



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT  
DIVISION

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RELEASED

APRIL 16, 1979

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The Honorable Paul Findley  
House of Representatives

Dear Mr. Findley:

In your letter of October 31, 1978, you advised us of several problems you had in dealing with the Office of Revenue Sharing (ORS), Department of the Treasury. Most of the problems were caused by using incorrect Bureau of the Census per capita income figures used in the formula to compute revenue sharing payments to Pitman Township, Illinois. You asked us to audit Pitman's revenue sharing account to determine the exact amount of restitution due the township because of acknowledged errors in the information provided to ORS by the Bureau of the Census. You also asked us to look into the problems some local governments in your district had in getting their names removed from ORS' delinquent list of governments that had not filed the required revenue sharing forms.

Per capita income--Pitman Township

The base data used for computing the per capita income in the formula for allocation of revenue sharing funds is the 1970 decennial census. In that census, 20 percent of the households were asked about their income for 1969. To determine the per capita income for each entitlement period, the Census Bureau adjusts the 1970 base data by the rate of income change calculated from Federal income tax returns and Bureau of Economic Analysis data.

As you know, the Census Bureau has rechecked the data for Pitman several times, because of statements by you and Pitman Township officials that the per capita

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income figure used in the allocation formula was too high. The per capita income figure used for the first revenue sharing entitlement period beginning January 1, 1972, was \$4,427. In March 1974, the Bureau acknowledged that this figure was in error and that the per capita income for Pitman should have been \$4,069. Subsequent rechecking by the Census Bureau in April 1975 disclosed a further error, which reduced the per capita income base data for Pitman to \$3,481. These two errors resulted in the underpayment of revenue sharing funds to Pitman Township for the first five entitlement periods (through June 30, 1975) requiring ORS to issue a check for \$1,796 on August 9, 1977, to correct the errors.

In February 1978, the Census Bureau discovered a third error in the information provided to ORS on the per capita income for Pitman. Failure to use the correct computer model for determining per capita income from the base data resulted in an overstatement of Pitman's per capita income for the first eight entitlement periods (through September 30, 1977). ORS adjusted its computation of the revenue sharing payments to Pitman for these eight periods and issued an adjustment check for \$6,091 in July 1978.

We reviewed the adjustments made by ORS and are satisfied that ORS has corrected the errors for the affected entitlement periods.

The following table shows the original revenue sharing payments to Pitman and the adjustments made by ORS to correct the Census Bureau errors.

<u>Entitlement period</u>	<u>Original payment</u>	<u>Initial adjustment amount</u>	<u>Latest adjustment amount</u>	<u>Final adjusted payment</u>
1	\$ 1,042	\$ 511	\$ 89	\$ 1,642
2	1,042	511	89	1,642
3	1,158	594	81	1,833
4	3,729	-181	2,856	6,404
5	3,272	361	1,986	5,619
6	3,740	0	400	4,140
7	2,347	0	216	2,563
8	<u>3,501</u>	<u>0</u>	<u>374</u>	<u>3,875</u>
	<u>\$19,831</u>	<u>\$1,796</u>	<u>\$6,091</u>	<u>\$27,718</u>

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The reliability of per capita income estimates for small communities is questionable because (1) the base data for small communities has a greater potential for error because the samples used are not large enough to be representative of the communities and (2) the information used to update the base data is limited.

The Bureau has recognized the problems with using small samples in the 1970 census and plans to increase the number of households to be questioned on their incomes during the 1980 decennial census. The Bureau plans to obtain income information on 50 percent of all households in communities such as Pitman that have populations of less than 5,000.

In a meeting with you on December 19, 1978, you said you believed that the per capita income for Pitman was still too high. You wanted to know if the Census Bureau could compile a more accurate per capita income figure from Federal income tax returns if your office provided ORS with the names and social security numbers of Pitman Township residents. We presented your suggestion to Office of Revenue Sharing and Bureau of the Census officials, who advised us that to research and recompute the per capita income in this manner would be very expensive and practically impossible. The officials also said that information on factors such as resident migration and non-taxable transfer payments would be difficult to obtain, and these inputs would be necessary to determine an accurate per capita income.

#### Delinquent list

ORS requires governments entitled to receive revenue sharing funds to submit certain forms indicating compliance with the requirements of the State and Local Fiscal Assistance Act of 1972, as amended (Revenue Sharing Act). One of these requirements is for governments to file reports after the close of each fiscal year showing how they used their revenue sharing funds. The problems you encountered involved governments in your district being placed on the delinquent list for supposedly failing to file these actual-use reports. Failure to file can jeopardize future entitlement payments to these governments.

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Through Entitlement Period 7, which ended December 31, 1976, ORS collected the actual-use reports and compiled a delinquent list composed of governments which had not filed the required forms for a particular entitlement period. When revenue sharing was renewed, governments were required to report on their actual use of revenue sharing funds as related to their budgets for a particular fiscal year.

At the request of the Office of Management and Budget and members of the Senate Finance Committee, ORS engaged the Census Bureau to act as its agent to collect and maintain actual-use reports, beginning with those for fiscal year 1977. This data collection by the Census Bureau began in November 1977, during Entitlement Period 9 (October 1, 1977, to September 30, 1978). Until June 1978, governments which had not filed their actual-use reports for fiscal year 1977 were contacted by the Census Bureau but not by the ORS. In June 1978 ORS received information from the Census Bureau identifying governments which had not filed their actual-use reports as of June 1, 1978. ORS prepared its delinquent list from the data provided by the Census Bureau.

Beginning in July 1978, ORS contacted you and other congressmen asking for assistance in obtaining the actual-use reports from governments on its delinquent list. Failure to file by September 30, 1978, would have resulted in the withholding and waiver of their fourth-quarter payments for Entitlement Period 9, which were due to be paid on October 6, 1978.

Confusion resulted apparently because some governments were contacted in July, August, and September 1978 about their actual-use reports, which they had submitted after the Bureau of Census cutoff date of June 1, 1978. These reports were submitted to the Census Bureau in Indiana, where they were reviewed in detail and forwarded to the Bureau of the Census, Washington, D.C. The governments on the delinquent list who claimed to have submitted reports were asked by ORS to submit another copy directly to ORS, since any delay in processing reports through the Census Bureau could have resulted in the loss of their fourth-quarter payments in Entitlement Period 9, if the September 30, 1978, filing deadline was not met. Despite the confusion about submitting the use reports, ORS officials informed us that during Entitlement Period 9, all

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local governments in your district received their fourth-quarter revenue sharing payments.

We were advised by ORS that the problems encountered during Entitlement Period 9 concerning the submission of actual-use reports should not recur. ORS said that for Entitlement Period 10, the Bureau of the Census began collecting the actual use reports for fiscal year 1978 in November 1978, and will prepare a computer listing as of July 1, 1979, of all communities that have not filed their reports.

ORS will receive this listing from the Census Bureau on July 15, 1979, and will notify all communities on the delinquent list that their use reports for fiscal year 1978 have not been received. ORS will inform the communities that failure to file their use reports with the Census Bureau will cause a delay in their first-quarter payments for Entitlement Period 11 which begins on October 1, 1979. In addition, all subsequent Entitlement Period 11 payments will be delayed by ORS until these reports are filed. ORS will send warning letters in July and August 1980 to all communities that have not submitted their fiscal year 1978 reports. ORS will advise these governments that their Entitlement Period 11 funds will be waived to the next higher level of government, unless the Census Bureau receives the reports by September 30, 1980. We were told that in practice, ORS would most likely allow the governments until November 1, 1980, to submit their use reports for fiscal year 1978.

ORS officials informed us that Entitlement Period 10 (through September 30, 1979) would serve as a transition period so that any communities delinquent in submitting their actual-use reports for fiscal year 1978 would still receive all their Entitlement Period 10 payments.

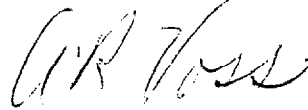
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We considered the views of ORS and Census Bureau officials in preparing this report. We plan no further distribution until 30 days from the date of this report unless you publicly announce its contents earlier. At that

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time we will send copies to interested parties and make  
copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "A R Voss".

Allen R. Voss  
Director