

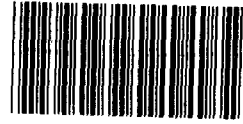


United States  
General Accounting Office  
Washington, D.C. 20548

Human Resources Division

B-250061

August 28, 1992



147466

The Honorable John Conyers, Jr.  
Chairman, Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

This letter responds to the Committee's February 11, 1992, request to identify previous GAO or Treasury reported examples of alleged waste, fraud, or abuse in the General Revenue Sharing (GRS) program. The Committee requested that, for each example, we describe, among other matters, the (1) nature of the incident, (2) amount of funds the local government received under the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512), as amended, in the year of the allegation, and (3) results of any investigation. To provide a perspective for assessing each allegation, we also summarize GRS goals and the program's design and accountability provisions. You indicated that the requested information could help the Committee in its deliberations on proposed general fiscal assistance legislation--Local Partnership Act of 1992 (H.R. 5798).

Our review of past GAO reports identified three allegations of improper GRS expenditures spanning the period from 1972 to 1986. None of these allegations resulted in a finding of fraud or other impropriety. During the 14-year history of GRS, Treasury officials and auditors did not publish a readily accessible description of allegations the Department received, thus prohibiting a retrospective review of claims that may have alleged wasteful or fraudulent expenditure of federal funds.

GRS funds provided an integral resource subject to the same internal controls that guided state and local allocation and expenditure decisions, making federal funds no more or less susceptible to waste, fraud, or abuse than state and local funds. For each of the allegations we reviewed, we found that state and local governments had exercised discretionary authority and spent GRS funds to support their priorities in accordance with existing laws and regulations.

GAO/HRD-92-143R

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## BACKGROUND

The State and Local Fiscal Assistance Act of 1972 established GRS to provide general purpose fiscal assistance to state and local governments. The Congress repealed the act in 1986. GRS had significantly fewer restrictions on how state and local governments could expend their entitlement than did most other forms of federal assistance. As a result, governments exercised broad discretionary authority to expend GRS funds according to their unique needs.

We obtained and analyzed copies of GAO and Treasury Department reports to assess allegations of waste, fraud, or abuse.<sup>1</sup> Our review also analyzed other information and studies on the history and implementation of the program, including GRS payments to recipient governments. In addition, we interviewed Treasury officials on the Department's response to reported allegations and examined available records to document the Department's oversight role.

We conducted our review from April to July 1992 in accordance with generally accepted government auditing standards.

## GRS REDEFINED FEDERAL, STATE, AND LOCAL ROLES

GRS represented a major innovation in the federal government's approach to providing fiscal assistance for state and local governments. Under this approach, GRS sought to "restore to the states their proper rights and roles in the federal system with a new emphasis on and help for local responsiveness..."<sup>2</sup> The rapid growth of federal grants during the late 1960s and 1970s contributed to overlapping programs at the state and local levels, limited flexibility to address local priorities, and increased administrative costs.<sup>3</sup> These factors, along with perceived notions of growing federal control, led the Nixon administration to propose that the federal government annually return part of

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<sup>1</sup>Allegations claiming waste, fraud, and abuse include instances of financial noncompliance involving inefficient, uneconomical, or ineffective expenditure of federal funds. These allegations are distinguishable from instances of program noncompliance, such as alleged discriminatory practices, not included in this review.

<sup>2</sup>John P. Nichols and William Willner, Revenue Sharing (Pro Plan International Ltd., Inc., Washington, D.C., 1973), p. 40.

<sup>3</sup>Revenue Sharing, p. 40.

its revenues to support program priorities unique to each locality.

### GRS PROGRAM DESIGN AND ACCOUNTABILITY PROVISIONS

GRS devolved authority and accountability to state and local governments. Specifically, the program imposed limited expenditure constraints; deferred allocation and spending decisions for recipient governments to the state and local levels; allowed commingling of GRS entitlements, state, and local funds; and relied on existing oversight mechanisms.

The State and Local Fiscal Assistance Act of 1972 included provisions for audits, investigations, and reviews to ensure programmatic and fiscal accountability. Through established oversight procedures, program officials and auditors attempted to identify and resolve alleged violations concerning improper expenditure of GRS funds or other program noncompliance. The act required governments that received over \$25,000 to have an independent audit at least every 3 years. In addition, the law mandated the Comptroller General to review activities of the Secretary of Treasury and state and local governments "necessary for Congress to evaluate compliance and operations..."<sup>4</sup>

Although GRS deferred to state and local authority, decentralized decision-making did not relieve Treasury of its oversight role. Specifically, the act required the Secretary to conduct investigations of possible violations as reported through the audit process. Within Treasury, the Office of Revenue Sharing (ORS) had responsibility for ensuring programmatic and fiscal accountability among state and local recipients of GRS funds. The Department generally sought assurance that fund recipients complied with federal law by exercising due diligence in its enforcement of audit requirements. Rather than increasing expenditure constraints and running the risk of creating new federal bureaucracies to ensure compliance, Treasury placed higher priority on encouraging improved audit capabilities among recipient governments as the most appropriate oversight mechanism for GRS.

### REPORTED ALLEGATIONS OF IMPROPER GRS EXPENDITURES

Our review of GAO reports identified three allegations claiming improper expenditure of GRS funds. Allegations generally originated from dissatisfied citizens who disagreed with local allocation and expenditure priorities. The following information describes the allegations GAO reported,

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<sup>4</sup>31 U.S.C. 6723(f)(1)(A) (1982).

including funds received by the recipient government and the results of each investigation.

-- Case I--Sanitary landfill acquisition

In November 1973, we reported on the purchase of a sanitary landfill site with GRS funds (GAO/B-178349, Nov. 5, 1973). A local citizen alleged that the county government paid too much for the site and chose an inappropriate location for its landfill needs. The county considered four sites before choosing one that was economical and technically acceptable, in the judgment of the county commission and public health officials. ORS records show that the county government received about \$115,000 in GRS funds at the time of the allegation. After receiving these funds, the county exercised its option to purchase the site for \$20,500.

Our review found that state and county actions appeared to comply with existing laws and policies. The site acquisition was part of the state's solid waste program. The county, in accordance with GRS legislation, also publicized its intention to use GRS funds for capital expenditures in its planned use report and in a local newspaper. Although state law also required counties to hold public hearings before approving their budget, county officials advised us that they did not need a separate public hearing for the site acquisition because the budget had been approved about 4 months before the county received its GRS entitlement.

-- Case II--Police intelligence operations

In May 1975, we issued a report in response to a congressional inquiry on the use of GRS funds to pay police salaries for a major metropolitan police force (GAO/B-171019, May 29, 1975). Specifically, the request asked about the extent to which the police department applied the funds to domestic intelligence operations. We reported that the city government received about \$183 million in GRS funds from December 1972 through October 1974, about \$135 million of which it used for police salaries. Of the \$135 million, the city designated about \$539,000 to pay salaries for officers in the Intelligence Division.

GRS funds could be applied by local governments toward operating and maintenance expenses for public safety, including police functions. We concluded, therefore, that the city expended GRS funds for police intelligence operations in a manner consistent with the intent of federal laws governing the disbursement of these

resources. Federal officials involved with GRS concurred with our conclusion.

-- Case III--Building and land purchase

We also reviewed allegations made by a private citizen in 1979 claiming that the town council proposed to purchase and remodel a low-priced "restaurant" originally operated for senior citizens (GAO/B-130515G.94, Mar. 7, 1979). The allegation questioned whether GRS funds could be used to purchase the building without an appraisal. ORS records show that the town received an entitlement of about \$71,000 at the time of the allegation, and the town council proposed to expend \$45,000 to purchase the building and surrounding land.

We concluded that GRS funds could be used to purchase the building without an appraisal, as long as the sale was in compliance with state and local laws. ORS agreed with our conclusion, stating that a recipient government "shall expend its revenue sharing funds only in accordance with the laws and procedures applicable to the expenditure of its own source revenues. Accordingly, if [the recipient government] allocated its revenue sharing entitlement funds for the purchase of a restaurant...state and local laws with respect to real estate transactions would apply."

Available Treasury reports on GRS contain no information on substantiated cases of waste, fraud, or abuse involving the improper expenditure of program funds. The Department also disbanded ORS in June 1987. Accordingly, we could not assess the frequency and nature of any additional allegations that may have been reported to Treasury.

Treasury officials familiar with GRS informed us that the Department rarely received allegations of waste, fraud, or abuse. When it received an allegation from a dissatisfied citizen who alleged that an improper expenditure of federal funds had occurred, Treasury explained that GRS funds could be spent for any purpose authorized under state and local laws.

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We discussed the contents of this letter with Treasury officials, who agreed with our overall message, and incorporated their comments where appropriate. If you have

any questions regarding our review, please call me,  
Assistant Director, George F. Poindexter or Senior Evaluator,  
Mark E. Ward on (202) 512-7225.

Sincerely yours,



Gregory J. McDonald  
Director, Human Services Policy  
and Management Issues

**DATA BASE MODIFICATION REQUEST**

Data Base:

- Document             Inventory  
 Restricted             Records Mgmt.

Submitted by:

*Peter*

Date:

*9 September 1975*

ACCESSION NUMBER(S):

*67000, 67001, 67002, 67003, 67004*

TEMPORARY ACCESSION NUMBER(S):

*11/2  
11*

DOCUMENT DATE(S):

*10/1/75  
10/2/75  
10/3/75*

FIELD(S) TO BE MODIFIED:

*Description field*

MODIFICATION(S):

*Re: RR 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000*