the single entity, or organization-wide, audit and the scope of audit coverage required for the block grants. To resolve these issues we plan to work with all interested and affected parties in Federal, State, and local government and the private sector.

While the principal audit responsibilities lie with the States, the authorizing legislation for the block grants calls upon GAO periodically to perform audits and program reviews. We are developing plans to fulfill these responsibilities and review the mechanisms States use to ensure accountability for block grant funds.

As you know, we have been working with many groups over the years to improve the scope and quality of audits for Federally assisted activities. Improvements have been made, but much

remains to be done. I am confident that our future efforts in the audit and accountability area will lead to steady improvement.

CONCLUSION

I have concentrated on what I consider to be the major issues emerging from our preliminary work. I am sure that we will have a number of other observations and, as our study progresses, we will keep this Committee fully informed.

That completes my formal statement. My colleagues and I would be pleased to respond to any questions.