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GAO

United States General Accounting Office
Washington, DC 20548

Office of
General Counsel

In Reply
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P.O. Box 450
Brownsville, Texas 78520

Discrimination Complaint Dismissed by Office of Revenue Sharing

Do not make available to public reading

Dear Mr. Cavazos:

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This responds to your request that we review the ~~(dismissal)~~ by the Office of Revenue Sharing of a discrimination complaint which you filed on behalf of your clients pursuant to section 122 of the State and Local Fiscal Assistance Act of 1972 (Act), 31 U.S.C. § 1242.

The Comptroller General is not authorized by the Act to review actions taken by the Office of Revenue Sharing on discrimination complaints. Such matters are solely for the consideration of that Office, the Department of Justice and the United States district courts. 31 U.S.C. § 1242. However, in view of the allegations on page 9 of the complaint that the "Actual Use Reports" submitted by the Kleberg County Commissioners' Court to the Office of Revenue Sharing contained inaccurate entries, we decided to seek an explanation from the Office of Revenue Sharing which we are happy to share with you.

The Act provides State and local governments with a specified portion of Federal income tax collections to be used by them in accordance with local needs and priorities, subject to few conditions or "strings" by the Federal Government. S. Rep. No. 92-1050, 92d Cong., 2d Sess. 1 (1972).

In a report entitled, "Revenue Sharing: An Opportunity for Improved Public Awareness of State and Local Government Operations" (GGD-76-2, September 9, 1975), copy of which is enclosed, we noted that--

"* * * many services could be financed legally from revenue sharing, Federal categorical aid, State aid, or a local government's own revenues. Because of the interchangeable nature of money, we concluded that, in many cases, the effects of revenue sharing on a recipient government's budget could not be determined readily, and that the planned and actual use reports could be misleading.



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"For example, a government might designate its revenue sharing funds to finance environmental protection activities and would then report that the funds had been so used. The actual impact of revenue sharing on the government, however, might have been to reduce the amount of local funds required for environmental protection and thereby permit the 'freed' local funds to be used to reduce tax rates, to increase expenditures in other programs, to increase surplus, to postpone borrowing, and so forth. A document reporting the funds had been used for environmental protection purposes would fail to capture the actual consequences of revenue sharing. If report users regarded the information as indicative of revenue sharing's impact on the government, such a report could mislead them.

"In testimony on June 12, 1974, before the Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, the Comptroller General stated that we were studying alternatives to the existing revenue sharing reporting system in an effort to suggest improvements to Congress."
(Page 2 of report.)

With regard to the allegations in the complaint about the inaccurate reports, we were informally advised that such discrepancies are generally tolerated by the Office of Revenue Sharing because of the interchangeable nature of the available funding. State and local governments are permitted to correct any discrepancy between planned use and actual use reports by making accounting adjustments. Thus, through accounting adjustments, recipient governments may amend such reports to show local or State revenues being used for "recreation" and revenue sharing funds being used for purposes, such as "social services for aged or poor" and "public safety." Since the funds are "interchangeable," we see no legal objection to this practice.

I regret we could not be of more assistance.

Sincerely yours,

Rollee H. Efros
Mrs. Rollee Efros
Assistant General Counsel

Enclosure