

For release on delivery  
Expected at 10 a.m. EDT  
Thursday, June 24, 1971

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

STATEMENT OF  
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE COMMITTEE ON WAYS AND MEANS  
HOUSE OF REPRESENTATIVES  
ON

H.R. 4187 - THE GENERAL REVENUE SHARING ACT OF 1971

Mr. Chairman and Members of the Committee:

We are pleased to be here today, at the invitation of the Committee, to offer comments on H.R. 4187 which would authorize a system of general revenue sharing as recommended by the President in his message to the Congress on this subject. As an arm of the Congress, the General Accounting Office is concerned principally with accountability as to the expenditure of funds appropriated by the Congress. My comments with respect to H.R. 4187 will deal primarily with this aspect of the proposal.

It should be noted <sup>that</sup> that at the outset the President's message to the Congress on the subject argues that general revenue sharing would enhance, not weaken, accountability in these terms: "The best way to hold Government accountable to the people, some suggest, is to be certain taxing authority and spending authority coincide." The message further states: "There is no reason to think that the local taxpayer will be less motivated to exert pressures concerning how shared revenues are spent," noting that most local taxpayers are also Federal taxpayers.

710148

094422

The message concludes that "the crucial question is not where the money comes from but whether the official who spends it can be made to answer to those who are affected by the choices he makes."

Needless to say, this is a sharply different concept of accountability for the expenditure of Federal funds than has existed in the past. It would bypass the normal process by which the Congress authorizes the purposes for which funds are spent, appropriates funds, and then provides oversight with respect to the efficiency with which these funds are spent and whether they are spent for the purposes intended.

The revenue sharing plan embodied in H.R. 4187 has been accurately described as a "no strings attached" deployment of Federal funds in that such funds are not required to be used for any specific purposes and no meaningful accountability is required.

Accountability Provisions  
in H.R. 4187

Section 601 of the Act provides that the Government of each State would be required to give assurances to the Secretary of the Treasury that <sup>state & local governments</sup> ~~he~~ will use and account for revenues shared by that State for State and local governmental purposes. It also requires the State and local governments to use <sup>such fiscal and accounting procedures as may be</sup> ~~procedures~~ necessary to assure accountability for payments received and disbursements made to local governments. It gives the Secretary, upon reasonable notice, access to and the right to examine records of State and local governments. It also provides that State and local governments provide reports to the Secretary "as he may

reasonably require." Section 901 provides that the Secretary provide a report to the President and the Congress as soon as practicable after the end of the fiscal year. All of these provisions of course relate to the operation of the formula for distribution of funds rather than to what the funds are used for or how they are spent.

Section 1101 applies a nondiscrimination provision to all funds made available to State and local governments under the Act, and provides that when the Secretary determines that a State has failed to comply with such provisions, he shall attempt to secure compliance by voluntary means. Failing this, he is to refer the matter to the Attorney General. In keeping with the concept of general revenue sharing, payments by the Federal Government to each State will presumably be commingled with the State funds, and the allocated payments by the States to local governments will be similarly commingled with local government funds. Therefore, Federal and State and local funds become indistinguishable and any examination of the use of funds would have to encompass the total of State, local and Federal funds.

In brief, the only accountability to the legislative branch, other than through such oversight hearings the Congress might from time to time initiate, <sup>would</sup> ~~will~~ be in the form of reports of the Secretary of the Treasury to the Congress. And, even here, the Secretary would have complete discretion as to the substance of these reports.

Some indication of the substance of such reports is found in the Secretary's testimony before this Committee on June 2 in which he stated that "financial reporting to the Treasury will be required simply to

assure that the money is spent for a lawful governmental purpose and in a nondiscriminatory manner. The local voters, rather than any Federal official, will review the wisdom and effectiveness of the expenditures." Elsewhere in the same statement, he indicated that "responsibility and accountability for those funds will \* \* \* run to elected State and local officials rather than to employees of the Federal Government." From this, I conclude that such reports will be largely factual in nature and could reflect little by way of evaluation as to how effectively Federal funds had been spent.

Reliance Upon State  
and Local Audits

As to compliance with the allocation formula and the adequacy of fiscal and accounting procedures, it would be expected that the Secretary would need to rely heavily on audits by or for the States and local governments. For any examination of the control systems of the States and local governments relative to how the commingled funds were used, he would have to rely almost entirely on such audits since the sheer magnitude of State and local government activities would, as a practical matter, preclude the Secretary from undertaking <sup>many</sup> ~~any~~ such examination<sup>s</sup> with Federal resources.

Thus the validity of this reliance on audits by or for State and local governments will depend on the auditing capabilities available to these governmental units either through their in-house organizations or outside sources and the breadth and depth of auditing at these levels.

Our Office is presently engaged in an interagency study with eight <sup>in cooperation</sup> of the Federal agencies having the largest grant programs, to develop

uniform audit standards for use in auditing Federal grant programs.

While addressed to grant programs, these standards will be adaptable to audits of other operations in the public sector. It is expected that these standards will be directed to proper accounting, efficient and economical management of resources, and achievement of program objectives by the best practical means.

Information which the study group has obtained thus far indicates that not more than 10 or 12 States may be considered as approaching adequate standards in their audit operations. Many other States are in varying stages of increasing their audit capability, but the outlook for satisfactory auditing at the State level appears to be some years away. Regarding the subordinate governmental units (cities, counties, etc.) the situation appears even less encouraging. Most audits are limited to fiscal examinations and do not include the efficiency or economy aspects of operations. More serious, however, is the lack of recognition by municipal officials that adequate auditing is an essential of good management; and that adequate auditing includes attention to efficiency, economy, and effectiveness.

*Substitute*

*While we agree that the Secretary should have access to the information provided in the proposed legislation, we do not believe access and examination which the bill gives to the Secretary.*  
*Current audits at the State and local level, with some exceptions, will be of great assistance to him*  
*Even so, we believe that the General Accounting Office as an arm of the Congress should have the [same] right of access for purposes of audit as the Secretary of the Treasury. We believe that the presence of our Office in the picture could contribute to the advancement of*

*Federal*

*and examinations.*

*further*

*State and local auditing*  
~~audit~~ quality and the development of a climate conducive to the recognition of the importance of auditing at the State and local levels. Moreover, the right of access by our Office as an agency of the legislative branch would be consistent with the traditional oversight role and responsibility of the Congress. Therefore if the subject bill is to be favorably considered by the Committee we recommend that the bill be amended to provide for access by the Comptroller General ~~in the same manner as provided for the Secretary of the Treasury.~~

With regard to the matter of accountability and related audit as discussed above, we believe that the relationship of general revenue sharing as proposed and total State and local government revenues should be kept in perspective. It is estimated that total State and local government revenues for 1971 will approximate \$130 billion. The Administration has proposed an amount of \$5 billion for general revenue sharing for 1972. This amount, while substantial in itself, is less than 4 percent of total State and local government revenues for 1971. There is a question, therefore, ~~posed~~ <sup>in the amount proposed</sup> as to whether revenue sharing would give the Federal Government any additional leverage toward upgrading auditing and other financial control elements, such as budgeting, accounting, and reporting at the State and local levels.

Revenue Sharing and Modernization of  
Local Government Structure and Operations

One of the arguments made for revenue sharing is that it would place greater responsibility on local government to determine how governmental programs should be carried out. While it is difficult

to argue with the principle of decentralization, we believe that this issue should be looked at also from the standpoint of whether general revenue sharing may actually weaken one of the incentives to consolidate or modernize local government structure.

The Committee for Economic Development, in an excellent report last year entitled "Reshaping Government in Metropolitan Areas" pointed out that nearly two-thirds of our entire population today is concentrated in 233 metropolitan areas compared with only 55 percent in such areas in 1940. Yet, in 1967, the metropolitan areas contained nearly 21,000 units of local government for an average of 91 local governments per metropolitan area. The extremes are represented by the Chicago metropolitan area which has 1,113 local governments, Philadelphia with 871, Pittsburgh with 704, and New York with 551, contrasted with 20 metropolitan areas which had less than 10 local governments each.

The CED report concludes that "the existing system of overlapping local governments results in a poor match between needs and resources and perpetuates waste, inefficiency, and confusion." The report notes that the States have been very slow in adjusting boundaries of local governments to meet the needs of metropolitan areas and recommends that both State and Federal aid systems be used as an incentive to reduce the number of local governments and stimulate local government reorganization.

Some proposals with respect to revenue sharing incorporate requirements with respect to local government reorganization. While we

have not had time to examine the proposition in sufficient detail to justify a firm conclusion with respect to the feasibility of such provisions, we do believe it is inevitable that general revenue sharing would remove to some degree incentives to consolidate units of government and improve local government organization as one way of saving money and increasing local fiscal resources.

It is worth noting that one of the strongest arguments made in support of <sup>The recent low of</sup> consolidating local government units in the Indianapolis area was the savings which could be achieved in administrative costs and additional revenues which could be derived by <sup>reallocating the tax</sup> ~~broadening~~ the tax <sup>base</sup> base. The present mayor of Indianapolis, who had a major part in bringing about the consolidating effort, has stated on many occasions that <sup>consolidation</sup> ~~the~~ has had this desired effect.

#### Need for Improvements in the Present Categorical System

Two general arguments have been made for revenue sharing. One is the argument that there has developed a fiscal imbalance between the Federal Government on the one hand and State and local governments on the other. The other argument is the difficulties and problems which have developed with respect to the categorical grant system. While the President's proposals with respect to special revenue sharing have a particular objective of consolidating a number of categorical grants, general revenue sharing is likewise supported from a standpoint of allowing State and local governments even wider flexibility in how they use Federal funds.

Studies made by the General Accounting Office support many of the criticisms which have been made with respect to the present system of grants-in-aid. Many of these have been referred to previously in these hearings--cumbersome processing procedures, long delays in grant approvals, high overhead costs, delays in notification of available Federal funds, and so on.

The Intergovernmental Cooperation Act of 1968 and the proposed Intergovernmental Cooperation Act of 1971, if enacted, would go far in mapping out a program to meet the objections which have been raised with respect to the categorical grant system. The fact that so little has been done by way of consolidating and simplification leads us to question whether either the executive branch or the Congress has seriously tackled the problem of improving the categorical grant system. For example, we believe that consideration should be given to more frequent use of advanced funding so as to assure the State and local governments as to the level of support on which they can make their own program and financing plans. This type of advance funding has already been authorized for certain programs such as title I-A of the Elementary and Secondary Education Act of 1965; grants for airports under the Federal Airport Act; and by the Economic Opportunity Amendments of 1969. It could and should be used much more extensively.

Use of Shared Revenues to  
Match Categorical Grants

One other point warrants notice. The bill is silent on the use of general revenue sharing funds for matching on categorical grants. Various

statutes in respect of grant programs require use of funds from non-Federal sources for matching. Since general revenue sharing funds will not be separately identifiable, it might be legally construed that all State and local government funds are, in part, Federal funds. To avoid legal complications, we recommend that the bill be amended to specifically provide that general revenue sharing funds may be used for matching in categorical grants.

In summary:

- (a) We do not believe that the Congress ~~cannot~~ should be in a situation where it has appropriated or authorized money to be spent and then not have some way to independently assure itself that these funds are being spent in a reasonably efficient *and effective* manner, ~~and accomplishing the objectives intended~~ by it.
- (b) We do not think it realistic to assume that in cases of allegations of misuse or mismanagement of State and local programs and where significant part of the funds involved are provided by the Federal Government that the Congress could stand idly by and say that this is purely a matter for the State and local governments to handle. We believe the Congress must have available to it an independent means of access to the information which it would need to investigate any such charges, ~~and~~

(c) While recognizing that much needs to be done to consolidate and improve existing categorical grants,

*We do not believe that general revenue sharing*  
~~the program or categorical grant represents a far~~

*superior* approach to accomplishing national objectives,

~~than does general revenue sharing.~~

That concludes my statement, Mr. Chairman. We shall be pleased to respond to questions.