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U.S. GENERAL ACCOUNTING OFFICE  
Washington, D.C.

FOR RELEASE ON DELIVERY  
Expected at 9:30 a.m.  
Tuesday, May 11, 1982

STATEMENT OF  
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COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE THE  
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
ON  
BLOCK GRANT IMPLEMENTATION



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I welcome the opportunity to appear this morning to discuss our observations on block grant implementation.

The Omnibus Budget Reconciliation Act of 1981 assigned States primary administrative responsibility for nine block grants, six of which became effective on October 1, 1981. Shortly thereafter, we began a study to monitor the transition process and early implementation of these grants.

We visited 13 States across the country and talked to over 600 State and local officials as well as representatives of the cognizant Federal departments. The 13 States, which are listed in the attachment to my statement, account for over 45 percent of the funds and an equivalent proportion of the nation's population.

The State transition to block grant administration is proceeding as well as could be expected considering the short time-frame between passage of the act on August 13 and implementation on October 1, the funding reductions accompanying the programs, and the uncertainties surrounding fiscal year 1982 block grant appropriations. Because block grant implementation is still unfolding, a complete picture is not yet available, but certain trends have emerged in the 13 States we visited.

PRIOR STATE INVOLVEMENT  
HELPED EASE TRANSITION

One important factor easing the initial transition to most of the block grants was the States' considerable involvement in the predecessor programs. States already received the vast majority of funds from these programs and had various ties with

program recipients. To the extent this involvement existed, administrative frameworks and institutional knowledge were in place.

For example, States were the exclusive recipients and were heavily involved in administering the programs preceding the Social Services and Low Income Home Energy Assistance block grants. Similarly, to varying degrees, States were involved with the categorical programs which formed the Maternal and Child Health Services; Preventive Health and Health Services; and Alcohol, Drug Abuse and Mental Health Services block grants, through direct program administration, developing comprehensive plans, and contracting for State funded programs with some of the same grantees. Because of States' previous involvement, few major organizational or administrative realignments were needed to accommodate the transition to these block grants.

Where State experience was not as extensive, more adjustments were made. For example, programs merged into the Community Services block grant primarily were funded directly by the Federal Government to Community Action agencies. Although States had some program knowledge, those accepting the block grant generally have had to develop or expand an administrative framework. Such actions include acquiring personnel and developing monitoring and reporting systems. Also, to provide more time for making necessary adjustments, 5 of the 13 States we visited deferred assuming responsibility for this program.

The three other block grants--Small Cities Community Development, Primary Care, and Education--were not in effect on March 1,

1982, when we completed our field work. States were determining what adjustments will be needed to implement these grants and considering whether to assume the optional Small Cities and Primary Care grants. A number of States have expressed concern over accepting the Primary Care block grant because it contains no allowance for administrative costs, requires funding of existing community health centers, and includes a matching provision.

SEVERAL FACTORS INFLUENCED THE SCOPE  
AND NUMBER OF CHANGES MADE DURING  
EARLY IMPLEMENTATION

During early implementation a major concern was coping with the reduced funding levels accompanying block grants. Adjustments were made, but factors such as ongoing outlays from predecessor programs and provisions requiring continued funding of certain activities limited the scope of initial changes made in most block grants.

For example, the number and scope of adjustments to the three health block grants and the community services block grant were limited in part by legislative provisions designed to ensure continued funding for established services and grantees. Moreover, continued Federal outlays from awards made under the superseded categorical programs have provided States additional time and resources in adjusting to the reduced funding levels.

Almost all of these programs were project grants, or had a project grant component, funded for at least a 12-month period. Because they became effective at various times in the Federal fiscal year, many in the last quarter, these projects are funded

well into fiscal year 1982. To illustrate, because States and local entities often have been able to provide services with 1981 categorical funds, on the average, States we visited had not yet drawn extensively upon block grant allocations made available to them during the first half of fiscal year 1982.

For the most part, States were developing plans for making changes to the three health block grants and the community services block grant program. A few States, however, already had made some adjustments. For example, three States we visited had developed formulas for allocating funds under the Community Services block grant. According to officials, these formulas were designed to improve targeting of funds and ensure that grantees did not receive disproportionate funding reductions.

In contrast, more changes were made immediately in block grants which had no ongoing categorical outlays and fewer legislative restrictions. For example, to cope with funding reductions in the Social Services block grant, States more frequently altered previously established funding patterns and employed options to transfer funds among the block grants. Seven of the 13 States we visited had authorized or proposed transferring up to 10 percent of Low Income Home Energy Assistance funds to the Social Services block grant. Also, all 13 States used their new option to set aside up to 15 percent of their Low Income Home Energy Assistance funds for weatherization.

Although the scope of block grant funding changes varied, officials in all 13 States we visited complained that planning

was complicated by the uncertainty of block grant appropriations. Also, officials turned to non-Federal sources--such as their Washington liaison offices, public interest groups, professional organizations, and grantees--to obtain data for planning.

While initially concentrating on obtaining information and handling budget reductions, certain States have reported, or contemplate making, management changes to take advantage of reduced Federal application and reporting requirements. For example, eight States we visited noted that (1) less time was required to prepare applications, (2) monitoring activities could be combined, and/or (3) certain reports could be deleted. Although preliminary estimates were made, officials believed it was too early to make any definitive judgments on efficiencies emanating from block grants.

STATE BLOCK GRANT OVERSIGHT  
MECHANISMS ARE EVOLVING

The block grant legislation and regulations place great reliance on State oversight processes. Also, a fundamental check on the use of funds is States' accountability to their citizens. Generally, States are required to obtain public comments on intended use reports or plans, hold public hearings on the proposed use and distribution of funds, and arrange for independent audits of block grant expenditures.

State legislatures are expected to become increasingly involved in block grant decisions. In 9 of the 13 States we visited the legislatures had enacted measures influencing early block grant implementation and enhancing their oversight of

future block grant decisions. Such measures ranged from two legislatures restricting the State from assuming optional block grants to six legislatures increasing their ability to review block grant applications and detailed plans.

Public comment was received in a number of ways. Eleven of the 13 States we visited held public hearings for at least one block grant, even though the public hearing requirements had been waived for fiscal year 1982. Also, views of citizens and local entities were obtained through such means as circulating intended use reports and plans and establishing advisory groups. At the time our field work was completed, States were finalizing plans for obtaining future public participation. A more definitive picture will emerge next year because the public hearing requirements will be in effect and more time will be available to obtain comments on block grant plans.

#### ROLE OF AUDIT

A primary vehicle for assuring accountability and assessing compliance with Federal law is State audits of block grant funds. Audit strategies are being developed and questions have arisen concerning what would be required to fulfill block grant audit requirements. These questions included the scope of audit coverage required and the reimbursement of audit costs.

To help address these concerns, the Office of Management and Budget last month provided States with a paper describing a framework for financial and compliance audits of block grants. This document discusses factors in choosing and funding the approach

to audit block grants. Also, it states that OMB will be requesting States to send their audit plans to the Inspectors General so that an early dialogue can begin on the adequacy of State audits.

While this paper addresses some important concerns, we at the GAO believe that a more standardized audit provision may be desirable for future block grants. Our recent work regarding the block grant transition and developing the single audit concept has prompted us to consider the types of issues which need to be addressed in such legislation. As a result, we are in the process of developing a standardized block grant audit provision which we anticipate recommending that the Congress include in future grant legislation. It would cover both State and Federal Government audit responsibilities. We will make this legislative language available to the Committee when it is completed. We will be happy at that time to discuss how your proposed Block Grant Management Act could be modified to reflect this approach.

Because efforts to refine block grant audit legislation coincide with actions to further develop the single audit concept there is a real need for coordination and leadership to promote effective implementation. I plan to create the mechanism to provide that broad based leadership by forming an audit policy advisory committee. It will include representatives from both the public and private sector audit and user communities such as the Office of Management and Budget, the Inspectors General, State Auditor Coordinating Committee, American Institute of

Certified Public Accountants, the Municipal Finance Officers Association, and users from all levels of government. This committee can provide the focus needed to address problems such as developing a practical and effective quality review process. In the meantime, we suggest that the provisions relating to a quality review process be deleted from your Block Grant Management Act pending deliberations by the audit policy advisory committee. We will be happy to keep you advised of our progress in this area, and we will inform you promptly when I am satisfied that we are in a position to offer definitive recommendations.

#### OTHER BLOCK GRANT DEVELOPMENTS

I would like to turn now to the subjects of annual reports for block grants and the applicability of crosscutting national policy requirements.

The Reconciliation 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.

The Department has decided it will not prescribe the form or content of these reports. Instead, HHS expects States to develop annual reports that meet 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 system to meet the reporting requirements and provide

consistent information among States. 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 policymaking.

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 activities 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. HHS and the Department of Education have not clarified the applicability of these requirements in the regulations. In contrast, the Department of Housing and Urban Development regulations address the applicability of many crosscutting requirements and indicate that the Department is deliberating on the applicability of others.

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 Administration should clarify for the States whether these requirements apply to the block grants. If the Administration considers an applicable requirement to be inappropriate, then it should propose remedial legislation to the Congress.

#### CONCLUSION

I have concentrated on what I consider to be the major issues emerging from our efforts to monitor early block grant implementation.

Over the next few years I plan to place major emphasis on continuing to monitor the transition, reporting on services provided under the block grants, evaluating the effectiveness of block grant programs, and reviewing the scope and quality of State and local auditing coverage. As our work on block grants 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.

STATES INCLUDED IN GAO REVIEW

California

Colorado

Florida

Iowa

Kentucky

Massachusetts

Michigan

Mississippi

New York

Pennsylvania

Texas

Vermont

Washington