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ADDRESS BY

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UNITED STATES GENERAL ACCOUNTING OFFICE

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BEFORE STATE AND LOCAL GOVERNMENT OFFICIALS

OF CALIFORNIA, ARIZONIA AND NEVADA

SEMINAR ON REVENUE SHARING SPONSORED BY

THE CITY OF

SAN DIEGO, CALIFORNIA

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"THE GENERAL ACCOUNTING OFFICE LOOKS
AT REVENUE SHARING"

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OUTLINE

"THE GENERAL ACCOUNTING OFFICE LOOKS AT REVENUE SHARING."

- I. GENERAL DESCRIPTION OF THE UNITED STATES GENERAL ACCOUNTING OFFICE
- II. GAO'S ROLE IN REVENUE SHARING
- III. GAO'S CURRENT AND FUTURE REVENUE SHARING WORK PROGRAM
- IV. GAO'S ANSWERS TO FREQUENT QUESTIONS

BECAUSE THE GENERAL ACCOUNTING OFFICE IS NOT SO WELL KNOWN AS OTHER GOVERNMENT AGENCIES, REPRESENTATIVES OF THE OFFICE, WHEN- EVER GIVEN A CHANCE, CUSTOMARILY SPEND A FEW MOMENTS DESCRIBING OUR RATHER UNIQUE FUNCTION IN AMERICAN GOVERNMENT. SO IF YOU WILL BEAR WITH ME FOR A FEW MINUTES I WOULD LIKE TO BRIEFLY DESCRIBE OUR STRUCTURE AND FUNCTIONS BEFORE DISCUSSING OUR ROLE IN REVENUE SHARING.

THE GENERAL ACCOUNTING OFFICE WAS ESTABLISHED TO CARRY OUT THE RESPONSIBILITY OF ASSISTING THE CONGRESS TO OBTAIN INDEPENDENT INFORMATION ON THE OPERATION AND RESULTS OF FEDERAL PROGRAMS. OUR REVIEWS ARE OFTEN DESIGNED TO ASSESS THE EFFICIENCY OF MANAGE- MENT AND TO ADVISE THE CONGRESS ON WHETHER PROGRAMS WHICH IT HAS AUTHORIZED ARE ACHIEVING THEIR OBJECTIVES.

AS GOVERNMENT HAS EXPANDED AND BECOME MORE EXPENSIVE, THIS RESPONSIBILITY HAS INCREASED. THE GENERAL ACCOUNTING OFFICE, AS AN ARM OF THE CONGRESS, RESPONDS TO REQUESTS FROM THE CONGRESS

AS A WHOLE, FROM COMMITTEE CHAIRMEN, AND FROM INDIVIDUAL MEMBERS TO INVESTIGATE AND TO ASSESS AND ANALYZE THE MANNER IN WHICH FEDERAL PROGRAMS ARE BEING CARRIED OUT BY THE EXECUTIVE AGENCIES. EQUALLY IMPORTANT, AS THE INDEPENDENT AUDITOR OF THE FEDERAL GOVERNMENT, OUR OFFICE UNDERTAKES, ON ITS OWN INITIATIVE, REVIEWS OF VIRTUALLY EVERY FEDERAL PROGRAM AND REPORTS TO THE CONGRESS AND TO THE PUBLIC ITS CONCLUSIONS ON THE OPERATION OF THE PROGRAMS. WE OFTEN RECOMMEND CHANGES THAT WILL LEAD TO IMPROVING THE PROGRAMS.

THE GENERAL ACCOUNTING OFFICE IS HEADED BY THE COMPTROLLER GENERAL OF THE UNITED STATES WHO, IN ORDER TO INSURE THE POLITICAL INDEPENDENCE OF GAO, IS APPOINTED AND HOLDS OFFICE IN A RATHER UNIQUE FASHION. THE COMPTROLLER GENERAL IS APPOINTED BY THE PRESIDENT FOR A 15-YEAR TERM SUBJECT TO CONFIRMATION BY THE SENATE. HE REPORTS TO THE CONGRESS RATHER THAN THE PRESIDENT. HE MAY SERVE ONLY ONE TERM AND CAN BE REMOVED ONLY BY CONCURRENT RESOLUTION OF BOTH HOUSES OF CONGRESS. WITH THIS EXPLANATION OF WHO AND WHAT GAO IS, LET ME NOW EXPLAIN OUR ROLE IN REVENUE SHARING.

THE CONCEPT OF GENERAL REVENUE SHARING HAS RECEIVED CONSIDERABLE ATTENTION SINCE THE EARLY 60'S. VARIOUS PUBLIC INTEREST GROUPS, INCLUDING THE GOVERNOR'S CONFERENCE, THE NATIONAL LEAGUE OF CITIES, AND THE U.S. CONFERENCE OF MAYORS SUPPORTED REVENUE SHARING. CONGRESSIONAL INTEREST WAS HIGH WITH OVER 140 BILLS BEING SUBMITTED DURING THE 89TH AND 90TH CONGRESSES; HOWEVER, ALL THESE BILLS DIED IN COMMITTEE.

THE PRESIDENT, IN FEBRUARY 1971, SUBMITTED A REVENUE SHARING PROPOSAL WHICH WOULD DISTRIBUTE A SPECIFIED PERCENTAGE OF TAXABLE PERSONAL INCOME TO STATE AND LOCAL GOVERNMENTS EACH YEAR. AFTER MUCH COMPROMISE ON THE PART OF BOTH HOUSES OF CONGRESS, THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972 WAS SIGNED INTO LAW. THE FINAL VERSION WAS QUITE DIFFERENT FROM THE PRESIDENT'S ORIGINAL PROPOSAL.

IN CONTRAST TO THE PRESIDENT'S PROPOSAL, THE CONGRESS PLACED A NUMBER OF "EXPENDITURE STRINGS" IN THE ACT. I WILL TRY TO SUMMARIZE THESE "STRINGS" AND THEIR ACCOUNTING AND AUDITING IMPLICATIONS. THESE "STRINGS", WHICH ARE REALLY NOT VERY LIMITING, WILL BRING STATE AND LOCAL GOVERNMENTS INTO CONTACT WITH TWO FEDERAL AGENCIES - THE TREASURY DEPARTMENT AND THE UNITED STATES GENERAL ACCOUNTING OFFICE.

FIRST LET ME DISTINGUISH BETWEEN THE RESPONSIBILITIES OF
THE DEPARTMENT OF THE TREASURY AND GAO.

TREASURY

THE DEPARTMENT OF THE TREASURY HAS ESTABLISHED AN "OFFICE
OF REVENUE SHARING" TO CARRY OUT ITS RESPONSIBILITIES. THE
DUTIES OF THAT OFFICE CAN BE SUMMARIZED INTO THREE MAIN AREAS:

1. COMPUTING AND PAYING THE AMOUNTS ALLOCABLE TO
EACH ELIGIBLE GOVERNMENT.
2. DEVELOPMENT OF THE REGULATIONS TO BE FOLLOWED BY
RECIPIENT GOVERNMENTS IN USING AND ACCOUNTING FOR
REVENUE SHARING FUNDS.
3. PROVISION OF AUDITS AND REVEIWS NECESSARY TO ASSURE
THAT RECIPIENT GOVERNMENTS ARE COMPLYING WITH THE
ACT AND THE REGULATIONS.

GAO

GAO'S ROLE WITH REGARD TO REVENUE SHARING IS MUCH THE SAME
AS WE HAVE HAD UNDER OTHER FEDERAL PROGRAMS. WE WERE DIRECTED TO
ASSIST CONGRESSIONAL EVALUATION OF REVENUE SHARING BY REVIEWING

THE WORK OF THE DEPARTMENT OF THE TREASURY, THE STATE GOVERNMENTS,
AND THE UNITS OF LOCAL GOVERNMENTS. WE WERE ALSO DIRECTED TO
CONSULT WITH THE DEPARTMENT OF THE TREASURY IN THE DEVELOPMENT
OF FISCAL, ACCOUNTING, AND AUDITING GUIDELINES TO BE USED BY STATE
AND LOCAL GOVERNMENTS.

WE WERE HEAVILY INVOLVED IN WORKING WITH THE OFFICE OF
REVENUE SHARING ON THE ACCOUNTING AND AUDITING SECTIONS OF THE
RECENTLY PUBLISHED FINAL REVENUE SHARING REGULATIONS AS WELL AS
ON THE INTERIM REGULATIONS PUBLISHED LAST FALL.

RESPONSIBILITIES OF STATE
AND LOCAL GOVERNMENTS

ALTHOUGH REVENUE SHARING IS OFTEN MENTIONED AS "NO STRINGS
FEDERAL ASSISTANCE," THERE NEVERTHELESS ARE CERTAIN RESTRICTIONS
OR LIMITATIONS ON THE MANNER IN WHICH STATE AND LOCAL GOVERNMENTS
CAN USE THE FUNDS. OTHER PROVISIONS OF THE ACT ARE DESIGNED TO
MAKE THE STATE AND LOCAL GOVERNMENTS ACCOUNTABLE FOR THEIR USE OF
THE FUNDS. LET ME MENTION A FEW OF THE RESTRICTIONS THAT MIGHT
BE INQUIRED INTO BY AUDITORS DURING A REVIEW THAT IS DESIGNED TO

ASSESS A STATE OR LOCAL GOVERNMENT'S COMPLIANCE WITH THE ACT.

IF AN AUDITOR IS UNABLE TO REVIEW A STATE OR LOCAL GOVERNMENT'S

COMPLIANCE WITH THESE PROVISIONS, HIS AUDIT REPORT MUST REFLECT

THOSE AREAS WHICH WERE NOT COVERED.

1. REVENUE SHARING FUNDS MAY BE USED BY LOCAL GOVERNMENTS

ONLY FOR ORDINARY AND NECESSARY MAINTENANCE AND

OPERATING EXPENSES IN CERTAIN PRIORITY AREAS OR FOR

ANY CAPITAL EXPENDITURES AUTHORIZED BY LAW.

2. REVENUE SHARING FUNDS CANNOT BE USED FOR MATCHING

FUND PURPOSES FOR OBTAINING ANY FEDERAL FUNDS WHICH REQUIRE

A CONTRIBUTION FROM A STATE OR LOCAL GOVERNMENT.

3. A STATE GOVERNMENT MUST CONTINUE A CERTAIN LEVEL OF

ASSISTANCE TO LOCAL GOVERNMENTS OUT OF ITS OWN REVENUES.

4. A STATE AND LOCAL GOVERNMENT MUST NOT PRACTICE RACIAL OR

SEX DISCRIMINATION IN ANY PROGRAM OR ACTIVITY THAT IS

FUNDED IN WHOLE OR IN PART WITH REVENUE SHARING FUNDS.

5. WAGES PAID TO EMPLOYEES OF STATE AND LOCAL GOVERNMENT

CONTRACTORS AND SUBCONTRACTORS ARE SUBJECT TO THE

BEST DOCUMENT AVAILABLE

DAVIS-BACON ACT WHEN AT LEAST 25% OF THE COST OF A PROJECT
IS PAID WITH REVENUE SHARING FUNDS.

6. STATE AND LOCAL GOVERNMENT EMPLOYEES WHOSE WAGES ARE
PAID WITH REVENUE SHARING FUNDS MUST BE PAID AT THE SAME
RATES AS OTHER EMPLOYEES WHEN AT LEAST 25% OF ALL EMPLOYEES
IN A CATEGORY ARE PAID WITH REVENUE SHARING FUNDS.

AS REVENUE SHARING MOVED FROM AN IDEA TO REALITY, DIFFERING
OPINIONS WERE EXPRESSED ON THE EXTENT TO WHICH STATE AND LOCAL
GOVERNMENTS SHOULD BE ACCOUNTABLE TO THEIR CITIZENRY AND THE
FEDERAL GOVERNMENT FOR USES OF THE FUNDS. SOME FELT THAT ALL PRO-
POSED EXPENDITURES SHOULD BE SUBJECT TO A REFERENDUM VOTE BY THE
CITIZENS WHILE OTHERS ADVOCATED DIRECT GRANTS TO THE STATE AND
LOCAL GOVERNMENTS WITHOUT DIFFERENTIATING THE USES OF REVENUE
SHARING FUNDS FROM THE USES OF THE STATES OWN REVENUES. AFTER A
SUBSTANTIAL AMOUNT OF TESTIMONY AND VARIOUS COMPROMISES, THE ACT,
AS FINALLY PASSED, CONTAINED A NUMBER OF REQUIREMENTS WHICH MAKE
STATE AND LOCAL GOVERNMENTS ACCOUNTABLE FOR THEIR USE OF THE
REVENUE SHARING FUNDS. YOU, AS GOVERNMENT OFFICIALS SHOULD BE

FAMILIAR WITH SUCH REQUIREMENTS AS THE NEED TO:

- ESTABLISH TO THE SATISFACTION OF THE SECRETARY OF THE
TREASURY THAT THE RECIPIENT GOVERNMENT WILL USE FISCAL,
ACCOUNTING, AND AUDITING PROCEDURES WHICH CONFORM TO
GUIDELINES THAT ARE ESTABLISHED BY THE SECRETARY.

- PROVIDE FOR THE EXPENDITURE OF REVENUE SHARING FUNDS
IN ACCORDANCE WITH THE SAME LAWS AND PROCEDURES APPLICABLE
TO THE EXPENDITURE OF THE GOVERNMENT'S OWN REVENUES.

- DEPOSIT ALL REVENUE SHARING FUNDS AND INTEREST EARNED IN
A TRUST FUND OR SOME OTHER SEPARATE, IDENTIFIABLE
ACCOUNT.

- REPORT THE PLANNED USES OF THE FUNDS TO THE SECRETARY
OF THE TREASURY AND PUBLISH THESE PLANS IN THE LOCAL
NEWSPAPER.

- REPORT THE USES FOR WHICH THE FUNDS WERE ACTUALLY EXPENDED
TO THE SECRETARY OF THE TREASURY AND PUBLISH THIS INFORMATION
IN THE LOCAL NEWSPAPER.

- PROVIDE THE SECRETARY OF THE TREASURY AND THE COMPTROLLER

GENERAL ACCESS TO SUCH RECORDS AS THEY MAY REASONABLY
REQUIRE TO CARRY OUT THEIR RESPECTIVE AUDIT AND REVIEW
RESPONSIBILITIES.

GAO PLANS FOR REVIEWS AND
AUDITS OF REVENUE SHARING

AS I MENTIONED EARLIER, THE REVENUE SHARING ACT SPECIFICALLY
DIRECTS THE COMPTROLLER GENERAL TO MAKE SUCH REVIEWS OF THE WORK
DONE BY THE SECRETARY OF THE TREASURY, THE STATE GOVERNMENTS, AND
THE UNITS OF LOCAL GOVERNMENT AS MAY BE NECESSARY FOR THE CONGRESS
TO EVALUATE COMPLIANCE AND OPERATIONS.

AT SOME POINT, THE CONGRESS MAY WELL BE INTERESTED IN SOME
FORM OF OVERALL EVALUATION AS TO WHETHER THE FUNDS WERE SPENT
EFFICIENTLY AND CONTRIBUTED TO THE EFFECTIVENESS OF THE STATE OR
LOCAL PROGRAMS IN WHICH THEY WERE USED. A CRUCIAL QUESTION IS
WHETHER REVENUE SHARING IS MORE OR LESS EFFECTIVE THAN THE CATEGORICAL
AID APPROACH. WHILE A DEFINITE ANSWER MAY NEVER BE POSSIBLE, THE
CONGRESS WILL LIKELY BE SEEKING EVALUATIVE DATA TO ASSIST IT IN
DECIDING WHETHER REVENUE SHARING SHOULD BE EXPANDED, MODIFIED, OR
DISCONTINUED, PARTICULARLY AS THE PRESENT 5-YEAR PROGRAM NEARS
EXPIRATION.

DURING THE PAST SEVERAL WEEKS, GAO AUDITORS HAVE VISITED EVERY STATE CAPITOL AND THE DISTRICT OF COLUMBIA TO OBTAIN INFORMATION ON THE REVENUE SHARING ACTIVITIES OF THE STATE GOVERNMENTS AND THE DISTRICT. WE PLAN TO ISSUE A REPORT IN JULY 1973 WHICH SUMMARIZES THE INFORMATION OBTAINED AND WILL PROVIDE THE CONGRESS WITH:

- (1) AN EARLY INDICATION OF THE PLANNED AND ACTUAL USES OF THE CALENDAR YEAR 1972 REVENUE SHARING FUNDS, AND
- (2) INFORMATION ON ANY PROBLEMS THE STATES HAVE ENCOUNTERED OR FORESEE IN IMPLEMENTING REVENUE SHARING.

WE EXPECT TO BE ABLE TO REPORT THE AMOUNT OF CALENDAR YEAR 1972 REVENUE SHARING FUNDS THAT HAVE EITHER ALREADY BEEN EXPENDED OR IS EARMARKED FOR EXPENDITURE IN SUCH AREAS AS EDUCATION, HEALTH, PUBLIC SAFETY, ETC. WE ALSO PLAN TO DISCUSS THE TYPES OF CAPITAL ACQUISITIONS OR IMPROVEMENTS THAT ARE BEING ACCOMPLISHED BY USING REVENUE SHARING FUNDS.

SEVERAL MONTHS AFTER OUR REPORT ON THE REVENUE SHARING ACTIVITIES OF STATE GOVERNMENTS HAS BEEN ISSUED, WE PLAN TO SEND A SIMILAR REPORT TO THE CONGRESS ON THE REVENUE SHARING ACTIVITIES OF 250 REPRESENTATIVE LOCAL GOVERNMENTS.

WORK HAS ALSO BEEN STARTED AT THE OFFICE OF REVENUE SHARING IN THE DEPARTMENT OF THE TREASURY TO SEE HOW WELL IT IS CARRYING OUT ITS RESPONSIBILITY FOR ADMINISTERING THE REVENUE SHARING PROGRAM AND FOR AUDITING THE EXPENDITURES OF REVENUE SHARING FUNDS BY THE STATE AND LOCAL GOVERNMENTS. THESE REVIEWS WILL INCLUDE AN ASSESSMENT OF TREASURY'S DISTRIBUTION OF THE FUNDS AND THE ADEQUACY OF THE DATA USED TO DETERMINE THE AMOUNTS TO BE ALLOCATED TO STATE AND LOCAL GOVERNMENTS.

WE PLAN TO CLOSELY MONITOR AND EVALUATE TREASURY'S COMPLIANCE AUDITS OF THE REVENUE SHARING PROGRAM. THE DIFFICULTIES INHERENT IN COMPLIANCE AUDIT WORK CALL ATTENTION TO THE NEED FOR CAREFUL PLANNING WHICH WILL DIRECT AVAILABLE AUDIT RESOURCES TOWARD MEANINGFUL REVIEW WORK. WE WILL, THEREFORE, BE PARTICULARLY INTERESTED IN THE GUIDANCE THAT TREASURY GIVES TO THE ORGANIZATIONS THAT WILL

CARRY OUT THE COMPLIANCE AUDIT WORK AND THE MANNER IN WHICH
TREASURY SATISFIES ITSELF THAT THESE AUDITS ARE ADEQUATELY AND
COMPETENTLY CONDUCTED.

OUR MANDATE FROM CONGRESS TO EVALUATE THE OPERATION OF THE
REVENUE SHARING PROGRAM WOULD SEEM TO CALL ALSO FOR BROAD STUDIES
WHICH WOULD INDICATE THE IMPACT THAT REVENUE SHARING HAS ON THE
FEDERAL, STATE, AND LOCAL RELATIONSHIPS EXISTING PRIOR TO THE
INCEPTION OF THE PROGRAM. THESE STUDIES COULD INCLUDE SUCH
INQUIRIES AS:

- THE IMPACT THAT THE PROGRAM HAS ON CURRENT EFFORTS
TO REFORM LOCAL GOVERNMENT THROUGH CONSOLIDATION OF
CONFLICTING JURISDICTIONS AND COMPETING TAX UNITS.
- THE EXTENT TO WHICH REVENUE SHARING FUNDS ARE USED BY
STATE AND LOCAL GOVERNMENTS TO PROVIDE TAX RELIEF TO
THEIR CITIZENS AS OPPOSED TO INCREASING THE LEVEL OF
GOVERNMENT SERVICES.
- ANALYSES OF THE EFFECTS THAT ANY PERMITTED STATE CHANGES
TO THE LOCAL DISTRIBUTION FORMULA MIGHT HAVE ON THE

ALLOCATION OF THE FUNDS WITHIN THE STATE AREAS.

--THE IMPACT OF REVENUE SHARING FUNDS ON DEPENDENT VERSUS INDEPENDENT SCHOOL SYSTEMS. IT IS UNLIKELY THAT INDEPENDENT SCHOOL SYSTEMS WILL BE ASSISTED BY THEIR NEIGHBORING UNITS OF LOCAL GOVERNMENT SINCE THEY ARE SEPARATE LEGAL ENTITIES AND WILL NOT RECEIVE DIRECT ASSISTANCE UNDER THE ACT. UNITS OF LOCAL GOVERNMENT, HOWEVER, WHICH MAINTAIN A SCHOOL SYSTEM UNDER THEIR JURISDICTION (A DEPENDENT SYSTEM) WILL BE IN A POSITION TO GIVE ADDITIONAL INDIRECT FINANCIAL ASSISTANCE TO THEIR SCHOOL SYSTEMS.

HISTORICALLY AUDITS AND EVALUATIONS OF THE MANAGEMENT, OPERATION, AND RESULTS OF PROGRAMS INVOLVING FEDERAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS HAVE BEEN DIFFICULT. METHODS FOR ACCOMPLISHING SUCH AUDITS HAVE BEEN ELUSIVE. THE LACK OF A CONSENSUS WITH REGARD TO NATIONAL GOALS, THE INABILITY TO REACH AGREEMENT ON METHODS FOR MEASURING SOCIAL OR PUBLIC BENEFITS, AND THE ABSENCE OF RELIABLE, APPROPRIATE, AND REPRESENTATIVE DATA HAVE CONTRIBUTED TO THE CONTINUANCE OF THESE DIFFICULTIES.

THE GENERAL ACCOUNTING OFFICE IS HEAVILY INVOLVED IN ATTEMPT-
ING TO RESOLVE SOME OF THE DIFFICULTIES AND WE FEEL WE ARE MAKING
SIGNIFICANT PROGRESS.

I HAVE ATTEMPTED TO OUTLINE GAO'S ROLE IN REVENUE SHAR-
ING, BUT I SUSPECT YOU STILL ARE WONDERING ABOUT THE ACTUAL
IMPACT CONGRESS'S WATCHDOG MAY HAVE ON YOUR JURISDICTIONS.

PERHAPS A GOOD WAY FOR ME TO ILLUSTRATE AND EXPLAIN GAO'S
ROLE IN MONITORING AND AUDITING REVENUE SHARING AT THE LOCAL AND
STATE LEVEL WOULD BE FOR ME TO GIVE YOU SOME ANSWERS TO THE
QUESTIONS WHICH HAVE BEEN MOST FREQUENTLY DIRECTED TO US.

1. Q--WHAT ABOUT THE ACCOUNTING BURDEN THE REGULATIONS PLACE ON THE VERY SMALL RECIPIENT GOVERNMENTS?

A--I THINK WE HAVE TO PUT THIS QUESTION IN PERSPECTIVE. A VERY SMALL GOVERNMENT WILL UNDOUBTEDLY RECEIVE A VERY SMALL AMOUNT OF REVENUE SHARING FUNDS. IT COULD BE AS LITTLE AS \$200. A SIMPLE SOLUTION FOR THE SMALL GOVERNMENT WOULD BE TO OPEN A SEPARATE BANK ACCOUNT AND RECORD (PERHAPS EVEN ON CHECK STUBS) THE USES TO WHICH THE FUNDS ARE PUT.

2. Q--WILL GAO, IN ITS WORK AT STATE - LOCAL GOVERNMENT, PERFORM AN ECONOMY, EFFICIENCY, AND EFFECTIVENESS TYPE OF AUDIT?

A--THE CONGRESS MAY WELL BE INTERESTED IN KNOWING WHETHER THE FUNDS WERE SPENT EFFICIENTLY AND CONTRIBUTED TO THE EFFECTIVENESS OF STATE AND LOCAL PROGRAMS. THEREFORE, I WOULD SAY IT IS QUITE LIKELY THAT WE WILL BE INTERESTED IN ECONOMY, EFFICIENCY, AND EFFECTIVENESS MATTERS AND THAT SOME OF OUR FUTURE WORK WILL GO INTO THESE AREAS.

3. Q--IS IT EXPECTED THAT A GOVERNMENT SHOULD EARN INTEREST ON ITS REVENUE SHARING FUNDS?

A--THE REGULATIONS DO NOT SPECIFY THAT INTEREST MUST BE EARNED ON UNEXPENDED REVENUE SHARING FUNDS; HOWEVER, GOOD MANAGEMENT WOULD SEEM TO DICTATE THAT THE FUNDS SHOULD BE INVESTED. YOU SHOULD BE ALERT TO THE IMPROVEMENT OF GOVERNMENTAL OPERATIONS BY REDUCING THE LEVEL OF UNINVESTED BALANCES.

4. Q--WILL THE REPORT YOU DISCUSSED ON THE REVENUE SHARING ACTIVITIES OF STATE GOVERNMENTS DISCLOSE ANY CASES OF NONCOMPLIANCE THAT YOUR AUDITORS NOTE DURING THEIR REVIEW?

A--WE EXPECT THAT THIS INITIAL REPORT WILL BE PRIMARILY INFORMATIONAL AND AT THIS STAGE WE DO NOT PLAN TO REACH ANY CONCLUSIONS OR MAKE ANY RECOMMENDATIONS. HOWEVER, IF WE SHOULD FIND CASES OF NONCOMPLIANCE WE WILL MOST CERTAINLY REPORT THEM.

5. Q--IN THE EVENT A RECIPIENT GOVERNMENT TRANSFERS ITS REVENUE SHARING FUNDS TO ANOTHER UNIT OF GOVERNMENT WILL THE AUDITOR HAVE TO AUDIT THE SECONDARY RECIPIENT?

A--THE REGULATIONS STATE THAT THE SECONDARY RECIPIENT MUST COMPLY WITH THE RESTRICTIONS APPLICABLE TO PRIMARY

BEST DOCUMENT AVAILABLE

RECIPIENTS. THE PENALTY FOR NONCOMPLIANCE BY A SECOND-ARY RECIPIENT IS APPLIED TO THE PRIMARY RECIPIENT. IF I WERE A PRIMARY RECIPIENT, I WOULD MAKE SURE THE SECONDARY RECIPIENT COMPLIED WITH THE RESTRICTIONS TO AVOID THE POSSIBILITY OF BEING PENALIZED. AN AUDITOR MIGHT WELL BE ASKED TO AUDIT THE FUNDS OF A SECONDARY RECIPIENT WHEN THE SOURCE OF THOSE FUNDS IS REVENUE SHARING.

6. Q--WHAT IS THE IMPORTANCE OF AUDITING THE ACCURACY OF THE FISCAL DATA REPORTED BY THE GOVERNMENT TO THE BUREAU OF THE CENSUS?

A--THIS INFORMATION IS USED BY TREASURY TO DETERMINE THE AMOUNT OF REVENUE SHARING FUNDS TO WHICH A GOVERNMENT IS ENTITLED. IF THE REPORTED FISCAL DATA IS WRONG, THE GOVERNMENT PROBABLY WOULD HAVE RECEIVED THE WRONG AMOUNT OF FUNDS.

7. Q--CAN REVENUE SHARING FUNDS BE USED TO PAY FOR AN AUDIT?

A--YES, AUDITING WOULD SEEM TO BE INCLUDED IN THE PRIORITY CATEGORY ENTITLED "FINANCIAL ADMINISTRATION".

8. Q--CERTAIN SMALL GOVERNMENTS HAVE NEVER BEEN AUDITED BY EITHER STATE OR INDEPENDENT AUDIT ORGANIZATIONS. DOES THE ACT ANTICIPATE THAT THE REVENUE SHARING FUNDS OF THESE GOVERNMENTS MUST NOW BE AUDITED BY EITHER STATE OR INDEPENDENT AUDITORS?

A--NEITHER THE ACT NOR THE LEGISLATIVE HISTORY COVER THIS SITUATION. THEREFORE, I BELIEVE TREASURY WILL HAVE TO FIND SOME WAY OF PROVIDING AUDIT COVERAGE OF THESE SMALL, PREVIOUSLY UNAUDITED GOVERNMENTS.

9. Q--THE REGULATIONS STATE THAT AUDIT REPORTS WHICH DISCLOSE OR OTHERWISE INDICATE A POSSIBLE FAILURE TO COMPLY SUBSTANTIALLY WITH ANY REQUIREMENTS OF THE ACT OR REGULATIONS SHOULD BE SUBMITTED TO TREASURY BY THE GOVERNOR OR CHIEF EXECUTIVE OFFICER. WHAT IS CONSIDERED "A FAILURE TO COMPLY SUBSTANTIALLY"?

A--THIS TERMINOLOGY WAS INTENTIONALLY NOT DEFINED BECAUSE IT WAS FELT THAT EACH CASE MUST BE CONSIDERED SEPARATELY IN VIEW OF THE ENORMOUS DIFFERENCES IN SIZE AND RESPONSIBILITIES

OF THE RECIPIENT GOVERNMENTS. I GUESS THE BEST ANSWER IS TO REFER ALL POSSIBLE INFRACTIONS TO TREASURY, AND LET IT MAKE A DECISION REGARDING SUBSTANTIALITY CONSIDERING ALL THE CIRCUMSTANCES.

10. Q--WILL THERE BE SOME TYPE OF AUDIT GUIDELINES PUBLISHED BY GAO OR TREASURY FOR USE BY AUDITORS ENGAGED IN REVENUE SHARING AUDITS?

A--GAO WILL NOT. THIS IS TREASURY'S RESPONSIBILITY. WE HAVE AND WILL CONTINUE TO ENCOURAGE TREASURY TO ISSUE AUDIT GUIDELINES BUT THEIR PLANS IN THIS AREA ARE STILL IN THE FORMATIVE STAGES AS THEY HAVE ONLY RECENTLY HIRED A MAN TO HEAD UP THEIR EVALUATION EFFORTS. OF COURSE, THE FINAL REGULATIONS CONTAIN GENERAL GUIDANCE REGARDING THE SCOPE OF AUDITS.

11. Q--THE PLANNED AND ACTUAL USE REPORTS REQUIRED BY TREASURY CONTAIN FUNCTIONAL CATEGORIES, I.E., PUBLIC SAFETY, HEALTH, ETC. ARE THERE ANY PLANS TO ISSUE DETAILED GUIDANCE AS TO WHAT SHOULD BE INCLUDED IN THESE CATEGORIES?

A--NOT TO MY KNOWLEDGE, BUT WE HAVE ENCOURAGED TREASURY TO
DEFINE THE CATEGORIES IN ORDER TO ASSURE SOME UNIFORMITY
BETWEEN THE REPORTS.

12. Q--IT HAS BEEN WIDELY ASSUMED THAT SO LONG AS A LOCAL
GOVERNMENT USED ITS FUNDS DIRECTLY IN ONE OR MORE OF THE
PRIORITY EXPENDITURE AREAS THAT IT COULD DO WHATEVER IT
WISHED (EXCEPT MATCHING) WITH ITS OWN REVENUES THAT WERE
"FREED-UP". THE RECENT COURT DECISION IN ATLANTA RAISES
QUESTIONS ABOUT THIS ASSUMPTION. WHAT IMPLICATIONS DO
YOU SEE IN THE ATLANTA DECISION?

A--THIS IS A DIFFICULT QUESTION--PARTICULARLY FOR A NON-
LAWYER--AND IT IS PROBABLY TOO EARLY TO SPECULATE. THE
ATLANTA DECISION SEEMED TO RELY QUITE HEAVILY ON THE FACT
THAT ATLANTA OFFICIALS WERE VERY OPEN IN HOW THEY IN-
TENDED TO CIRCUMVENT THE PRIORITY EXPENDITURE RESTRICTION.
I MIGHT MENTION, HOWEVER, THAT IN GAO'S STUDIES OF REVENUE
SHARING WE WILL BE VERY INTERESTED IN IDENTIFYING THE
INDIRECT USES OF REVENUE SHARING (TAX RELIEF, ETC.) AND

WE WILL ALSO BE INTERESTED IN THE IMPACT OF THE ATLANTA
DECISION ON LOCAL GOVERNMENT DECISIONS ON HOW TO USE
REVENUE SHARING.

13. Q--THE AUDIT WORK ANTICIPATED BY THE REGULATIONS--PARTICULARLY
IF A RECIPIENT ATTEMPTS TO COMPLY WITH THE GAO STANDARDS--
IS GOING TO BE EXPENSIVE. WHO IS GOING TO PAY FOR THE
AUDITS?

A--THE RECIPIENT GOVERNMENT. IT SEEMS TO ME THAT IF THE AUDIT
IS PERFORMED IN CONJUNCTION WITH THE REGULAR AUDIT OF THE
STATE OR LOCALITY THERE SHOULD NOT BE THAT MUCH ADDITIONAL
COST.

14. Q--TO WHAT EXTENT DOES GAO PLAN TO REVIEW THE WORK OF STATE,
LOCAL, OR INDEPENDENT AUDITORS ENGAGED IN REVENUE SHARING
AUDITS?

A--THE TREASURY DEPARTMENT CAN ACCEPT A STATE, LOCAL, OR
INDEPENDENT AUDIT OF REVENUE SHARING PROVIDED IT ASSURES
ITSELF THAT THE AUDIT AND AUDIT PROCEDURES WERE ADEQUATE.
GAO WILL THEREFORE BE VERY MUCH CONCERNED WITH THE SYSTEM

AND PROCEDURE TREASURY USES TO ASSESS THE ADEQUACY OF
AUDIT WORK BEING PERFORMED. THE EXACT NATURE AND SCOPE
OF OUR WORK IN THIS AREA WILL DEPEND ON OUR ASSESSMENT
OF THE JOB BEING DONE BY TREASURY; HOWEVER, IN TESTING
TREASURY'S WORK WE WILL NO DOUBT REVIEW SOME AUDITS AND
RELATED WORKPAPERS ON A SAMPLE BASIS.

15. Q--MUST THERE BE A SEPARATE ACCOUNTING FOR REVENUE SHARING
FUNDS AND TO WHAT LEVEL OF DETAIL?

A--YES. THE ACCOUNTING MUST BE SUFFICIENTLY DETAILED TO
PERMIT (1) THE PREPARATION OF THE EXPENDITURE REPORTS
REQUIRED BY THE ACT AND (2) THE TRACING OF FUNDS TO A
LEVEL OF EXPENDITURE ADEQUATE TO ESTABLISH THAT THE FUNDS
HAVE NOT BEEN USED IN VIOLATION OF THE RESTRICTIONS OF
THE ACT AND REGULATIONS.

16. Q--WILL A SUGGESTED SYSTEM OF ACCOUNTING FOR REVENUE SHARING
FUNDS BE PROVIDED FOR USE BY RECIPIENTS?

A--THE CONGRESS EXPECTED THAT INSOFAR AS POSSIBLE THE ACCOUNT-
ING REQUIREMENTS FOR REVENUE SHARING FUNDS SHOULD BE BROAD
ENOUGH TO ALLOW RECIPIENT GOVERNMENTS TO FOLLOW THEIR

NORMAL ACCOUNTING PROCEDURES. THEREFORE, THE ACCOUNTING REQUIREMENTS CONTAINED IN THE REGULATIONS WERE MADE AS BROAD AS POSSIBLE. I PERSONALLY THINK IT WOULD BE A GOOD IDEA FOR THE TREASURY DEPARTMENT TO HAVE A SUGGESTED SYSTEM OF ACCOUNTING TO PROVIDE GUIDANCE TO THOSE RECIPIENT GOVERNMENTS THAT REQUEST HELP. HOWEVER, IT WOULD CLEARLY VIOLATE CONGRESSIONAL INTENT FOR TREASURY TO REQUIRE A SPECIFIC TYPE OF ACCOUNTING SYSTEM.

17. Q--THE SCOPE OF THE AUDIT EFFORT CONTEMPLATED BY THE REGULATIONS EXCEEDS THAT NORMALLY PERFORMED BY MANY PUBLIC ACCOUNTANTS. WHAT ARE YOUR VIEWS ON THE LIABILITY IMPLICATIONS THIS RAISES FOR THE INDEPENDENT PUBLIC AUDITOR?

A--FOR THOSE PUBLIC ACCOUNTANTS ALREADY ENGAGED IN COMPLIANCE TYPE AUDITS AT THE STATE - LOCAL GOVERNMENT LEVEL OR DURING THEIR AUDITS OF CERTAIN FEDERAL GRANT PROGRAMS, THE AUDIT REQUIREMENTS OF THE REVENUE SHARING ACT SHOULD NOT BE ANYTHING NEW. FOR OTHERS WHO HAVE NOT ENGAGED IN THIS

TYPE OF AUDIT WORK THIS WILL REPRESENT A NEW CHALLENGE, A BROADENING OF AUDIT COVERAGE, INCLUDING AN INCREASED RESPONSIBILITY AND LIABILITY. IN THE EVENT, HOWEVER, THAT AN AUDITOR'S REVIEW DOES NOT CONSIDER ALL COMPLIANCE REQUIREMENTS, THEN THE AUDIT REPORT IS TO REFLECT THOSE AREAS WHERE A COMPLIANCE REVIEW WAS NOT PERFORMED. THEREFORE, IF AN AUDITOR FEELS HE IS UNABLE TO EXPRESS AN OPINION ON A PARTICULAR COMPLIANCE REQUIREMENT, HE CAN PROTECT HIMSELF BY PLACING A DISCLAIMER IN THE AUDIT REPORT.

18. Q--HOW SERIOUSLY DOES GAO VIEW THE LANGUAGE IN THE REGULATIONS WHICH ENCOURAGES RECIPIENT GOVERNMENTS TO HAVE AUDITS PERFORMED IN ACCORDANCE WITH THE GAO STANDARDS? WILL GAO BE CRITICAL OF RECIPIENTS THAT DO NOT USE THE STANDARDS?

A--GAO FEELS VERY STRONGLY THAT USE OF THE STANDARDS WILL UPGRADE AUDITING AT ALL LEVELS OF GOVERNMENT (STATE, LOCAL AND FEDERAL) AND PROMOTE THE EFFICIENT, ECONOMIC, AND EFFECTIVE USE OF PUBLIC RESOURCES. THEREFORE, GAO HAS AND WILL CONTINUE TO ENCOURAGE THEIR USE. WITH RESPECT

TO REVENUE SHARING, IT IS CLEAR THAT USE OR NON-USE OF THE STANDARDS IS UP TO RECIPIENT GOVERNMENTS, AND I THEREFORE DO NOT EXPECT THAT GAO WILL BE CRITICAL OF A RECIPIENT WHO ELECTS NOT TO FOLLOW THE STANDARDS. AT THE SAME TIME, HOWEVER, WE WOULD HOPE THAT RECIPIENTS WOULD GIVE SERIOUS CONSIDERATION TO USE OF THE STANDARDS.

19. Q--HOW OFTEN WILL GOVERNMENTS BE AUDITED BY EITHER TREASURY OR GAO AUDITORS?

A--I CAN'T REALLY ANSWER THAT QUESTION DIRECTLY, BUT I CAN GIVE YOU SOME INDICATIONS OF FREQUENCY. REMEMBER, THERE ARE ABOUT 38,000 GOVERNMENTS THAT WILL RECEIVE FUNDS EVERY YEAR, AND THERE JUST AREN'T VERY MANY AUDITORS. IF A GOVERNMENT HAS A HISTORY OF FAILING TO COMPLY WITH THE RESTRICTIONS OR IF A CITIZEN OR CONGRESSMAN RAISES SOME QUESTIONS A GOVERNMENT WOULD BE AUDITED MORE FREQUENTLY THAN IF NO QUESTIONS ARE RAISED.