

BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Early Observations On Block Grant Implementation

The Omnibus Budget Reconciliation Act of 1981 consolidated numerous Federal categorical programs into nine block grants and shifted primary administrative responsibility to States. The 13 States GAO visited were making reasonable progress in the early stages of the transition. States' prior experience helped them accommodate the shift in the short time available.

Budget reductions accompanying the block grants prompted concern and adjustments. Ongoing funding from prior year grant awards, the brief time before implementation, and other factors, however, initially limited the number of major departures from most prior programs. More changes are likely to be made as the transition continues to unfold.

Block grant oversight and accountability mechanisms are evolving. State legislatures are moving to become more involved in block grant decisions and States are establishing procedures to obtain public participation and to audit block grant expenditures. Concurrently, Federal agencies have adhered to a policy of minimal involvement.



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To the President of the Senate and the  
Speaker of the House of Representatives

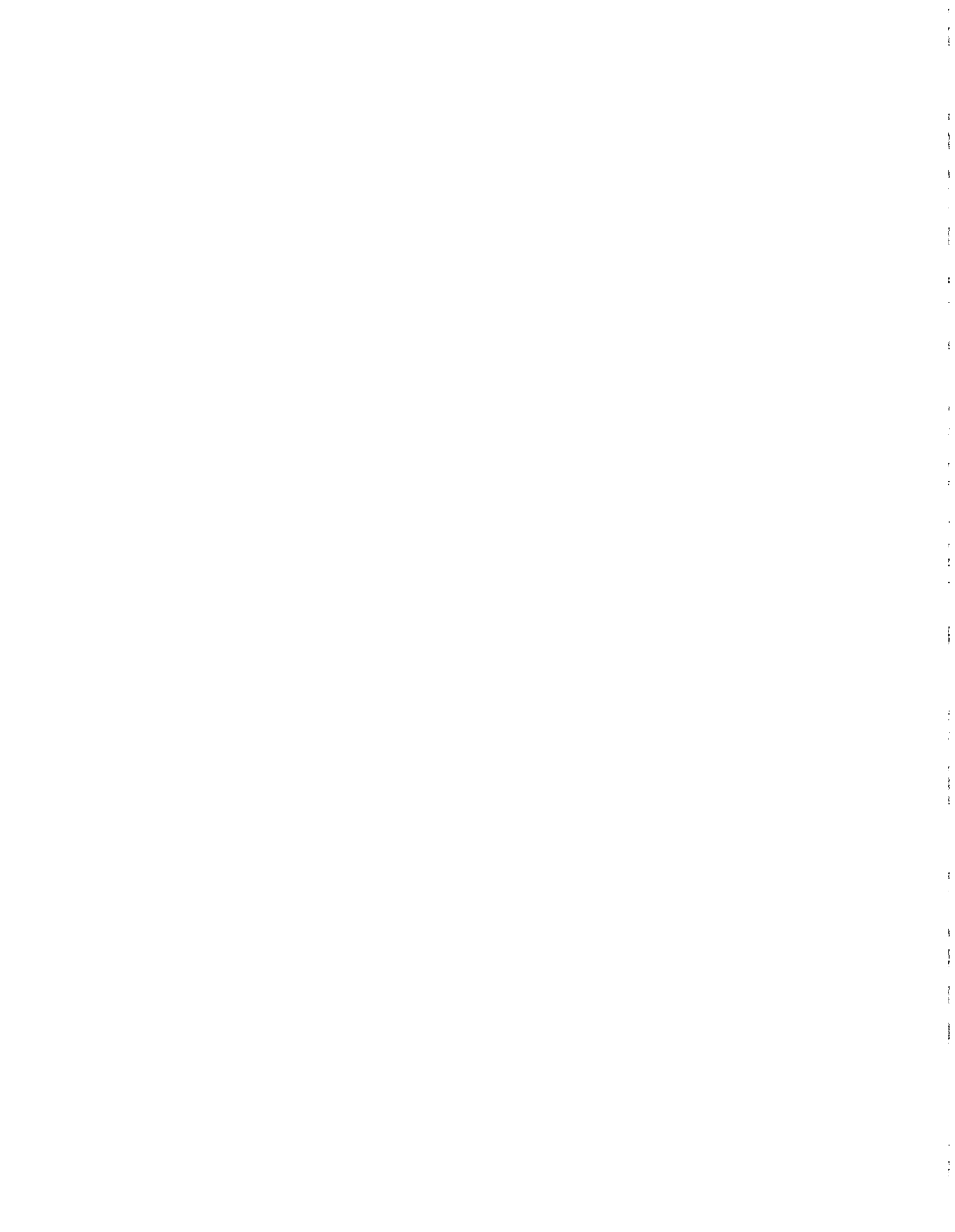
This report discusses 13 States' early experiences in making the transition to the block grants authorized by the Omnibus Budget Reconciliation Act of 1981.

We performed this review to provide the Congress, Federal executive agencies, and others information on what States are doing to accommodate their new responsibilities. The report should be useful in deliberations on future block grant proposals.

Copies of this report will be sent to the appropriate House and Senate committees; the Secretaries of Education, Health and Human Services, and Housing and Urban Development; the Director, Office of Management and Budget; and the Governors and legislatures of the States we visited.

*Charles A. Bowser*

Comptroller General  
of the United States



D I G E S T

The 13 States GAO visited were making reasonable progress in the transition to block grant administration. Involvement with the predecessor programs helped States accommodate the shift even though there was little time before implementation and the uncertainty of block grant appropriations complicated planning. Budget reductions accompanying the block grants also prompted concerns and adjustments. Ongoing outlays from prior categorical awards, certain legislative restrictions and other factors, however, initially limited the number of major changes from most previous programs. States can be expected to institute more programmatic and administrative changes as the transition continues to unfold.

Block grant oversight and accountability mechanisms were evolving at the time of GAO's study. State legislatures were moving to become more involved in block grant decisions, and States were establishing procedures to obtain public participation and to audit block grant expenditures. Concurrently, Federal agencies have been adhering to a policy of minimal involvement in block grant administration. Certain questions, however, have arisen concerning matters such as the amount of information that would be available on State block grant activities and the applicability of Federal laws in addition to the block grant legislation.

PRIOR STATE INVOLVEMENT  
HELPED EASE TRANSITION

The Omnibus Budget Reconciliation Act of 1981 assigned States primary administrative responsibility for nine block grants. Six became effective on October 1, 1981: Social Services; Low-Income Home Energy Assistance; Maternal and Child Health Services; Preventive Health and Health Services; Alcohol, Drug Abuse, and Mental Health Services; and Community Services. The Education, Primary Care, and Small Cities block grants were not operating at the time of GAO's review, and States were using the added time to assess the merits of State administration or to plan for implementation. Almost all of the 13 States were administering the operating block

grants, with the exception of the Community Services program which 5 had deferred.

The transition to most of the operating block grants was eased considerably by States' previous experience. States already received the vast majority of funds under the predecessor programs and had various ties with program recipients. Consequently, the need to make major administrative adjustments immediately was reduced for most block grant programs. Because States' prior involvement in the Community Services program was not as extensive, in general more decisions were required. (See pp. 9 to 13.)

While States' experience helped ease the transition, officials in most States believed that the process could have been enhanced by more timely and reliable data. Recognizing the short time available, in a number of cases State officials were generally satisfied with the information they received and cited certain Federal actions as particularly helpful. In several instances, however, officials stated that the lack of adequate information about funding and other matters complicated planning, particularly in cases where funds previously had gone to non-State entities. (See pp. 15 to 19.)

SEVERAL FACTORS INFLUENCED  
THE NUMBER OF EARLY PRO-  
GRAM CHANGES

During early implementation, a major concern was coping with budget reductions. For the three operating health block grants and the Community Services program, however, several factors fostered stability and limited the number of major changes made immediately. Most notably, ongoing Federal outlays from 1981 awards under the predecessor categorical programs provided additional time and resources for adjusting to the reduced funding levels. Almost all of these programs were project grants, or had a project grant component, funded for at least a 12-month period. Because they became effective at

various times in the Federal fiscal year, many in the last quarter, these projects already were funded well into fiscal year 1982. (See pp. 21 to 23.)

The limited scope of early adjustments under the health and community services block grants also was influenced by statutory requirements for continued funding of certain grantees and services, and the short time frame preceding implementation. Moreover, States rarely had transferred funds from one of these block grants to another block grant as allowed by the legislation. Generally, States retained priorities established under the categorical programs; when reductions were necessary, officials most often reported making them on a proportional basis.

In contrast, more changes were made immediately in two block grants which had fewer legislative restrictions and no ongoing categorical outlays. To cope with funding reductions in the Social Services block grant, 10 of the States altered previously established funding patterns. Also, seven States had transferred Low-Income Home Energy Assistance funds into Social Services. In the Low-Income Home Energy Assistance program States used their new flexibility to fund weatherization--an activity not authorized previously. (See pp. 25 to 27.)

While initially concentrating on budgetary decisions, certain States reported, or contemplated, management changes to take advantage of reduced Federal application and reporting requirements. Officials believed, however, it was too early to make any definitive judgments on administrative costs or efficiencies emanating from block grants. (See pp. 27 to 29.)

STATE BLOCK GRANT  
OVERSIGHT MECHANISMS  
ARE EVOLVING

Although limited by the short time frame preceding implementation, States were moving to establish block grant oversight procedures. For example, in 10 States GAO visited, State legislatures had enacted measures influencing

early block grant implementation and enhancing their role in appropriating funds and reviewing block grant plans. As a result of these actions and the overall trend toward greater State oversight of Federal funds, State legislatures are expected to become increasingly involved in block grant decisions. (See pp. 30 to 32.)

During early implementation, States obtained public comments by holding hearings, circulating block grant plans, and establishing advisory groups. State methods for obtaining future public participation, however, had not been finalized at the time GAO completed its work. Thus, a more complete picture should be available next year. (See pp. 32 to 35.)

One oversight vehicle contemplated by the legislation is State audits of block grant funds. Audit strategies were being developed and the States were considering questions that had arisen concerning such factors as the approach and funding of block grant audits. The Office of Management and Budget has requested States to submit their audit plans so an early dialogue can begin. (See pp. 35 to 37.)

#### OTHER BLOCK GRANT DEVELOPMENTS

Traditional Federal oversight activities, such as detailed application review, have been curtailed and little additional guidance has been issued beyond that contained in the statutes. Federal compliance and enforcement efforts on such matters as nondiscrimination are being developed. (See pp. 39 to 41 and p. 43.)

Although States are required to submit annual reports, Federal agencies have stated they will not specify the form and content of these reports. Concerns that the lack of standard program data could make national assessments difficult have prompted certain States for some block grants to work together to maintain or develop reporting systems. A key issue is whether this voluntary approach will produce sufficient information for national policymaking.

Another question raised during early implementation was whether national crosscutting requirements, such as fair labor standards and political activities constraints, apply to the



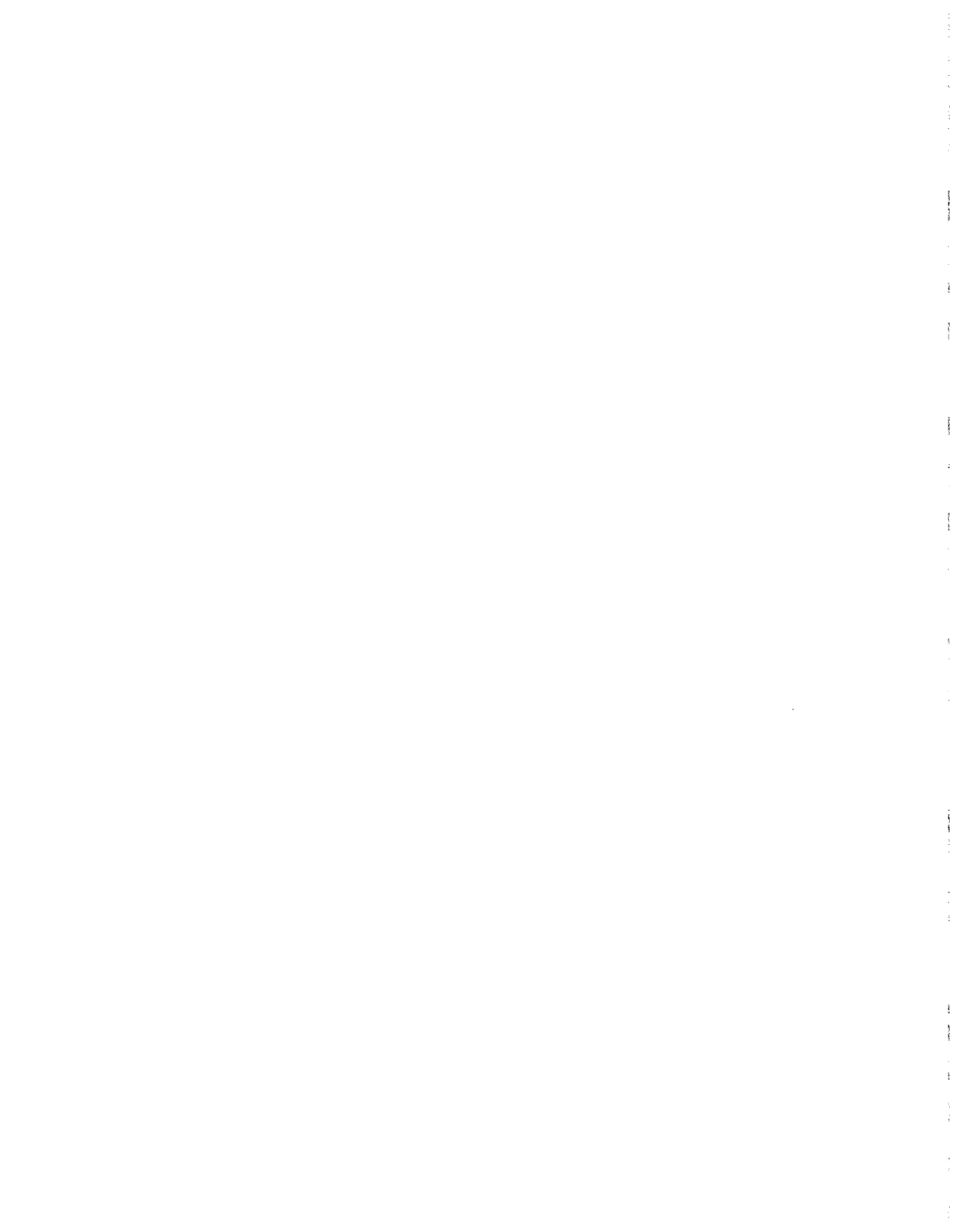
block grants. Crosscutting requirements are statutes or administrative requirements which apply by their terms to all or several Federal assistance programs. Aside from certain civil rights laws, the Reconciliation Act and agency regulations by and large are silent on the subject. The Small Cities block grant regulations are an exception to this pattern.

As opposed to making an explicit determination of the applicability of crosscutting requirements to the block grants, Federal agencies at this time are addressing the issue selectively, but they are continuing to consider alternative ways of approaching the subject. Given the short time available preceding implementation, most States were considering the applicability of these requirements and believed that Federal advice would be desirable. (See pp. 42 to 44.)

GAO believes it would be helpful, in minimizing potential problems, if the Office of Management and Budget in coordination with the responsible Federal agencies assessed whether or not the crosscutting requirements apply to the block grant programs. This would provide a basis for sound advice to the States and for seeking remedial legislation if that were deemed appropriate. In response to this report, the Office of Management and Budget stated that it has begun a process to work with the Federal agencies and others to consider general guidance on the crosscutting requirements.

#### AGENCY COMMENTS

Federal agencies commented that this report was a useful and objective summary of block grant implementation. They also stated that it was accurate and provided new insights on States' experiences. Written comments received from the Office of Management and Budget and the Department of Education along with GAO's response are included in appendixes III and IV. Oral comments were received from the Departments of Health and Human Services (HHS) and Housing and Urban Development (HUD). HHS officials said that the report was a cogent and helpful description of block grant implementation, and they offered some technical comments which were considered in preparing this report. HUD officials said that the report accurately described the Department's block grant program.



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ABBREVIATIONS

APWA	American Public Welfare Association
ASTHO	Association of State and Territorial Health Officials
GAO	General Accounting Office
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget



## CHAPTER 1

### INTRODUCTION

The Omnibus Budget Reconciliation Act of 1981 significantly changed intergovernmental fiscal relations and policymaking by consolidating numerous Federal categorical programs into nine block grants and shifting primary administrative responsibility to States. This report summarizes the early block grant implementation emanating from this basic transfer of responsibility. It focuses on the initial adjustments made by selected States, discusses the Federal executive branch's handling of the transition, and identifies issues for consideration in deliberating future block grant proposals.

#### STATES ASSIGNED RESPONSIBILITIES FOR A WIDE RANGE OF BLOCK GRANT PROGRAMS

The Omnibus Budget Reconciliation Act (Public Law 97-35, August 13, 1981) reduced the Federal role in several domestic assistance areas and expanded States' authority by assigning them principal responsibility for a range of block grant programs. Of the nine block grants enacted, four are for health services, two for social services, one for low income energy assistance, one for education, and one for community development. Under the block grants States are the primary recipient of funds where many of the programs they replaced involved some degree of direct Federal to local funding.

These block grants replaced numerous Federal categorical programs and provided States with discretion to fund activities within broadly defined areas. Their enactment, however, generally was accompanied by reduced funding levels from those available for the predecessor categorical programs. The table on pages 2 and 3 briefly summarizes, by the administering Federal agency, each block grant's authorized purposes, the number of categorical programs it replaced, and available appropriations for those categorical programs in fiscal year 1981 compared to fiscal year 1982 block grant appropriations.

Of the nine block grants, six were newly created and three involved changes to existing ones. By amending the Social Security Act, the Social Services block grant authorized by the Reconciliation Act modified the Title XX program in effect since 1975 by eliminating matching and certain eligibility requirements and adding the Social Services training program. The Preventive Health and Health Services block grant combined the oldest block grant--the 1966 Partnership for Health Act--with several categorical programs. Similarly, the Reconciliation Act amended the 1974 Housing and Community Development Act to permit State administration of Community Development block grant nonentitlement funds.

SYNOPSIS OF BLOCK GRANTS<sup>1</sup> AUTHORIZED PURPOSES, APPROPRIATION LEVELS, AND NUMBER OF CATEGORICAL PROGRAMS MERGED INTO EACH BLOCK GRANT

<u>Federal administering department/block grant</u>	<u>Brief description of authorized purposes</u>	<u>Number of programs replaced by the block grant a/</u>	<u>Appropriation levels c/</u>		
			<u>Fiscal year 1981 b/</u>	<u>Fiscal year 1982</u>	<u>Percent increase (decrease)</u>
			-----millions-----		
<u>Department of Health and Human Services</u>					
(1) Social Services	To furnish services directed at achieving or maintaining economic self-support and self-sufficiency, preventing or remedying child and adult abuse, providing community or home based care to reduce inappropriate institutionalization, securing institutional care when necessary, and providing services to individuals in institutions.	2	\$2991	\$2400	(20)
(2) Low-Income Home Energy Assistance	To assist eligible households to meet the costs of residential dwelling heating or cooling needs.	1	1850	1875	1
(3) Alcohol, Drug Abuse, and Mental Health Services	To plan and administer projects for developing effective prevention, treatment, and rehabilitation programs and activities to deal with alcohol and drug abuse and for grants to community mental health centers for a range of services.	10	540	432	(20)
(4) Community Services	to provide a range of services having a measurable impact on the causes of poverty; activities designed to assist low-income participants, such as gaining employment and obtaining adequate housing; services to counteract starvation and malnutrition among the poor and coordinate services and encourage private sector involvement.	8	525	348	(34)
(5) Maternal and Child Health Services	To assure mothers and children access to quality maternal and child health services, reduce infant mortality and the incidence of preventable diseases and handicapping conditions among children; provide rehabilitation services for certain blind and disabled juveniles; and provide a range of services for crippled children.	10	455	348	(24)
(6) Preventive Health and Health Services	To establish (a) programs for controlling rodents, (b) community and school-based fluoridation programs, (c) a range of activities for	8	93	82	(12)



Appropriation levels c/  
 Fiscal year 1981 b/ 1982  
 Number of programs replaced by the block grant a/ -----millions----- Percent Increase (decrease)

Federal administering department/block grant

Brief description of authorized purposes

detecting and treating hypertension, (d) programs to deter smoking and using alcohol among children and adolescents and other risk reduction and health education activities, (e) comprehensive public health services, (f) demonstration home health agencies, (g) planning for emergency medical services systems, and (h) programs for rape victims and prevention.

To make grants to community health centers which serve medically underserved populations.

Community Care

(25)

Department of Housing and Urban Development

Community and Economic Development - Small Cities Program

To develop viable urban communities by providing decent housing and a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.

10

Department of Education

Elementary and Secondary Education

Elementary and secondary education agencies in (1) developing and implementing a comprehensive program of improving elementary and secondary school instruction in the basic skills of reading, mathematics, and communication, (2) establishing program and projects for educational improvement and support services, and (3) undertaking a range of special projects, such as metric, consumer, and career education.

(12)

c/Based on the Office of Management and Budget's November 12, 1981, listing of Catalog of Federal Domestic Assistance programs replaced entirely or in part by the block grants.

d/Total appropriations for the predecessor categorical programs in fiscal year 1981.

e/Based on data obtained from the Federal administering agencies.

f/Remained a categorical program during fiscal year 1982 because the block grant does not become effective until October 1, 1982.

All nine block grants changed their predecessor programs, but the Federal administering agencies generally retained their stewardship role. The one exception was the Community Services block grant, where the previous cognizant Federal agency, the Community Services Administration, was abolished. Responsibility for this block grant was vested in a newly created Office of Community Services within the Department of Health and Human Services (HHS).

Federal agencies have maintained oversight responsibilities, such as enforcing nondiscrimination provisions, but their administrative involvement has been altered. For example, as opposed to detailed evaluation of applications under the former programs, agencies review block grant applications primarily for completeness and compliance with statutory requirements. Moreover, four of the block grant statutes state that the Secretary may not prescribe how States must comply with assurances they are required to submit to receive funds.

Additionally, all block grant allotments to States are based on a statutory formula, where many of the previous categorical programs allowed Federal agencies great discretion in allocating funds. Although most of the larger categorical programs already were distributed via formula, the majority of the programs consolidated were project grants which permitted Federal latitude in selecting award recipients and establishing program priorities and requirements.

As enacted and currently being implemented, the block grants have shifted the focus of accountability from Federal agencies to the States. Within certain legislative limits, States are responsible for determining programmatic needs, setting priorities, allocating funds, and establishing oversight mechanisms. Moreover, States have been given substantial discretion to establish programmatic and administrative standards. They also have several options available for transferring funds among the block grants or to certain categorical programs.

Although States have been given greater discretion, they are subject to a number of requirements. For example, before receiving funds, States typically must certify that they will comply with certain assurances. These assurances cover such matters as establishing criteria to evaluate performance, identifying needy persons and areas, obtaining public comment in developing their intended use reports or plans, implementing adequate fiscal and accounting controls, and prohibiting discrimination. Additionally, States are required to provide reports on their block grant activities and performance.

Most block grants also contain provisions prohibiting the use of funds for such purposes as purchasing land and certain

equipment or constructing a building. Three block grants contain matching provisions--Maternal and Child Health (3 State dollars for every 4 Federal ones), Primary Care (20 percent in fiscal year 1983 and 33-1/3 percent in fiscal year 1984), and the Small Cities program (10 percent). Moreover, the Preventive Health and Health Services; Education; and Alcohol, Drug Abuse, and Mental Health Services block grants require that Federal funds supplement and not supplant State or local funds. The Education block grant further requires that States maintain their expenditures for the provision of free public education for the preceding fiscal year at 90 percent of the level of such expenditures for the second preceding fiscal year.

Several additional provisions are included to restrict State administrative costs and ensure funding for certain grantees funded under the predecessor programs. Except for Social Services and Maternal and Child Health Services, <sup>1/</sup> all the block grants limit the percentage of Federal funds States can use to administer the program, ranging from zero for Primary Care to 20 percent under the Education block grant which can be used for administrative costs or State-operated programs. Two block grants--Community Services and Education--have pass-through provisions to local recipients. Also, the Preventive Health and Health Services; Primary Care; Community Services; and Alcohol, Drug Abuse, and Mental Health Services block grants require continued funding of certain grantees or specify percentage allocations for particular purposes.

Several block grants also provide for a federally administered fund for the allocation by the Secretary directly for such purposes as special training and research. The percentage of these funds varies. The highest is 15 percent of the total appropriations in fiscal year 1982 for the Maternal and Child Health Services block grant. Additionally, territories are eligible to receive funds under the block grants, and five block grants--Alcohol, Drug Abuse, and Mental Health Services; Community Services; Low-Income Home Energy Assistance; Primary Care; and Preventive Health and Health Services--permit the Secretary to fund duly recognized Indian tribes and tribal organizations directly and reduce a State's allotment accordingly.

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<sup>1/</sup>Although the Maternal and Child Health Services block grant legislation does not contain a limit on administrative costs, the conference report accompanying the Omnibus Budget Reconciliation Act of 1981 states that:

"The conferees intend that States, and if a State chooses to pass funds through those localities, would at least hold their administrative expenses to 7.5 percent of the total outlays, and expect that they economize even further to the maximum extent possible."  
H.R. Rep. No. 97-208, 97th Cong., 1st Sess. 790 (1981).

## OBJECTIVES, SCOPE, AND METHODOLOGY

We examined the transition to the nine new block grants to provide a status report on the early implementation process. Our study concentrated on what States did, or planned to do, to implement the block grants including changes in governmental processes and organization and adjustments made to establish funding priorities and administer programs. We also reviewed how the Federal executive branch implemented the block grant legislation and managed the block grant transition, focusing on the transfer of information from the Federal to State level and guidance and technical assistance provided. We conducted this effort in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities and Functions."

Because the vast majority of initial adjustments required to implement the block grants rested with States, our work concentrated on that level of government. We also performed work at the headquarters and regional offices of those Federal departments responsible for block grant transition and administration. Additionally, to obtain a local perspective, we talked to certain organizations in each State which represent local interests, such as municipal leagues and associations of counties.

As shown on the next page, we visited 13 States across the country. To attain geographic balance, at least one State was selected in every standard Federal region. In total, the States we selected accounted for approximately 45 percent of the 1982 block grant funds and an equivalent portion of the Nation's population.

In each State we reviewed available documentation concerning block grant implementation such as legislation, regulations, budget documents, and other State memoranda and reports. Because of the timing and nature of our review, however, much of our information was obtained by interviewing State officials. We met with officials representing each State's governor's office and central policy staff, executive departments responsible for administering the block grants, and legislative committees and organizations involved with block grant oversight. In total, we talked with about 600 State officials in the 13 States.

At the conclusion of our field work, a summary was prepared for each State we visited. We gave each State's executive and legislative branches the opportunity to comment on the accuracy and completeness of the summary prepared for that State. Their comments were incorporated into these individual summaries, which, in turn, were used to prepare this report.



Our field work was performed from mid-December 1981 through the end of February 1982. As a result, information on the States discussed in this report, unless otherwise noted, represents actions taken or planned as of March 1, 1982. Also, three of the nine block grants were not in operation at the time of our review. The Primary Care block grant does not become effective until October 1, 1982, and Education block grant payments were not scheduled to begin until July 1, 1982. States could not formally apply for the Small Cities program until March 8, 1982. Consequently, our work focused on the six block grants that States began administering on October 1, 1981, but we did obtain observations on the Small Cities, Primary Care, and Education block grant programs.

We initiated our study shortly after most block grants became effective so that we could have information on the transition process available in time to assist the Congress and others in deliberating upon fiscal year 1983 block grant proposals. To accomplish this, our review had to be conducted while the block grant implementation process was just unfolding. Accordingly, our review was designed to gather information and opinions on a wide range of topics and provide a broad-based status report.

Because of the early stage of the implementation process, our review was not intended to assess States' effectiveness in devising and administering programs or the impact of block grant decisions and budget reductions on program recipients. Over the next few years, however, we intend to continue monitoring the transition, report on services provided under the block grants, evaluate the effectiveness of the programs, and review the scope and quality of State and local block grant audit coverage.

While many issues surrounding block grants await future decisions, the following chapters discuss our observations on the early implementation process. They focus on the importance of prior State involvement and information needs in designing transitions, the timing and financial considerations which influenced States' initial programmatic and administrative decisions, the evolution of State block grant oversight processes, and the management postures of the Federal administering agencies.

## CHAPTER 2

### PRIOR STATE INVOLVEMENT AND INFORMATION

#### NEEDS WERE KEY FACTORS IN THE BLOCK

#### GRANT TRANSITION

States' experience with the predecessor programs and their needs for information were crucial elements influencing early block grant implementation. Generally, fewer immediate administrative changes were needed in those block grants where States had greater prior involvement. Also, while funding and administrative information was needed, States' prior experience dictated the amount of Federal guidance required. This chapter discusses relationships among prior State involvement, adjustments needed, and Federal information required in the States we visited.

#### PREVIOUS INVOLVEMENT EASED TRANSITION TO MOST BLOCK GRANTS

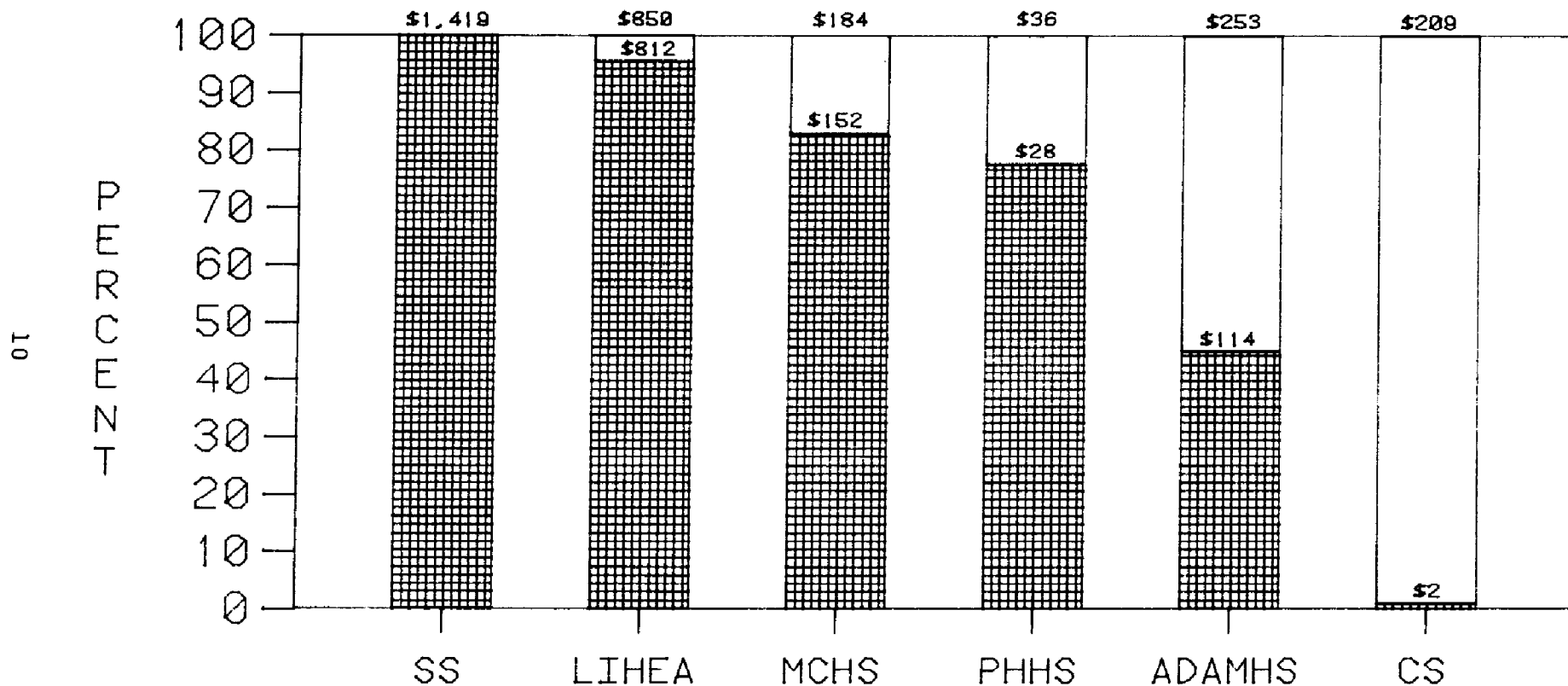
The transition to most block grants operating at the time of our review was eased considerably by States' experience with the predecessor programs. Generally, Federal funds already flowed exclusively, or in large part, through the States. Also, States often had established ties even where program recipients were funded directly by Federal agencies.

Because States had extensive program knowledge and administrative responsibilities, few initial adjustments were needed to accommodate the shift to most block grants. For the Community Services program, States' prior involvement was not as extensive and generally more administrative decisions were required. Accordingly, when States had the option to accept or defer implementing block grants, they more frequently elected to administer those for which they had extensive prior experience.

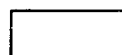

#### Most predecessor funds already flowed through the States

For most of the six block grants operating as of March 1, 1982, States we visited were the exclusive or primary grantees under the previous programs. In total, about 85 percent of the 1981 funds for these programs were channeled through the States; but as shown below, this varied considerably by block grant.

PERCENT OF FISCAL YEAR 1981 FUNDS AWARDED TO 13 STATES UNDER PROGRAMS CONSOLIDATED INTO BLOCK GRANTS (MILLIONS OF DOLLARS)



SS--SOCIAL SERVICES  
 LIHEA--LOW-INCOME HOME ENERGY ASSISTANCE  
 MCHS--MATERNAL AND CHILD HEALTH SERVICES  
 PHHS--PREVENTIVE HEALTH AND HEALTH SERVICES  
 ADAMHS--ALCOHOL, DRUG ABUSE AND MENTAL HEALTH SERVICES  
 CS--COMMUNITY SERVICES

 FUNDS TO OTHER RECIPIENTS  
 FUNDS TO STATE GOVERNMENTS



Predecessor funds for the Social Services and Low-Income Home Energy Assistance block grants flowed exclusively, or almost entirely, through the States. States we visited also received considerable direct funding under the programs forming the three health block grants, ranging from 83 percent for the Maternal and Child Health Services block grant to 45 percent under the Alcohol, Drug Abuse, and Mental Health Services program. Moreover, if the programs comprising the 15 percent Secretary's fiscal year 1982 discretionary fund under the Maternal and Child Health Services block grant are excluded, States actually received 95 percent of the predecessor programs' funds. In contrast, these States received little direct funding under programs merged into the Community Services block grant.

States had ties with recipients  
funded under previous programs

While funds under programs superseded by the health block grants in large part flowed through the States, many local entities were funded directly by Federal agencies. In many cases, however, the States already had ties with these recipients through State funding or regulation.

For example, Colorado had contracts with 6 of 10 federally funded providers under programs subsumed by the Alcohol, Drug Abuse, and Mental Health Services block grant. Kentucky had contracts with grantees receiving funds under the hypertension program, now folded into the Preventive Health and Health Services program. Michigan performed lab tests for grantees funded under the leadbased paint poisoning prevention program, now included in the Maternal and Child Health Services block grant. In Washington the State regulates all alcoholism and drug abuse treatment providers.

Prior involvement also was fostered by categorical program requirements that recipients' activities be included in State plans or approved by a State agency. For example, under the Urban Rat Control program, merged into the Preventive Health and Health Services block grant, local grantees had to provide services consistent with State health plans. Under three alcoholism programs absorbed by the Alcohol, Drug Abuse, and Mental Health Services block grant, State health agencies reviewed applications and provided recommendations to the administering Federal agencies.

Similarly, many States had experience with community mental health centers even though most grants under this Federal program, merged into the Alcohol, Drug Abuse, and Mental Health Services block grant, went directly to the centers. For instance, most States we visited provided State funds to these centers. Also, under the former program, projects had to be approved by the State and included in the State mental health plan. Such ties were important because over 40 percent of the funds preceding the block

grant went to community mental health centers in the 13 States we visited.

Although funds primarily flowed directly to community action agencies, States had limited prior involvement with recipients under the Community Services block grant. For example, most States received a small State Economic Opportunity Office grant. These grants, averaging about \$127,000 in the States we visited, were used to coordinate State antipoverty activities and provide technical assistance to grantees.

Prior State experience reduced  
need for immediate administrative  
changes

Because of States' prior experience, relatively few organizational adjustments were needed in the States we visited during early block grant implementation. Typically, block grant administration was assumed by the agencies which administered the prior programs or those which had compatible responsibilities. Block grants have not yet precipitated major changes, but future organizational adjustments may occur because the programs do increase States' options.

In addition to employing existing organizational structures, States drew upon their institutional knowledge for carrying out block grant responsibilities. For most block grants, details on how the previous programs were run, their purposes, and the activities required were well known. Moreover, States often had existing relationships with service providers.

The transition to the Social Services and the Low-Income Home Energy Assistance block grants was eased considerably because States had extensive experience with grantees and had operated similar Federal programs. Programs preceding these block grants were for the most part already State operated. As a result, States had established plans, rules, regulations, and funding arrangements with counties and other service providers.

This type of involvement also helped ease the transition to the Maternal and Child Health Services; Preventive Health and Health Services; and Alcohol, Drug Abuse, and Mental Health Services block grants. For instance, of the 60 Maternal and Child Health Services block grant subrecipients in Colorado, 58 already had their predecessor grants administered by the State. Only 1 out of 15 Preventive Health and Health Services grantees in Iowa is new to the State, and no regulation changes have been made. Also, under a State program, Vermont personnel already had reviewed community mental health centers' activities, sometimes jointly with Federal officials.

In comparison, the shift to the Community Services block grant generally required more administrative decisions. States had some involvement with the predecessor programs, but the vast majority of funds had gone directly to community action agencies and local grantees. As a result, more transitional activity was required to prepare for and implement the new responsibilities.

All of the eight States we visited that were administering this block grant had to develop or expand an administrative framework. Monitoring and reporting requirements had to be formulated and funding decisions made. In most cases, the old Federal rules and regulations were adopted or slightly modified, giving States more time to develop their own. Also, two States had hired, or planned to acquire, additional staff. In part to allow more time for making such decisions, five States we visited had deferred assuming this block grant.

Because it helped reduce the number of adjustments needed, prior involvement was one key factor influencing the States we visited to begin or defer administering optional block grants. Of the four block grants that States had the option of assuming on October 1, 1981, they most often accepted those with which they had greater program experience. As of October 1, 1981, two States declined to accept some or all of the health block grants while five deferred assuming the Community Services block grant. Appendix I shows the number of States nationwide electing to administer the optional block grants for the first, second, and third quarters of fiscal year 1982.

LIMITED PRIOR STATE INVOLVEMENT  
IN MOST BLOCK GRANTS WITH LATER  
IMPLEMENTATION DATES

Three block grants--Education, Small Cities, and Primary Care--were not operating at the time of our review. While States had considerable experience with the programs consolidated into the Education block grant, they had minimal involvement with those preceding the Small Cities and Primary Care programs. During our study, States were considering what would be needed to implement these block grants.

The regulations for the Small Cities program became effective on March 8, 1982. The first two States were awarded grants on April 12, and as of June 4, 1982, a total of 18 had been awarded. Four additional States had submitted their final statements, and 14 States had submitted notices of election. Proposed regulations for the Education block grant were issued on February 12, 1982, and payments were scheduled to begin on July 1, 1982. The Primary Care block grant does not go into effect until October 1, 1982.

The flow of funds through the States for programs preceding these three block grants varied. States in our review received over 50 percent of the funds for programs consolidated into the Education block grant. In contrast, these States received less than 1 percent of the funds under programs which form the Small Cities and Primary Care block grants.

A similar pattern existed regarding States' ties with program recipients funded directly by Federal agencies under the predecessor programs. In general, States had established relationships with local education agencies and recipients of Federal programs included in the Education block grant. For example, in Washington, the State funded local education agencies under its own gifted education and basic skills programs. Although the block grant will bring new responsibilities, Iowa officials report that they will not be dealing with any new grantees. Also, for the Teacher Centers and Teacher Corps programs included in the Education block grant, previous local applications had to carry State recommendations and approvals, respectively.

State involvement with the programs comprising the Primary Care and Small Cities block grants generally was not as extensive. A few States, however, participated in special projects which provided some program knowledge. For example, under a Primary Care research and demonstration grant which Michigan has received for several years, the State has assumed progressively more responsibility for managing Federal resources. Also, a 1981 Department of Housing and Urban Development demonstration project allowed Kentucky to select recipients for Small Cities discretionary grants. Eight States we visited had received small grants from HUD since 1978 to provide technical assistance to cities.

At the time of our study, State preparations for the Education block grant largely centered on devising distribution formulas and establishing Education Advisory Committees. Block grant statutes require States to develop formulas for distributing at least 80 percent of the funds to local education agencies and to form an advisory committee which, among other things, will consult with the State education agency on its formula.

At the time of our review, States were deciding whether to accept the Small Cities and Primary Care block grants or opt for continued Federal administration. Several State officials commented that if they accept the Small Cities block grant, their States would probably establish criteria to evaluate applications for assistance. Also, officials were contemplating whether to adopt existing regulations or develop their own. Since our review was completed, 7 of the 13 States we visited have decided to administer the program.

Most States we visited expressed concern over accepting the Primary Care block grant. For example, officials in several States commented that implementation would be difficult because of their lack of prior involvement. Moreover, officials in most States cited other disincentives, such as the fact that the block grant contains no allowance for administrative costs, requires funding of existing community health centers, and includes a provision for the States to provide some matching funds.

STATE OFFICIALS BELIEVED THAT MORE  
TIMELY AND RELIABLE INFORMATION  
WOULD HAVE ENHANCED THE TRANSITION

Federal transition activities have focused on providing basic information. State officials believed that certain Federal efforts were helpful, especially given the short time preceding implementation. Officials in many States noted, however, that the transition would have been enhanced by more timely and complete Federal information. Many stressed that the lack of reliable and timely information about funding and other matters complicated transition planning. This was particularly true in those areas where grant funds had gone to non-State entities, but States compensated by obtaining such information from other sources.

Agency transition activities stress  
minimal Federal involvement

To ensure a consistent and unobtrusive federal policy, and rapid implementation, transition efforts have been coordinated through an interagency task force led by the Associate Director for Management of the Office of Management and Budget and composed of officials from all pertinent areas of OMB, the White House, and the Departments of Education, HHS, and HUD. The task force's objectives were to (1) coordinate the development and review of implementing regulations to assure that they reflected the Administration's policy of simplicity, neutrality, and nonprescriptiveness, adequately addressed State and local concerns, and were issued expeditiously; (2) address key financial management issues associated with funds disbursement and control; and (3) provide adequate information to States so that they could make informed decisions on whether to accept the grants for which they had the option of doing so, and to plan for assuming them. A series of eight regional briefings, sponsored by the White House, were held to discuss the block grant programs with State and local officials. OMB has continued to disseminate block grant information through its Fiscal Network, which includes State legislative and executive officials.

Also, HHS, HUD, and Education have provided program-specific information, but Federal administrative technical assistance

activities have changed with the shift in program management responsibilities. In the past, Federal grants management assistance focused on interpreting legislation and ensuring grantee compliance with regulations. Under the block grants, great reliance has been placed on the exercise of State discretion in interpreting the statutes and this type of technical assistance has been scaled back accordingly. For example, State officials in Washington and Michigan noted that Federal officials limited their comments to restating what was in the legislation and regulations and informing them it was their responsibility to implement the legislation. Other forms of Federal technical assistance, such as the dissemination of public health data and research and provision of professional consultation services, will continue to be provided upon State request.

Early HHS transition assistance was provided primarily by headquarters personnel, but as implementation progressed regional offices became increasingly involved. Headquarters staff distributed basic administrative and fiscal information, including block grant fact sheets and State allocation tables, regulations, and data on prior categorical programs. Such program information also was provided to public interest groups and professional associations for their information and distribution. As block grant implementation progressed, however, regional officials became more involved in holding conferences with State officials and other affected parties, assisting States in preparing applications, and answering requests on a case-by-case basis.

Like HHS, the Department of Education initially provided assistance primarily from agency headquarters. Regional officials, aside from responding to individual requests, have had very little involvement in block grant implementation. The Department conducted regional conferences and transmitted basic information regarding programs replaced, block grant funding, and the proposed regulations. In addition, the Department has disseminated non-regulatory guidance, which was discussed along with the proposed regulations and other concerns at a March 1982 conference for State and local education officials.

Because Federal program management responsibility will remain in the regions, HUD field staff were active in providing transition assistance to the States. Although prepared by HUD headquarters staff, the technical assistance strategy will be implemented by field personnel. This strategy includes providing assistance in meeting responsibilities under applicable national policy requirements, conducting forums for State and local discussion of block grant design and implementation issues, and using existing discretionary grants to foster State capacity to plan and manage the program.

Certain Federal efforts get positive response but overall Federal handling of transition gets mixed reviews

Recognizing the short time available and the regional offices' changing role, in a number of cases State officials were generally satisfied with the information they received and cited certain Federal actions as particularly helpful. A number of States mentioned the usefulness of the HHS Secretary's letters to the Governors explaining the transition process and various HHS memoranda answering States' questions on applications and administration. In about half of the States we visited officials indicated that the White House regional conferences were valuable. Officials in the majority of States commented that HUD field staff provided complete and timely responses to their requests and actively participated in States' discussions and planning efforts.

Transfer of information and guidance from the Federal agencies was not as critical to State block grant implementation where States had extensive prior involvement. This was particularly true for the Low-Income Home Energy Assistance and Social Services block grant programs. As the primary recipients under programs consolidated into the Maternal and Child Health Services and the Preventive Health and Health Services block grants, States did not have to rely on Federal information for most prior grants awarded. A number of State officials noted that information received on prior awards made directly to local grantees was incomplete and inaccurate, but most problems were mitigated by States' familiarity with these grantees.

In contrast to the other two operating health block grants, the majority of funds awarded under the programs consolidated into the Alcohol, Drug Abuse, and Mental Health Services grant were to non-State entities. For example, under the mental health component of the block grant, community mental health centers were the only recipients in the 13 States. Because the block grant statute mandates funding of centers which received grants in fiscal year 1980, most States needed information on prior awards for planning and budgeting. Officials in several States we visited commented that Federal award data was neither timely nor complete and that they subsequently developed this information by contacting grantees. Four States also commented they turned to organizations such as the National Association of State Mental Health Program Directors and the National Association of State Alcohol and Drug Abuse Directors for basic program information.

States experienced the most difficulty in obtaining adequate information and guidance for the Community Services block grant. States required detailed information on prior grantees for planning and budgeting, especially in view of their limited prior experience and the requirement that at least 90 percent of the fiscal year 1982 funds be distributed to former recipients.

Officials at both the State and Federal levels, however, commented that the transitional difficulties prompted by abolishing the Community Services Administration and establishing organizational responsibility within HHS adversely affected the Federal performance in providing data to the States. Of the eight States we visited administering this block grant, six experienced difficulty planning because data was untimely and incomplete. In some cases, States obtained the necessary information by directly contacting grantees.

A number of State officials commented that the delays in receiving the Education and Small Cities block grant regulations somewhat offset the advantages of the additional time available for planning these programs. Similarly, a number of officials complained that benefits of the transition year were countered by lack of an appropriation for the Primary Care planning grant. To help compensate, HHS is negotiating technical assistance agreements which in some cases will include assigning HHS staff to the State agency. During the transition year, HHS will routinely provide States with program data and encourage them to participate in application and performance reviews of community health centers.

While difficulties in obtaining information varied by block grant, a universal concern of States was the uncertainty of block grant funding levels and individual State allocations. This complicated planning and budgeting and in some cases prompted States to adjust contract negotiations and award procedures. For example, the Colorado Department of Social Services developed several alternative service packages based on different levels of anticipated funding. In Kentucky and Michigan, State officials were unable to make full year commitments to service providers due to the lack of definitive funding information.

Much of the uncertainty was caused by the enactment of a series of continuing resolutions in lieu of a final appropriation for the block grants. However, for the Community Services block grant, some of the confusion was prompted by administrative decisions made regarding the annual level used to determine State allocations. In October, block grant funds were apportioned on the basis of the President's revised September budget request of \$225 million rather than on the \$362 million level included in the first continuing resolution. In January, allotments were increased on the basis of the third continuing resolution level of \$348 million. However, under the fourth continuing resolution, State block grant allotments were revised downward because a greater amount of Community Services funds were set aside primarily for the Secretary's discretionary program.

Because of these funding uncertainties and the need to obtain other information for planning, States often turned to their State offices in Washington, D.C., and public interest groups such as



the National Governors' Association and National Conference of State Legislators. Another source of information was the OMB Fiscal Network, but opinions differed regarding its usefulness. Generally, State legislative staffs believed the information was useful, but program officials found the information too general and not timely.

#### CONCLUSIONS

States' considerable involvement with the predecessor programs helped ease the transition to most block grants operating at the time of our review. States already received grants comprising the vast majority of the funds and had various ties with program recipients. This lessened the need for Federal technical assistance and guidance and was especially critical because of the extremely short time frame preceding block grant implementation.

The degree of States' prior experience reduced the number of administrative changes required during early block grant implementation. Because States already had extensive program knowledge and administrative responsibilities, few immediate adjustments were needed to accommodate the shift to most block grants. For the Community Services program, where States' prior involvement was not as extensive, more administrative decisions and time were required to prepare for and implement the block grant. Accordingly, prior experience was one key factor influencing State decisions whether to begin administering optional block grants at the earliest possible date.

States' prior experience helped ease the transition, but officials in most States believed that the process could have been enhanced by more timely and reliable data. Certain Federal efforts were cited as helpful, but a number of officials emphasized that the lack of adequate funding information and other data complicated planning, particularly in those instances where funds had previously gone to non-State entities. Problems were mitigated, however, as States turned to grantees, professional organizations, and other sources for information.

The Education, Primary Care, and Small Cities block grants were not operating at the time of our review. States have been using the additional time available to determine the advantages and disadvantages of State administration or to plan for implementation. Because States have had less experience with programs preceding the Primary Care and Small Cities block grants, Federal agencies are providing more technical assistance and guidance to prepare States if they decide to administer these programs.

## CHAPTER 3

### FINANCIAL AND TIMING CONSIDERATIONS

#### INFLUENCE SCOPE AND NUMBER OF CHANGES

#### DURING EARLY BLOCK GRANT IMPLEMENTATION

Early block grant implementation efforts of the States we visited largely centered around coping with Federal funding reductions. Some adjustments were made, but factors such as ongoing outlays from predecessor programs and provisions requiring continued funding of certain activities limited the scope of initial changes made in most programs covered by block grants. In contrast, more changes were made immediately in block grants which had no ongoing categorical outlays and fewer legislative restrictions. While States concentrated on handling budget reductions, some officials cited management changes resulting from the reduced Federal requirements. It was too early, however, to draw any conclusions on efficiencies emanating from the block grants.

#### BUDGET REDUCTIONS PROMPTED ADJUSTMENTS, BUT SEVERAL FACTORS INITIALLY LIMITED MAJOR CHANGES IN MOST BLOCK GRANTS

Although the percentage change varied by State, the block grant allocations for the 13 States we visited were reduced substantially from levels under the predecessor programs. Average reductions in the States we visited which were administering the block grants ranged from 11 percent in the Preventive Health and Health Services block grant to 25 percent in the Community Services program. Similarly, the Social Services; Maternal and Child Health Services; and Alcohol, Drug Abuse, and Mental Health Services block grant allotments decreased an average of about 19, 20, and 20 percent, respectively. The major exception to this pattern was the Low-Income Home Energy Assistance block grant allocation which for the most part remained relatively stable.

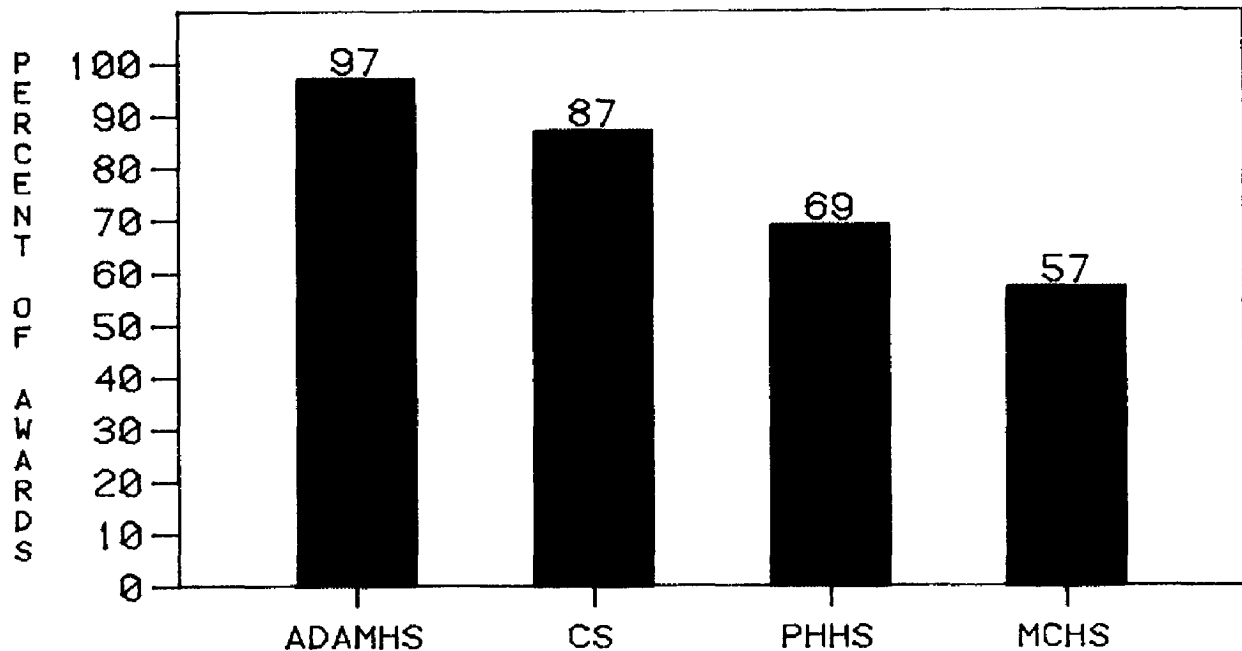
Adjustments were made, but activities initially funded by most block grants did not differ markedly from those under prior programs for several reasons. Most notably, continued Federal outlays from awards made under the superseded categorical programs provided States additional time and resources in implementing the three health block grants and the Community Services program and helped mitigate the initial impact of reduced funding levels. Also, the limited scope of early adjustments made under these block grants was influenced by the short time frame preceding implementation and several legislative provisions designed to ensure continued funding for established services and grantees.

Ongoing Federal categorical outlays provide States breathing room to make initial adjustments

Almost all of the categorical programs consolidated into the three health block grants and the Community Services program were project grants or had a project grant component funded for at least a 12-month period. These grants were awarded to State and local entities at various times throughout fiscal year 1981, many in the last quarter.

Consequently, a large portion of grantees in the States we visited which were administering the three health block grants and the Community Services program already were funded into fiscal year 1982. As shown below, the percentage of categorical grant awards extending into fiscal year 1982 ranged from 97 percent in the Alcohol, Drug Abuse, and Mental Health Services block grant to 57 percent in the Maternal and Child Health Services program.

PERCENT OF 1981 AWARDS EXTENDING INTO FISCAL YEAR 1982 BY RELATED BLOCK GRANT

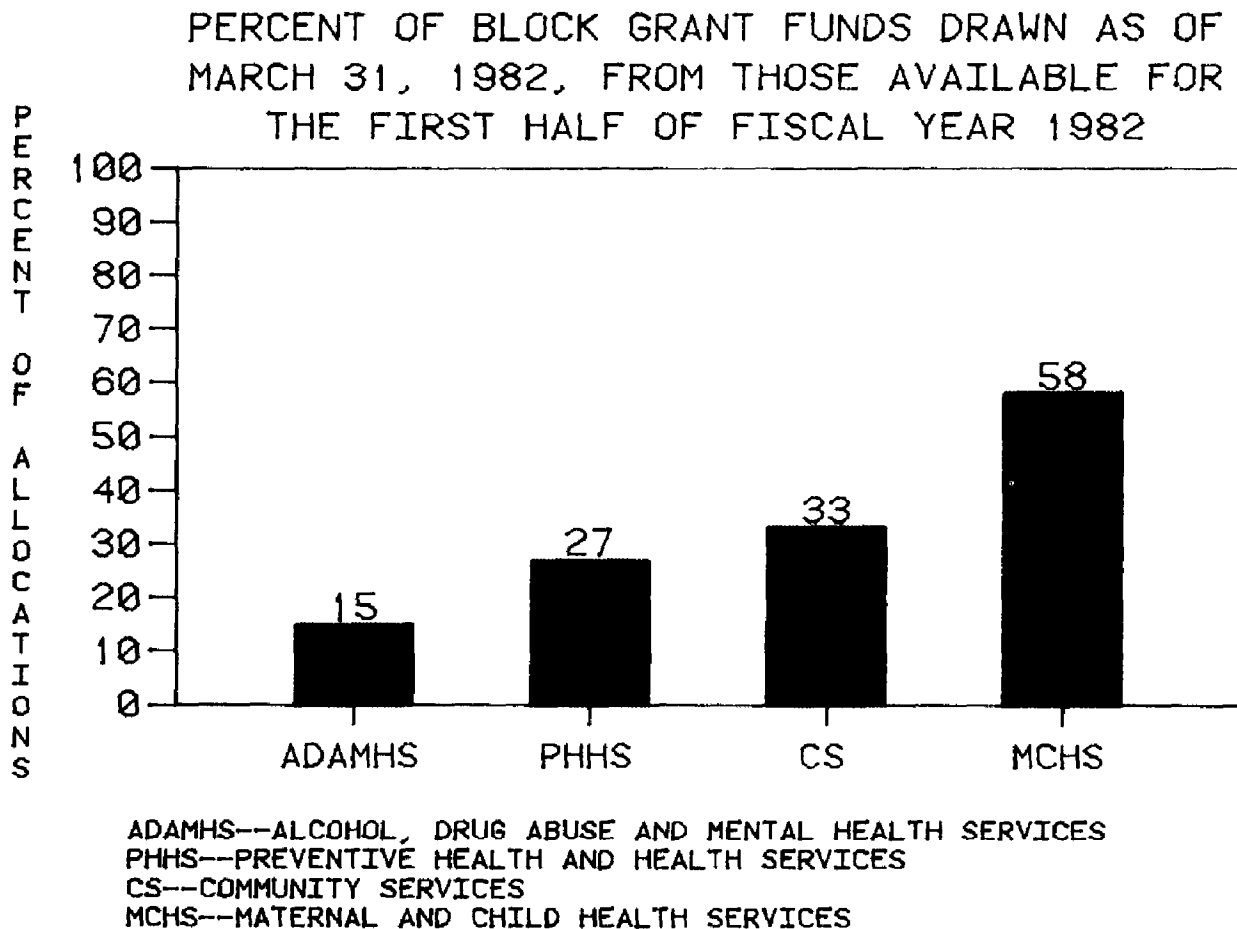


ADAMHS--ALCOHOL, DRUG ABUSE AND MENTAL HEALTH SERVICES  
CS--COMMUNITY SERVICES  
PHHS--PREVENTIVE HEALTH AND HEALTH SERVICES  
MCHS--MATERNAL AND CHILD HEALTH SERVICES

Although some of these awards already have expired, many continue into the last half of fiscal year 1982. To illustrate, about 62 percent of the 1981 categorical awards in programs consolidated into the Alcohol, Drug Abuse, and Mental Health Services; Preventive Health and Health Services; and the Community Services block

grants are funded into the third quarter of fiscal year 1982. Moreover, because many of these 1981 awards did not become effective until the first quarter of fiscal year 1982, they will extend to fiscal year 1983.

Because States and local entities often have been able to provide services with 1981 categorical funds, States had not yet drawn extensively upon block grant allocations made available to them during the first half of fiscal year 1982. As shown below, the States we visited which were administering the block grant programs tapped available funds to varying degrees, ranging from 15 percent in the Alcohol, Drug Abuse, and Mental Health Services block grant to 58 percent in the Maternal and Child Health Services block grant.



Accordingly, ongoing outlays from 1981 categorical awards have provided stability in the transition to these block grants and afforded States breathing room during early implementation.

Officials in most States we visited said that these additional resources have cushioned temporarily the impact of 1982 budget reductions.

Because ongoing categorical outlays helped defer the need for immediate major changes, it was not surprising that States had rarely transferred funds into or out of the three health block grants and the Community Services program. The Maternal and Child Health Services block grant has no transfer provision, but transfers are permitted in other block grants as follows:

- The Alcohol, Drug Abuse, and Mental Health Services block grant allows for transferring up to 7 percent for Preventive Health and Health Services, Primary Care, or Title V of the Social Security Act.
- The Preventive Health and Health Services block grant permits transferring up to 7 percent to Alcohol, Drug Abuse, and Mental Health Services; Primary Care; or Title V of the Social Security Act.
- The Community Services block grant permits transfers up to 5 percent to services under the Older Americans Act of 1965 or the Head Start or energy crisis intervention programs.

Additionally, up to 10 percent of Low-Income Home Energy Assistance funds can be shifted to the three health block grants, the Community Services program, or the Social Services block grant.

None of the States we visited reported transferring funds out of the health block grants. Additionally, only two moved funds from the Community Services program. Pennsylvania and Kentucky transferred 5 percent of their Community Services funds to the Head Start program and services under the Older Americans Act, respectively.

Although, as discussed on page 26, seven of the 13 States we visited transferred Low-Income Home Energy Assistance funds into the Social Services block grant, only 2 States transferred funds into the health or Community Services block grants. Kentucky moved 1 percent of its Low-Income Home Energy Assistance funds into the Preventive Health and Health Services program. Similarly, Washington shifted 3.5 percent of its energy assistance funds into the Community Services block grant.

Legislative provisions and short time frame also influenced budget decisions along established funding patterns

In addition to ongoing categorical outlays, certain legislative provisions coupled with the relatively brief time available

for planning led to the continuation of existing funding patterns in the three health block grants and the Community Services program. Generally, initial block grant funding decisions followed priorities established under the predecessor programs according to State officials. When adjustments were made due to the reduced funding levels, officials most often reported making reductions on a proportional basis.

It appeared that additional time was needed before more wide-ranging changes could be made. Colorado officials, for example, decided to defer changing the proportion of funding devoted to the various categorical programs which preceded the health block grants until constituents' needs are assessed fully. Iowa officials noted that the State's Administrative Procedures Act requires 4 to 6 months to adopt new regulations, but only 7 weeks existed between passage of the Reconciliation Act and State assumption of block grants on October 1, 1981.

Officials in about half the States we visited also commented that the block grants afforded limited flexibility to alter previously established patterns, particularly in fiscal year 1982. Massachusetts and Pennsylvania officials, for instance, noted that earmarking provisions influenced them to maintain established priorities. These earmarking provisions were designed to foster continuity, but at the same time they limited certain decisions, such as which activities to fund, at what levels, and through which grantees. For example:

- The Alcohol, Drug Abuse, and Mental Health Services block grant contains provisions for the continued funding of community mental health centers in fiscal year 1982 that were federally funded in fiscal year 1981. Further, of the substance abuse funds made available to the States, 35 percent must be used for alcohol programs and another 35 percent for drug abuse programs. At least 20 percent of the substance abuse funds must go for prevention and early intervention.
- The Preventive Health and Health Services block grant contains provisions for the continued funding for Emergency Medical Services grantees funded in fiscal year 1981. States also must provide fiscal year 1982 grants for hypertension programs at 75 percent of the fiscal year 1981 Federal funding level.
- The Community Services block grant requires States to pass through 90 percent of their fiscal year 1982 Federal allocation to certain previously funded entities, such as community action agencies.

Although generally leading to maintaining established patterns, officials in a few States reported that these provisions caused them to alter past practices. For example, according to officials, because New York historically has devoted about 75 percent of substance abuse funds to drug-related programs, the provision in the Alcohol, Drug Abuse, and Mental Health Services block grant requiring that at least 35 percent of substance abuse funds be devoted to alcohol will require the State to allocate more of these resources to alcohol programs. Also in this block grant, Colorado officials reported that the State had to sharply increase expenditures for prevention and early intervention to comply with the mandate that 20 percent of substance abuse funds be used for these purposes.

Major changes generally are under study, but a few have been made

For the most part, States were studying ways to put their imprint on the three health and Community Services block grants. For example, three States planned to use the latitude available under the Maternal and Child Health Services block grant to reduce funding for certain projects they were required to develop and support under the predecessor categorical programs. To illustrate, Iowa plans to reduce support for individual projects delivering child and maternal services and reallocate funds to larger client service centers.

A few States, however, already instituted some changes. For example, Massachusetts, Vermont, and Washington developed formulas for allocating Community Services block grant funds. According to State officials, the formulas were designed to improve targeting of funds and ensure that grantees did not receive disproportionate funding reductions. Similarly, Mississippi officials stated they devised a formula for allocating funds to community mental health centers based on factors such as population density and per capita income.

ABSENCE OF ONGOING CATEGORICAL  
OUTLAYS AND LESS PRESCRIPTIVE  
PROVISIONS LED TO MORE IMMEDIATE  
CHANGES IN OTHER BLOCK GRANTS

In contrast to block grants which benefited from ongoing categorical outlays, the predecessor programs for the Social Services and Low-Income Home Energy Assistance block grants were allocated on a formula basis. Because funds were drawn down primarily over a 12-month period coinciding with the Federal fiscal year, ongoing 1981 categorical awards were not available to temporarily offset reduced funding levels. In general, the Low-Income Home Energy Assistance 1982 appropriations, however, remained relatively stable from the prior year.

Budget reductions were immediately felt in the Social Services block grant. The 13 States we visited had drawn down 96 percent of Social Services block grant allocations made available to them during the first half of fiscal year 1982. Moreover, to help mitigate Federal budget reductions, seven States had authorized or proposed transferring up to 10 percent of Low-Income Home Energy Assistance funds to the Social Services block grant. In total, transfers in these States--California, Florida, Iowa, New York, Vermont, Kentucky, and Washington--involved over \$25 million.

In addition to transfers, States we reviewed employed various actions to shape Social Services funding and cope with reduced budget levels. As opposed to making across-the-board adjustments, States frequently altered previous funding patterns. Ten States acted to preserve funding for Social Services activities they deemed higher priority, such as protective services, while curtailing certain training and other programs.

Adjustments in several States illustrate the range of actions taken. For example, Texas funding reductions in child protective services, child day care, community care services, and the family violence shelter component of emergency family services were less than those applied to services to the handicapped. Department of Human Resources officials believed that services to the handicapped should be handled by the State department with primary responsibility for that group. For similar reasons, the department cut social services training contracts with Texas universities and colleges.

Like Texas, Washington put a premium on child protective services but also gave priority to homemaker and foster care staff services. Officials reported eliminating some activities that did not provide direct services, such as social services information and referrals as well as case worker education and training.

Protective services for adults and children were also given a high priority in Kentucky, and child day care services were extended to recipients of Aid to Families with Dependent Children. On the other hand, the State eliminated day care services for the elderly and the Big Brother program and reduced homemaker services.

To lessen the impact of Social Services funding levels, some States reported supplementing block grant allocations with their own funds or using other Federal programs to finance activities formerly funded under the predecessor Title XX program. For example, California planned to provide \$13 million in State funds, while Iowa and Vermont contributed about \$2 million and \$100,000, respectively. Also, Michigan transferred some basic adult services into the Medicaid program.



While Social Services funding patterns often were altered in response to budget reductions, States also employed their new flexibility in the Low-Income Home Energy Assistance block grant. Unlike the previous categorical program, the block grant statute provides States with the latitude to use up to 15 percent of available funds for weatherization and energy related home repair. Each of the 13 States we visited had used this discretion by setting aside funds for weatherization.

TOO EARLY TO GAUGE THE IMPACT OF  
REDUCED FEDERAL REQUIREMENTS ON  
STATE BLOCK GRANT OPERATIONS

Block grant statutes and regulations eliminated many Federal requirements under the categorical programs detailing how funds were to be accounted for, monitored, and evaluated. Regulations for the seven HHS block grants are only 6 pages long compared to the 318 pages which governed the predecessor programs. Additionally, States have discretion to format block grant applications and reports so long as submissions meet statutory requirements.

To take advantage of these reduced requirements, some States have changed or contemplate changing program management procedures. State officials generally believed the limited application, reporting, and other requirements will prompt efficiencies, but they stated that it was too early to make any definitive assessments.

States note some benefits from  
reduced program requirements

State officials we visited provided some examples of management improvements based on their early experiences in developing and submitting block grant applications. For example, Massachusetts officials stated that preparing their Low-Income Home Energy Assistance block grant plan took about 3 days compared to the 22 days needed under the prior categorical program. Also, the streamlined application and approval process under the Alcohol, Drug Abuse, and Mental Health Services block grant was said to have saved Massachusetts officials time which could be devoted to other aspects of program administration. Vermont officials also noted that their Maternal and Child Health Services block grant application was only a few pages long, while the previous categorical program required several copies of a lengthy document.

Some States also noted that economies could stem from reduced reporting requirements. In Michigan, for example, officials administering the Alcohol, Drug Abuse, and Mental Health Services block grant expected a 10-percent reduction in report preparation time because only 1 cost report was needed compared to the 16 previously required. Michigan's administrators for the Maternal and Child Health Services and Education block grants also stated

that savings should result from reduced reporting and proposal writing.

A few States also planned to change certain procedures as a result of block grants. For example, Iowa officials expect to reduce paperwork and improve efficiency by combining monitoring and evaluation visits to Maternal and Child Health Services grantees. Washington officials also stated that to achieve more efficient operations and in response to the simplified block grant requirements one program monitor will review several functions of one grantee rather than sending separate monitors for different program areas. Also, block grant responsibilities spurred Pennsylvania to develop a statewide policy for controlling all grants.

Although the figures were labeled as highly preliminary, a few States estimated reduced administrative costs, mostly in the Social Services block grant. Florida, for example, expects to save about \$1 million annually by deleting certain applications formerly required by Federal regulations and an estimated \$200,000 annually by streamlining procedures for monitoring recipient eligibility. Pennsylvania anticipates that deleting Federal reporting requirements will reduce administrative costs by about \$5.2 million annually. Similarly, California hopes to save about \$200,000 by simplifying statistical reporting and plan preparation.

Although many States anticipate some efficiencies from block grant implementation, they are uncertain about the magnitude of cost savings. Some officials offered their early impression that administrative cost savings would not compensate for budget reductions, and several noted that assuming responsibilities for programs not previously administered would lead to increased costs. For example, Massachusetts and Pennsylvania plan to hire additional staff in their Community Services block grant programs, which are being operated by States for the first time.

Although not applicable for block grants, at least initially States continue to use Federal financial and administrative requirements

Federal agencies have exempted block grants from OMB Circulars A-102 ("Uniform Administrative Requirements for Grants to State and Local Governments") and A-87 ("Cost Principles") usually required for Federal programs. Instead, States have the flexibility to use their own laws and procedures governing such things as property and procurement standards and determining allowable or unallowable costs. Many States we visited, however, at least initially, continued to use these Federal standards. In fact, States must follow these requirements in those cases where they are continuing to administer 1981 awards from the categorical programs replaced by the block grants.

Although some reported they are studying areas where future adjustments could be made, several States were reluctant to deviate from the Federal procedures for block grants while they must continue to use these standards for all other Federal grant-in-aid programs. In Iowa, for example, because the State will continue to administer many categorical programs with the full complement of Federal administrative requirements, officials stated that a separate financial system for block grants will not be devised. Similarly, Michigan officials commented that because the State's accounting system originally was designed to meet State and Federal fiscal and administrative requirements, there are no immediate plans to modify existing reporting and accounting procedures. Also, Florida officials said that the State will use its Fiscal Accounting Management Information System that governs all State agencies, programs, and services.

### CONCLUSIONS

During early implementation a major concern was coping with the reduced funding levels accompanying the block grants. For the three health block grants and Community Services program, however, several factors fostered stability and limited the need to make major changes immediately.

Most notably, ongoing Federal outlays from 1981 awards under the predecessor categorical programs provided additional time and resources in adjusting to the reduced funding levels. Legislative provisions also ensured continuity of funding for certain grantees and services, and States rarely transferred block grant funds. Generally, States retained priorities established under the categorical programs and when reductions were necessary officials reported making them on a proportional basis.

In contrast, more changes were made immediately in two block grants which had fewer legislative restrictions and no ongoing outlays from the previous programs. To cope with funding reductions in the Social Services block grant, States more frequently altered previously established funding patterns and employed options to transfer funds. Also, in the Low-Income Home Energy Assistance program, States used their new flexibility to fund weatherization--an activity not authorized previously.

In addition to affording States discretion to make programmatic decisions, the block grants also were accompanied by reduced Federal administrative requirements. State officials noted some savings associated with the reduced application and reporting procedures. Although officials expect more efficient operations, it was much too early to draw conclusions. Also, States had not departed significantly from Federal fiscal and administrative standards due to the short time frame preceding implementation and, in part, because of a reluctance to have two sets of standards for Federal programs.

## CHAPTER 4

### STATE BLOCK GRANT OVERSIGHT AND ACCOUNTABILITY PROCESSES ARE EVOLVING

The block grant legislation and regulations place great reliance on State oversight processes. Also, the fundamental check on the use of funds is States' accountability to their citizens. Generally, States are required to obtain public comments on intended use reports or plans, hold public hearings on the proposed use and distribution of funds, and arrange for independent audits of block grant expenditures. This chapter discusses early experiences of the 13 States we visited in developing and instituting block grant oversight mechanisms.

#### LEGISLATURES ENACTED MEASURES INFLUENCING EARLY BLOCK GRANT DECISIONS AND ENSURING INCREASED OVERSIGHT ROLE

State legislatures are expected to become increasingly involved in block grant decisions. Many States historically have not accorded Federal aid the same attention given State funds, but legislative oversight of Federal moneys has increased in recent years. Based on actions taken during early block grant implementation it appears that legislative oversight of block grants will parallel this overall trend toward greater involvement.

To some extent, legislatures in all 13 States we visited were either involved or consulted in early block grant management and budget decisions. Moreover, 10 legislatures enacted additional measures influencing block grant implementation and/or enhancing their oversight of future decisions. These ranged from seven legislatures increasing their ability to review block grant plans to three legislatures influencing which block grants the State accepted.

Legislatures in Texas, California, and Vermont passed measures affecting their States' decisions concerning optional block grants. Before adjourning in June 1981, the Texas legislature stipulated that until it reconvened in January 1983, Federal funds could not be expended for activities other than those already authorized in the budget. According to Texas officials, this inhibited applying for block grants where the predecessor categorical funds had bypassed the State. Consequently, as of May 1, 1982, Texas had not applied for the Community Services and Small Cities block grant programs.

Similarly, California's legislature postponed assuming optional block grants until July 1982 partly because there had been

little opportunity for public debate and the State needed more time to prepare for program administration. In contrast, Vermont's legislature in April 1981 granted the Governor explicit authority to accept all available block grants but restricted their expenditure to previously authorized purposes until it reconvened in early 1982.

Seven State legislatures also enacted laws increasing their authority to appropriate Federal funds and/or their ability to review block grant applications and plans. In three cases such changes had been debated well before the 1981 Reconciliation Act, but their enactment will affect the legislature's block grant oversight role. For example, Iowa's legislature did not appropriate any Federal funds until a 1981 law stipulated that block grant moneys are subject to appropriation by the General Assembly. The New York legislature appropriated Federal funds for the first time in 1981 and required the executive branch to submit detailed block grant plans. Moreover, in 1981, the Massachusetts legislature expanded its authority to appropriate Federal funds and required State agencies to submit future block grant applications for review.

In the remaining four instances, State legislature actions were in direct response to the introduction of block grants. For example, in mid-April 1982, Kentucky's legislature, over the Governor's veto, mandated legislative approval of block grant applications and the distribution of funds. California's legislature established a block grant task force to assess needs, delivery systems, and program performance and to make recommendations. Also, concern over block grants prompted Michigan's legislature to pass a measure providing for executive departments to provide additional information on the administration and distribution of block grant funds. Moreover, Florida's latest appropriation bill, passed April 7, 1982, includes a section stipulating that should additional block grants be made available, no new program can be implemented until it is included in the Governor's budget recommendations and approved by the legislature.

While these actions will influence future decisions, several legislatures enacted measures affecting the distribution of fiscal year 1982 block grant funds. For example, Pennsylvania's legislature made changes to the executive branch's proposals, including transferring 5 percent of the Community Services block grant funds to the Head Start program. Also, Iowa passed a law requiring that, whenever possible, block grant moneys be allocated proportionally based on prior year categorical funding.

Legislatures likely will become more involved in block grant decisions as they become more familiar with the programs. Several block grants require the legislature to hold public hearings on the proposed use and distribution of funds, and 12 of the 13 legislatures we visited now have the authority to appropriate block

grant funds. The remaining State legislature, Colorado, had begun negotiations with the executive branch to determine the degree of legislative oversight for block grant programs.

#### STATES DEVELOPING METHODS FOR OBTAINING PUBLIC PARTICIPATION

The block grants require that intended use reports or plans be made available for public comment, and most mandate public hearings as a condition of receiving funds. States we visited made intended use reports and plans available for public review, and local organizations provided comments through a variety of ways. Many States also held public hearings. Some views were obtained but, at the time of our review, States were still finalizing methods for obtaining future public participation.

#### Public participation offered through availability of intended use reports or plans and public hearings

States obtained public participation by making intended use reports and plans available for review and comment. States informed the public about these plans through a variety of means, but widely circulated newspapers were the most common vehicle. Additionally, States employed methods such as television and radio advertisements and distribution to public libraries, individuals, organizations, and county health or welfare departments.

For example, Washington's Department of Social and Health Services distributed 6,000 copies of its plans and received about 1,000 written responses from individuals and organizations. Florida's plan for low-income home energy assistance was sent to community action groups, local legal aid associations, county health departments, and county welfare directors for comment.

Although a few modifications were made, most State plans were not changed as a result of public comments. Generally, State officials believed that their ability to obtain comments was restricted by the short time available before block grant applications had to be filed. Also, some officials commented that public participation already had been obtained when developing plans under the programs preceding the block grants. For example, the programs replaced by the Social Services and Low-Income Home Energy Assistance block grants required public participation.

Several States used these plans, with some revisions, as their initial block grant intended use report or plan. For example, Michigan officials stated that most block grant plans were updated fiscal year 1981 plans revised to comply with the block grant requirements and that they already had consulted

with service providers, interest groups, and local officials. Similarly, Colorado officials stated that block grant plans were developed under previous categorical Federal and State regulations which required separate public notification and meetings.

In addition to providing opportunities to comment on block grant plans, 11 of the 13 States we visited held public hearings even though HHS regulations noted that no public hearings were required for fiscal year 1982. The number of block grants covered during these hearings, however, varied considerably from formal hearings on all block grants to those conducted for just one. Similarly, attendance ranged from less than 25 people participating in one hearing to 7,000 persons attending five regional hearings. Persons attending these meetings included representatives of local governments, public interest groups, private organizations, and citizenry.

States have wide discretion in determining how public hearings are held. States we visited were planning how to fulfill this requirement for fiscal year 1983. While some States were contemplating using their normal budget hearing process, other States' plans varied.

For example, Michigan planned to hold at least one state-wide and five regional hearings for all nine block grants. Texas planned to conduct a two-tiered process with the first set of regional hearings focusing primarily on programmatic issues and the second set concentrating on fiscal concerns. Iowa planned to hold hearings in eight district offices for the Social Services block grant and at least five public hearings on its Education block grant.

#### States obtained local views through various methods

During early block grant implementation States used various methods to obtain local views. Advisory committees often were convened or were in the process of being established. States also circulated block grant plans to local organizations and service providers and held meetings to obtain local views. States, to varying degrees, attempted to obtain local input, but local organizations we visited had mixed views on States' efforts.

Every State we visited had established an advisory group in response to Federal statutory mandates or on its own initiative. The Education block grant requires States to create an advisory committee including persons representative of public and private elementary and secondary school children, teachers and parents, local boards and administrators, institutions of higher education, and the State legislature.

Moreover, for one or more of the other block grants, at least 10 States we reviewed had advisory groups to help plan and implement the programs. Membership on these committees generally included representatives from local governments and interest groups. In some cases these groups were established to obtain views on more than one block grant. For example, Mississippi created a 16-member advisory board to get input on the seven HHS block grants from organizations such as the Human Service Coalition, State Health Coordinating Council, Common Cause, and the Coalition for Mothers and Babies. Similarly, to help plan for certain block grants, Washington officials formed an interagency task force which included county and city representatives.

In other instances, advisory groups were formed to focus on individual block grant programs. To illustrate, Colorado's Community Services block grant advisory group consists of county commissioners, city officials, community action representatives, a representative from an advocacy agency, and officials from the State Department of Local Affairs. Additionally, Massachusetts' Department of Public Health Task Force on Prevention is composed of 28 members including representatives from local universities, insurance companies, industries, planning councils, city governments, and State agencies. Similarly, Vermont has an energy assistance policy advisory council that advises the State on Low-Income Home Energy Assistance block grant matters.

Several States we visited formed advisory groups for the Small Cities program which requires that States consult with local elected officials in determining the method of distributing funds. For example, Florida established a community development policy advisory committee with representatives from five counties and five cities. Also, Colorado appointed a 25 member Policy Advisory Committee consisting of local elected officials, Municipal League representatives, and National Association of Housing and Redevelopment Organization representatives.

In addition to establishing advisory groups, over half the States we visited circulated block grant plans to local agencies and service providers. For example, California's 58 counties helped develop the Social Services plan. In Michigan, county boards of health as well as advisory groups and regional coordinating agencies commented on the State's health block grant plans. Also, in Kentucky, five public interest groups responded to the State's request for comments on the Low-Income Home Energy Assistance plan; and Washington officials distributed the Community Services draft plan to community action agencies, county and city governments, and councils of governments.

Local perspectives also were obtained through State-sponsored block grant meetings. For example, in Pennsylvania the Governor's Human Resource Committee, developed to coordinate block grant activities, conducted six regional forums and over 200 meetings.



It visited 51 of the State's 67 counties and obtained views of over 1,700 individuals from 500 organizations and units of local government. Similarly, Washington officials consulted with local leaders in planning for the health, Social Services, and Community Services block grants.

While States solicited local input, local organizations we contacted had varied opinions of the States' efforts. Some organizations believed States provided adequate opportunities for them to register their views, but others voiced concern over the need for better coordination. These organizations, however, generally recognized the confusion and extremely short time period which characterized early block grant implementation and limited their ability to provide substantive input. On a more long-term basis, they were concerned about the funding levels for the programs and hoped that more opportunities would be available to present their views and that State-local relationships could be enhanced.

To help ensure their views are considered, several local organizations initiated various proposals and actions. For example, Vermont's Regional Planning Commissions recommended that they receive a proportionate share of the State's Social Services and Small Cities block grant funds to distribute based on regional priorities. Also, the United Way of Texas has sponsored several forums to disseminate information and develop block grant strategies. Representatives of the Governor's office, the Texas legislature, and over 100 statewide health and human services organizations attended those forums.

#### STATE AUDIT STRATEGIES NOW BEING DEVISED

A key oversight feature of the block grant legislation is State audits of block grant expenditures. States generally are required, by block grant legislation or regulations, to obtain independent audits on an annual or biennial basis. The legislation and implementing regulations further provide for the use of the Comptroller General's "Standards For Audit of Governmental Organizations, Programs, Activities, and Functions" in conducting such audits. Federal executive departments are to rely on State audits if they have been conducted in accordance with the Comptroller General's standards and any additional auditing, such as economy, efficiency, or program results reviews, should build upon the States' work.

At the time our field work was conducted from mid-December 1981 through the end of February 1982, the States were developing audit strategies and questions had been raised about the approach for block grant audits. As a result, most States' audit plans had not been finalized and were still evolving. Some States were

planning to cover block grants as part of a single department- or State-wide audit and others were contemplating whether to conduct audits by entity or by block grant. Several were deciding whether audits would be done by State audit agencies or public accountants. Other issues raised included the auditing of subgrantees and the definition of what constitutes an independent State audit.

In part, because of the uncertainty about the approach for block grant audits, a prevalent concern of State officials was the funding of audits and the reimbursement of such costs. For example, Iowa's State Auditor said that if departments' annual audits do not meet the block grant requirements, they will have to reimburse the State Auditor for any extra work required. Also, Kentucky's Auditor of Public Accounts said he could not finalize his block grant audit plans until the State received specific Federal audit guidelines and guidance concerning cost reimbursement.

In response to numerous audit questions, OMB in mid-April 1982 provided States with a paper describing a framework for financial and compliance block grant audits. This document discusses factors in choosing an audit approach, and states that:

"\* \* \* a state can fulfill the block grant audit requirement with audits of just the block grant funds, single audits encompassing the block grants of those departments expending the block grant funds, or a single state-wide audit encompassing the block grants, as long as the auditor performs sufficient tests with regard to each block grant as are necessary to render an opinion as to whether the state has complied with the material terms and conditions of the block grants."

The paper also notes that States should assure that appropriate audits are conducted of local governments and private organizations receiving block grant funds. It further mentions that audit costs are an appropriate expenditure of block grant funds and that States should assure that adequate funds are available.

This document notes that OMB is modifying the compliance supplement to Circular A-102, 1/ Attachment P, and the new supplement

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1/This Circular establishes audit requirements for State and local governments and Indian tribal governments that receive Federal assistance. It provides for independent audits of financial operations, including compliance with certain provisions of Federal law and regulation, on an organization-wide basis rather than on a grant-by-grant basis. (Federal Register Vol. 44, No. 205, Monday, October 22, 1979, Notices, p. 60959.)

will include compliance requirements for block grants. The OMB paper also states that an acceptable audit would have to encompass State compliance requirements.

OMB also wrote to the Governors on May 5, 1982, requesting a brief description of how States intend to audit each block grant. These descriptions will be provided to the Federal Inspectors General because one of their responsibilities will be to monitor State audits to determine whether they conform to the Comptroller General's standards. In making these assessments, they intend to place primary reliance on a review of the audit systems and procedures States use to assure audit requirements are met.

### CONCLUSIONS

The block grant legislation and regulations place great reliance on State oversight procedures. At the time of our review such block grant mechanisms were evolving. Early developments regarding State legislative and public involvement in block grant planning were limited by the short time frame preceding implementation, and plans were being developed for performing audits of block grant expenditures. Thus, definite assessments of these areas cannot yet be made, but certain trends did emerge during early block grant implementation.

State legislatures are expected to become increasingly involved in block grant decisions. In 10 of the 13 States we visited the legislatures had enacted measures influencing early block grant implementation and/or enhancing their oversight of future block grant decisions. Almost all of these legislatures now have the authority to appropriate block grant funds and will have the opportunity to review block grant plans.

Public participation during early block grant implementation was obtained in a number of ways. Public hearings were held, and the views of citizens and local entities were received through such means as circulating plans and establishing advisory groups. State methods for obtaining future public participation, however, had not been finalized at the time we completed our work. A more complete picture should be available next year because States will have had more time and the public hearing requirements will be in effect.

A primary oversight vehicle contemplated by the block grant legislation is State audits of block grant funds. Audit strategies were being developed, and States were considering questions that have arisen concerning such factors as the approach and funding of block grant audits. Also, to help address the States'

concerns OMB has issued guidance on block grant audit issues and requested States to submit their audit plans so an early dialogue can begin.

## CHAPTER 5

### FEDERAL BLOCK GRANT IMPLEMENTATION

#### STRESSES MINIMAL INVOLVEMENT

Federal block grant implementation has expanded upon the State administrative and oversight role established in the legislation. Traditional Federal management activities, such as application review, generally have been curtailed by the legislation and restricted by Federal agencies' decisions to provide States with substantial discretion. States are responsible for exercising this discretion consistent with the requirements of the Reconciliation Act. For the most part, Federal agencies have indicated they will not interfere with State prerogatives to exercise this discretion. Moreover, with the exception of HUD, Federal agencies have not specified the applicability of national policy requirements to the block grant programs.

#### FEDERAL AGENCIES EMPHASIZE STATE DISCRETION IN IMPLEMENTING THE LEGISLATION

Regulations issued by HHS, HUD, and Education contain few interpretations of the block grant legislation and encourage States to refer directly to the statute for guidance. In the past, regulations have repeated statutory provisions and provided additional explanation which became the primary source of grantee guidance. In contrast, the block grant regulations stress the shift in program responsibility and authority to States and emphasize Federal agency deference to States' prerogatives to implement their programs. Federal agencies have not established the form and content of applications and annual reports. Instead, States have been instructed to ensure that these submissions meet statutory requirements.

#### Regulations give States maximum authority

Consistent with the Administration's philosophy of minimal Federal involvement, agencies for the most part have passed administrative discretion on to the States. Unlike the regulations accompanying the predecessor programs, the block grant regulations prescribe few definitions for legislative provisions. For example, HHS is not providing guidance for defining State administrative costs, which must be kept to a certain dollar percentage in all but the Social Services and Maternal and Child Health Services block grants. Similarly, no detailed explanation is provided for the term construction, which is not an eligible activity under six block grants.

HUD and Education regulations generally adhere to the same philosophy but in some cases provide more explanations of statutory provisions. For example, the proposed Education regulations list State expenditures which will and will not be considered in determining compliance with maintenance of effort requirements. Although final HUD regulations do not specify a standard definition of low- and moderate-income families, which are the primary beneficiaries cited in the statutory objectives, they suggest States consider standards specified in other Federal housing programs.

Rather than prescribe standard management procedures, the block grant regulations encourage reliance on existing State systems and laws. This is done by exempting States from the usual agency grant administration requirements based on OMB financial management circulars. The preamble to HHS interim final regulations indicates that it would be inappropriate to require adherence to these circulars given the legislative intent to place greater reliance on State processes. Although HUD and Education regulations also exempt compliance with these circulars, they specify that equivalent State procedures will be acceptable and that States continuing to use these circulars will be considered in compliance.

The block grant regulations stress that deference will be made to State statutory interpretations in Federal enforcement efforts. HHS regulations go on to state that where a State's compliance with its own assurances and the law is questioned, the Department will ordinarily defer to the State's interpretation unless it is clearly erroneous. HUD regulations state that the Secretary will give maximum feasible deference to State interpretation unless State procedures are deemed insufficient to assure that local government activities are consistent with the objectives of the State and the law.

States provided substantial discretion in preparing applications, plans, and reports

All the block grants require States to make submissions prior to receiving funds. Generally, States must provide descriptions of the intended use of block grant funds and/or certify compliance with statutory assurances, such as maintaining adequate fiscal controls and complying with civil rights laws. Administering Federal agencies review these submissions, but in some cases they are prohibited by law from prescribing the manner in which States must comply with the required statutory assurances.

Agencies have the authority to prescribe the format of these submissions, but have chosen not to do so. Also, they have not elaborated on what information should be included in these submissions. Essentially, State applications are reviewed to ensure that they are complete and contain information required by the statutes. As a result, the amount of information provided in

block grant submissions varies considerably. For example, block grant applications for the 13 States we visited ranged from very detailed submissions to applications only a few pages long.

In addition to reviewing applications, Federal agencies under certain block grants are required to conduct annual investigations in several States to review compliance with State assurances and law. In conducting such investigations, agencies in some instances are precluded from requesting any information that is not readily available. At the time of our review, Federal agencies were developing procedures for these investigations.

Generally, States also are required to submit annual reports on block grant activities. Federal agencies generally are empowered to prescribe the form and content of these reports, but, consistent with the Administration's philosophy of minimal Federal involvement, they have decided to pass this discretion on to the States. States are simply expected to submit reports which meet the requirements of the block grant statutes.

Additionally, States are not required to submit data for reporting systems maintained under the programs preceding the block grants. For example, under the Social Services block grant, States no longer have to provide a quarterly estimate or report of expenditures. Similarly, for the Maternal and Child Health Services block grant, States do not have to submit information for the Bureau Common Reporting Requirements System which provided data on the use and cost of services under the categorical programs.

Because of concern over having sufficient and uniform information, States are cooperating with professional organizations to maintain or develop reporting systems. For example, State health officials are working through the Association of State and Territorial Health Officials (ASTHO) to modify that organization's National Public Health Program Reporting System and meet the Maternal and Child Health Services and Preventive Health and Health Services block grant reporting requirements. Through this effort, officials hope to ensure that uniform data on expenditures and services are available for national assessments.

Similarly, the National Governors' Association and the American Public Welfare Association (APWA) are working with States to develop a similar reporting system for the Low-Income Home Energy Assistance block grant. Also, HHS has provided APWA with a grant to design a voluntary system to collect national data on human services programs.

The Department has encouraged these voluntary efforts, but continued funding for reporting systems is uncertain. For example, OMB has agreed to fund the ASTHO system for fiscal year 1982 to collect 1981 data. While this was done to aid States during the transition year, OMB has stated that it will not

approve any further funding for the ASTHO effort. OMB has stated it will individually review and assess future proposals to fund State data collection systems.

STATES HAVE BEEN PROVIDED  
LITTLE GUIDANCE ON THE  
APPLICABILITY OF FEDERAL  
CROSSCUTTING REQUIREMENTS

Crosscutting requirements are statutes or administrative requirements which apply by their terms to all or several Federal assistance programs. Some of these requirements, such as nondiscrimination statutes, are specifically referred to in the block grant legislation, but the act and regulations are silent on applicability and State responsibilities for other crosscutting requirements. Given the short time available to plan and administer the block grant programs, States are just now considering these issues and several believe Federal advice on this matter would be helpful.

Crosscutting requirements are imposed on Federal assistance activities to attain certain national policies, such as civil rights or environmental protection, which transcend the objectives of a particular grant program. In a 1980 study, OMB identified at least 59 requirements. With rare exceptions, these requirements are applicable or not applicable to all States uniformly.

Some of these crosscutting requirements are cited in the Reconciliation Act as applicable to the block grants. Civil rights statutes prohibiting discrimination on the basis of race, color, national origin, age, or handicap are referred to in the legislation for all but two of the block grants, and a number cite Title IX of the Education Amendments of 1972 which prohibits sex discrimination. A prohibition against partisan political activity is contained in the Community Services block grant. Moreover, the Small Cities legislation notes the applicability of the National Environmental Policy Act and related laws and the Davis-Bacon Act.

As opposed to making an explicit determination of the applicability of crosscutting requirements to the block grants, Federal agencies at this time are addressing the issue selectively. If the Federal administering agencies believe that a particular requirement applies or that guidance is warranted, they are to seek general Administration agreement through the interagency Block Grant Implementation Task Force led by OMB. If required, an opinion is sought from the Attorney General. OMB and the Federal administering agencies, however, are considering alternative ways of approaching the subject.

HHS generally has not determined the applicability of crosscutting requirements which are not specifically mentioned



in the legislation. Through the regulations, the Secretary of HHS has interpreted existing statutes against discrimination on the basis of race, color, national origin, age, or handicap as applying to the Social Services block grant. Also, the regulations indicate that OMB Circulars A-102, "Uniform Administrative Requirements for Grants to State and Local Governments," and A-87 "Cost Principles;" do not apply to the block grants and HHS draft final regulations further exempt adherence to OMB Circular A-95 "Evaluation, Review and Coordination of Federal and Federally Assisted Programs and Projects." However, the applicability of other crosscutting requirements that deal with concerns such as labor standards, health and safety, and public employee standards have not been addressed in the HHS regulations.

Concerning nondiscrimination, the preamble to the HHS regulations states that existing civil rights regulations apply to the Department's programs including block grants. The Department is preparing regulations to implement the sex and religious nondiscrimination provisions included in several of the block grant statutes, but these regulations have not yet been issued. Also, HHS is studying procedures concerning the referral of civil rights complaints to the States to secure their voluntary compliance.

Similarly, the Secretary of Education has addressed only the applicability of civil rights and financial management crosscutting requirements to the education block grant. The proposed block grant regulations cite the applicability of existing statutes and implementing regulations which prohibit discrimination on the basis of race, color, national origin, handicap, sex, or age. Like HHS, the Department has determined that OMB financial management circulars A-102 and A-87 do not apply to the block grant, nor do A-21, "Cost Principles for Educational Institutions" and A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations - Uniform Administrative Requirements."

In response to certain statutory responsibilities and at the urging of various commentators, including States, HUD has addressed the applicability of certain crosscutting requirements in the Small Cities program regulations. HUD believed it important to address this issue through regulations because of legislative requirements that (1) States certify that they will comply with other applicable laws, and (2) HUD perform reviews and audits to determine whether States are complying with other applicable statutes and are assuring such compliance by their grantees.

As a result, HUD regulations refer to a number of crosscutting requirements, not cited in the grant legislation, which the Secretary will treat as applicable to the Small Cities block grant. For example, HUD regulations cite the applicability of the Contract Work Hours and Safety Standards Act, the Lead Based Paint Poisoning Prevention Act, and several laws on environmental protection and

historic preservation related to the National Environmental Policy Act. The Department mentions the applicability of the Uniform Relocation Assistance and Real Property Acquisition Policies Act is being considered by the Department of Justice and it is consulting with the Department of Labor regarding the requirements of Executive Order 11246, which involves equal employment opportunity obligations regarding federally assisted construction. Also, the Department states that it is not expressing any view as to the circumstances in which the Hatch Act may be applicable.

Given the short time available, almost all of the States we visited have not analyzed whether crosscutting requirements not cited in the legislation apply to the block grants. Several officials noted that their States had requirements similar to some of those contained in the crosscutting requirements. Other officials assumed that requirements applicable to the prior categorical programs apply to the block grants as well and they plan to continue existing compliance procedures.

Some State officials were uncertain about the applicability of crosscutting requirements and others offered varying opinions as to which ones applied to the block grants. Officials in 10 of the 13 States we visited said that they would like Federal guidance on this matter. For example, the First Deputy Attorney General in Pennsylvania said that Federal guidance in this area would allow the State to identify potential problem areas and to help the State avoid lawsuits and related costs.

#### CONCLUSIONS

Federal agencies have adhered to a policy of minimal involvement in block grant implementation. In several cases Federal authority is limited by statute; but even where agencies have discretion, they often have passed it on to the States. Agencies are developing procedures for fulfilling their compliance and enforcement responsibilities in such areas as nondiscrimination and have stated their intent to rely heavily on States' interpretations of the statutes.

Federal agencies have not prescribed standard block grant report formats or uniform data collection. Concerns about the need for such information for national assessments, however, have prompted efforts to establish voluntary reporting systems for certain block grants. A key issue will be whether this approach produces information sufficient for national policymaking.

Another question raised during early implementation was whether national crosscutting requirements, such as fair labor standards and political activities constraints, apply to the block grants. Aside from certain civil rights laws, the Reconciliation Act and HHS and Department of Education regulations by and large

are silent on the subject. An exception to this pattern is the HUD regulations for the Small Cities block grant program which address the applicability of a number of the national crosscutting requirements. In general, as opposed to making an explicit determination of the applicability of crosscutting requirements, Federal agencies at this time are addressing the issue selectively, but they are considering alternative approaches. Given the short time available preceding implementation, most States were just considering the applicability of these requirements and believed that Federal advice would be desirable.

We believe that it would be helpful, in minimizing potential problems, if the Office of Management and Budget in coordination with the responsible Federal agencies assessed whether or not the crosscutting requirements apply to the block grant programs. This would provide a basis for sound advice to the States and for seeking remedial legislation if that were deemed appropriate. In responding to this report, OMB stated that it has begun a process to work with the Federal agencies and others to consider general guidance on the crosscutting requirements.

NUMBER OF STATES ADMINISTERING BLOCK  
GRANTS WITH OPTIONAL TRANSITION PERIODS,  
FIRST, SECOND, AND THIRD QUARTERS, FY 1982

(note a)

	<u>October 1, 1981</u>		<u>January 1, 1982</u>		<u>April 1, 1982</u>	
	<u>Number</u> <u>of</u> <u>States</u> <u>admini-</u> <u>stering</u>	<u>Number</u> <u>of</u> <u>States</u> <u>defer-</u> <u>ring</u>	<u>Number</u> <u>of</u> <u>States</u> <u>admini-</u> <u>stering</u>	<u>Number</u> <u>of</u> <u>States</u> <u>defer-</u> <u>ring</u>	<u>Number</u> <u>of</u> <u>States</u> <u>admini-</u> <u>stering</u>	<u>Number</u> <u>of</u> <u>States</u> <u>defer-</u> <u>ring</u>
Maternal and Child Health Services	48	3	49	2	49	2
Preventive Health and Health Ser- vices	47	4	49	2	49	2
Alcohol, Drug Abuse, and Mental Health Services	47	4	50	1	50	1
Community Services	37	14	40	11	41	10

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a/Includes District of Columbia.

DECISIONS MADE BY THE 13 STATES GAO  
VISITED REGARDING OPTIONAL BLOCK GRANTS

<u>State</u>	<u>Block grants</u>			
	<u>Maternal and Child Health Services</u>	<u>Preventive Health and Health Services</u>	<u>Alcohol, Drug Abuse, and Mental Health Services</u>	<u>Community Services</u>
California	N	N	N	N
Colorado	X	X	X	N
Florida	X	X	X	N
Iowa	X	X	X	X
Kentucky	X	X	X	X
Massachusetts	X	X	X	X
Michigan	X	X	X	X
Mississippi	X	X	X	X
New York	N	N	X	N
Pennsylvania	X	X	X	X
Texas	X	X	X	N
Vermont	X	X	X	X
Washington	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
Total number electing to administer the block grant programs	<u>11</u>	<u>11</u>	<u>12</u>	<u>8</u>

X = States electing to administer the block grant programs

N = States not opting to administer the programs



EXECUTIVE OFFICE OF THE PRESIDENT  
 OFFICE OF MANAGEMENT AND BUDGET  
 WASHINGTON, D.C. 20503

**JUL 6 1982**

Mr. William J. Anderson  
 Director, General Government  
 Division  
 General Accounting Office  
 441 G Street, N.W.  
 Washington, D.C. 20548

Dear Mr. Anderson:

This responds to your June 15, 1982 letter to OMB Director, David A. Stockman, requesting comments on the proposed report to the Congress entitled "Observations on Early Block Grant Implementation."

In general the report is a good, useful summary of the states' experiences. It reaffirms our perceptions that the states have been generally successful in assuming the new programs. It offers some useful new insights on state experiences, and provides an even-handed, objective discussion of the subject.

SUMMARY AND COMMENTS ON MAJOR CONCLUSIONS

The following briefly summarizes major observations/conclusions of the subject report, and offers brief comments where appropriate.

- o Prior state involvement helped ease the transition to block grants - pp. 9-13.

Comment: This conclusion suggests implications for transition provisions. What are they? Should the transition period be varied according to the type of program, i.e., according to amount of state involvement?

- (1) GAO response: We believe that the extent of prior State experience should be an important consideration in setting transition schedules for block grants. The absence of prior State involvement does not mean a State would be unable to take over a particular function, but it does say a great deal about the time which may be needed to make the necessary adjustments. Although previous State experience

is an important determination, other factors, such as the number and characteristics of the programs preceding the block grant and the complexity and structure of the block grant legislation, also need to be deliberated in formulating block grant transitions.

- o Need for more timely and reliable data to assist states in planning for transition - pp. 15-18.

Comment: This implies that there is a better way. What is it?

(2) GAO response: A number of the State and Federal regional office officials we interviewed offered suggestions which they believe would have eased the transition to block grants. These officials commented that in any future transition particular attention should be given to such factors as allowing more lead time, providing more reliable information on funding levels, and establishing a more definitive and greater role for the Federal regional offices.

-- The report does not adequately cite the practical limitations in providing timely and accurate data, i.e., limited time available, insufficient centralized data availability, uncertainty of funding levels. They should be cited so that they can be avoided, if possible, in the future.

(3) GAO response: We believe that the report recognizes the limitations imposed by such factors. For example, on page 17 we recognized the short time available and that given this constraint several State officials were generally satisfied with the information they received. Also, on page 18 we stated that the uncertainty of block grant funding levels was a universal concern of States and was caused in large part by the enactment of a series of continuing resolutions in lieu of a final block grant appropriation.

-- The report should also note that the data availability problem was due primarily to the fact that while there was limited time between the date the block grant statutes were enacted and the earliest date the grants could be assumed, most states decided to assume the programs at the earliest date rather than later in the transition period.

(4) GAO response: Regardless of the outcome of the States' decisions, adequate and timely data were needed soon after the block grant legislation was enacted so States could decide whether to assume responsibility for the block grants or opt for continued Federal administration. Also, information was needed to consider what adjustments were necessary to begin block grant administration. Further, two of the six block grants which became effective on October 1, 1981--Social Services and Low-Income Home Energy Assistance--did not even have optional transition periods available.

-- In the interests of balance, the report should cite the extraordinary, and in some cases unprecedented, lengths the Administration took to meet the problem (such as the WH/OMB-led administering agencies briefings).

(5) GAO response: We believe the report is balanced in this regard and that Federal transition activities are given appropriate coverage. For example, pages 15 and 16 are devoted to explaining what actions were taken by OMB and the other Federal agencies to assist the States. Also, page 16 lists certain Federal efforts which were cited as particularly helpful and specifically mentions that about half the States we visited noted that the White House regional conferences were valuable.

- o Funding reductions - states' implementation efforts centered on coping with funding reductions; however, impact was mitigated by FY 1981 funded projects which spend out in FY 1982 - pp. 20-23.

Comment: The discussion suggests that funding reductions and block grant structure are somehow intertwined. The report should make clear that the form of the grant is a completely separate issue from funding levels.

(6) GAO response: From a conceptual and analytical view, we agree that the structure and form of a grant instrument is a distinct issue, but it is not entirely unrelated to the level of funding. From a practical standpoint, a major item confronting State officials in implementing the block grants was the reduced funding levels which in general accompanied the programs. As a result, it was not unusual for State officials to view block grants and funding reductions as related issues. In fact, one argument offered by block grant proponents was that funding reductions could be accommodated without a corresponding reduction in services because more efficient operations would result.



- o Limitations/earmarks lessened state flexibility, and therefore shifting of funds - pp. 23-24.

Comment: This observation suggests support for elimination of legislative ear-marking. Will GAO offer specifics for consideration by Congress?

- (7) GAO response: We disagree that our observation suggests support for eliminating or retaining any legislative earmarking provisions. We discussed this issue solely because it was one factor influencing State funding decisions during the transition.

- o Management improvements - too early to tell if significant administrative savings will be realized by states as a result of block grants. However, some tentative estimates are offered - pp. 27-28.

Comment: It might be worthwhile trying to document administrative savings in the future. Does GAO have any such plans?

- (8) GAO response: As noted in the introduction to the report, we plan to do future work in the block grant area, and we will give due consideration to addressing this issue.

- o Audit - report summarizes OMB issuance of guidance on audit - pp. 35-37. The report also notes that in some cases, audits are not scheduled to start until October 1, 1982, and many not until October 1, 1983.

Comment: The report does not adequately emphasize the importance for states to expedite their audit planning. Furthermore, because most states have a June 30 fiscal year, most audits must begin shortly after June 30, 1982. Planning for these should have already begun.

- (9) GAO response: As discussed in the introduction to the report, our objective was to provide a status report and not to assess the States' effectiveness in administering the programs because of the very early stage of the implementation process. Also, even though most States end their fiscal year on June 30, they still have the option of having block grant audits done based on the Federal fiscal year. Moreover, half of the six block grants in effect during our review contain biennial rather than annual audit requirements.

- o Lack of standard data raises concerns over inadequate data for national assessments - pp. 40-42.

Comment: This observation suggests, but does not state explicitly, the need for national standard data. Does GAO mean to suggest that national assessments are desired? If not, what is the need for standard data? We suggest that the reason for such data be spelled out explicitly. Otherwise the reader wonders why it has been suggested.

- (10) GAO response: This section was included to describe the concerns of various parties about having sufficient data available on State block grant activities and the status of efforts to provide data. Whether or not national assessments are intended or desired, information will still be needed to evaluate proposed changes to the block grant programs and to help the Congress and the Administration formulate national policy.

- o Crosscutting requirements - assistance agencies should provide guidance, under OMB direction - pp. 42-44.

Comment: OMB has begun a process in which we will be working with agencies and others to consider general, non-binding guidance.

- (11) GAO response: The sections of the report concerning crosscutting requirements were updated to reflect OMB's recent decision.

#### OTHER SPECIFIC COMMENTS

The following identifies specific comments/suggestions on factual statements in the body of the report.

- o The report states that blocks replaced over 70 federal categorical programs - p .1.

Comment: We identify 57 programs replaced, or if the Catalog of Federal Domestic Assistance is used, 92 programs. We suggest a reconciliation be made, or that our numbers be used.

- (12) GAO response: The number of categorical programs counted as replaced by the block grants is 80, as shown in the chart on pages 2 and 3. We agreed with OMB staff that we would use this count, which includes those programs in OMB's November 12, 1981 Catalog of Federal Domestic Assistance listing of programs that were actually included in the nine block grants, as defined in our report.

- o The report states that the Social Services block grant had the effect of "slightly expanding" the Title XX program - p. 1.

Comment: The statute did increase flexibility, but did not expand the program. We suggest changing wording to "increased flexibility."

(13) GAO response: The wording of the sentence has been changed to show that the Social Services block grant added Social Services training to the Title XX program.

- o The report discusses matching requirements for block grants, including 33 - 1/3% match in FY 1984 for Primary Care - p. 5

Comment: The report should add that the matching requirement for Primary Care is 20% in FY 1983.

(14) GAO response: The 1983 matching requirement for the Primary Care block grant has been added.

- The report notes that most block grants permit the Secretary to fund Indian tribes and tribal organizations directly - p. 5.

Comment: The report should make clear that only duly recognized tribes are eligible to receive funds directly.

(15) GAO response: This change has been made.

- o The report describes the initial activities of the EOP Block Grant Implementation Task Force - p. 15.

Comment: The report should describe the activities generally as follows: "To ensure a consistent and unobtrusive federal policy, and rapid implementation, transition efforts have been coordinated through an interagency task force led by the Associate Director for Management of the Office of Management and Budget and composed of officials from all pertinent areas of OMB, the White House, and the Departments of Education,

HHS, and HUD. The task force concentrated on (1) coordinating the development and review of implementing regulations to assure that they reflect the Administration's policy of simplicity, neutrality, and nonprescriptiveness, adequately addressed state and local concerns, and were issued expeditiously; (2) addressing key financial management issues associated with funds disbursement and control; and (3) providing adequate information to states so that they could make informed decisions on whether to accept the grants for which they had the option of doing so, and to plan for assuming them. A series of eight regional briefings, sponsored by the White House, were held to discuss the block grant programs with state and local officials. OMB has continued to disseminate block grant information through a Fiscal Network, which includes state legislative and executive officials."

(16) GAO response: The suggested language has been added.

- o In discussion of apportionment of funds for the Community Services Block Grant, the report states that under the fourth continuing resolution, state allotments were revised downward because a greater amount of funds were set aside for the Secretary's discretionary programs and HHS personnel costs - p. 18.

Comment: (a) The report should note that the revision reflected congressional intent established in an action on the HHS-Labor appropriation bill for FY 1982. (b) The report should delete reference to HHS personnel costs - no such adjustment was made for this purpose, only for the Secretary's discretionary fund.

- (17) GAO response: (a) The intent of the Congress regarding the Community Services discretionary fund was established in the September 23, 1981, House of Representatives Appropriations Committee's Report 97-251. It was an administrative decision to originally set aside less money for the Secretary's discretionary fund than the report called for. It was not until the third quarter of fiscal year 1982 that the amount set aside for the fund was increased and corresponding reductions were made in States' annual allocations. (b) We have deleted the reference to HHS personnel costs.

- o The report describes earmarking provisions for various block grants - p. 24.

Comment: The report should add that for Alcohol, Drug Abuse, and Mental Health Services, 35% of substance abuse funds must be devoted to drug abuse.

(18) GAO response: This addition has been made.

- o The report notes that HHS has funded the Association of State and Territorial Health Officers (ASTHO) to modify that organization's reporting system and help meet certain block grant reporting requirements, and that it has funded the American Public Welfare Association to design a voluntary system to collect national data on human services programs. It then states that OMB has stated it will not approve any further funding of state data collection efforts - p. 41.

Comment: A decision has been made by the Administration not to provide further funds for the ASTHO effort. However, OMB has no position on funding of state data collection efforts generally, or for block grants in particular. Each data collection proposal is reviewed on its merits.

(19) GAO response: We have changed the language to reflect OMB's current position. Our original text was based on a March 5, 1982, letter from the OMB Administrator for Information and Regulatory Affairs to the Secretary of Health and Human Services.

- o The report discusses procedures which HHS is following to implement non-discrimination provisions under block grants - p. 43.

Comment: The report should note that the HHS effort is addressing only civil rights features of block grants which depart from other civil rights laws and procedures - i.e., sex and religion and 60 day action by the Governors. Otherwise, HHS does not contemplate any new civil rights enforcement activities for block grants.

(20) GAO response: We made changes in the discussion of HHS' efforts to implement nondiscrimination provisions, and HHS officials have stated that the report accurately presents the Department's intentions.

OTHER GENERAL COMMENTS

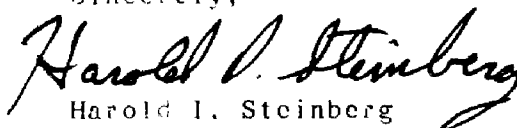
OMB has identified several general issues not addressed in the GAO report. Future monitoring of block grants might usefully focus on them. These include the following.

- o Standard Administrative Provisions: It would be useful to know how the states feel about the standard administrative provisions, including Title XVII, and the need for standardization. For instance, the annual vs. bi-annual audit requirement is a problem for many states.
- o Litigation: Concern has been expressed by some over the likelihood and impact of litigation. It would be useful to know if states have any views/expectations in this area, and states' experiences.
- o Civil Rights Enforcement: It would be useful to know of any concerns/issues in this area and what has been state experience to date.

\* \* \* \* \*

I appreciate the opportunity to comment on the draft report. I look forward to working with you and your staff in the future as the report is finalized, legislative recommendations are offered to Congress, and monitoring of the block grants continues.

Sincerely,

  
Harold I. Steinberg  
Associate Director for  
Management



THE SECRETARY  
WASHINGTON, D.C. 20202

JUN 23 1982

Mr. Gregory J. Ahart  
Director  
Human Resources Division  
United States General  
Accounting Office  
Washington, D.C. 20548

Dear Mr. Ahart:

This is in response to your request for our comments on your draft report entitled "Observations on Early Block Grant Implementation."

We recognize that the subject report specifically excludes any field study consideration of the education block grant, which was not operating at the time of the GAO review, and that comments made on the education block grant are by way of comparison of statutory and proposed regulatory features to those of the other eight block grants. Nevertheless, it is our observation that the field experience of State and local educational agencies involved in preparation for the education block grant closely parallels that of other agencies in relation to the Health and Human Services and Housing and Urban Development block grants, and that the general findings of the GAO report are applicable to the education sector. Because of the existence in education of the transition factors cited in your report, we anticipate minimal problems in implementing the education block grant on the July 1, 1982 start date.

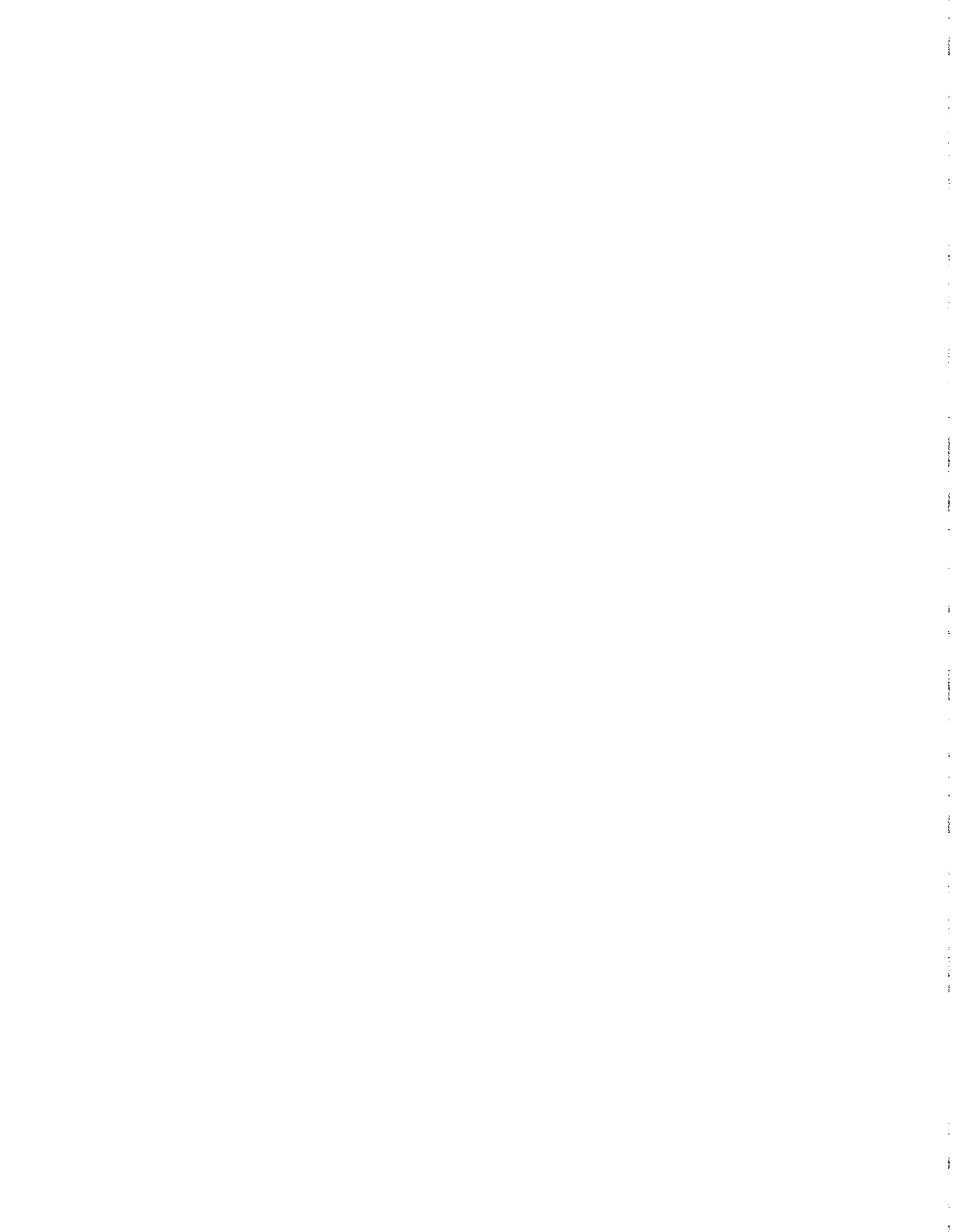
There are two technical points for your consideration. The report makes reference (page 3) to 38 education programs replaced by the block grant, whereas we usually count 42. GAO refers only to those funded programs listed in the Catalog of Federal Domestic Assistance Programs (as indicated in the table footnote). Secondly, we suggest the insertion of language on page 5, first paragraph, last sentence--between "expenditures" and "at," the phrase, "for the provision of free public education for the preceding fiscal year;" and between "of" and "the," the phrase, "the level of such expenditures for."

We found the report very helpful and will take the findings into consideration as we work with colleagues in the field of education to move toward a successful implementation of the block grant concept. Thank you for giving me this opportunity to comment.

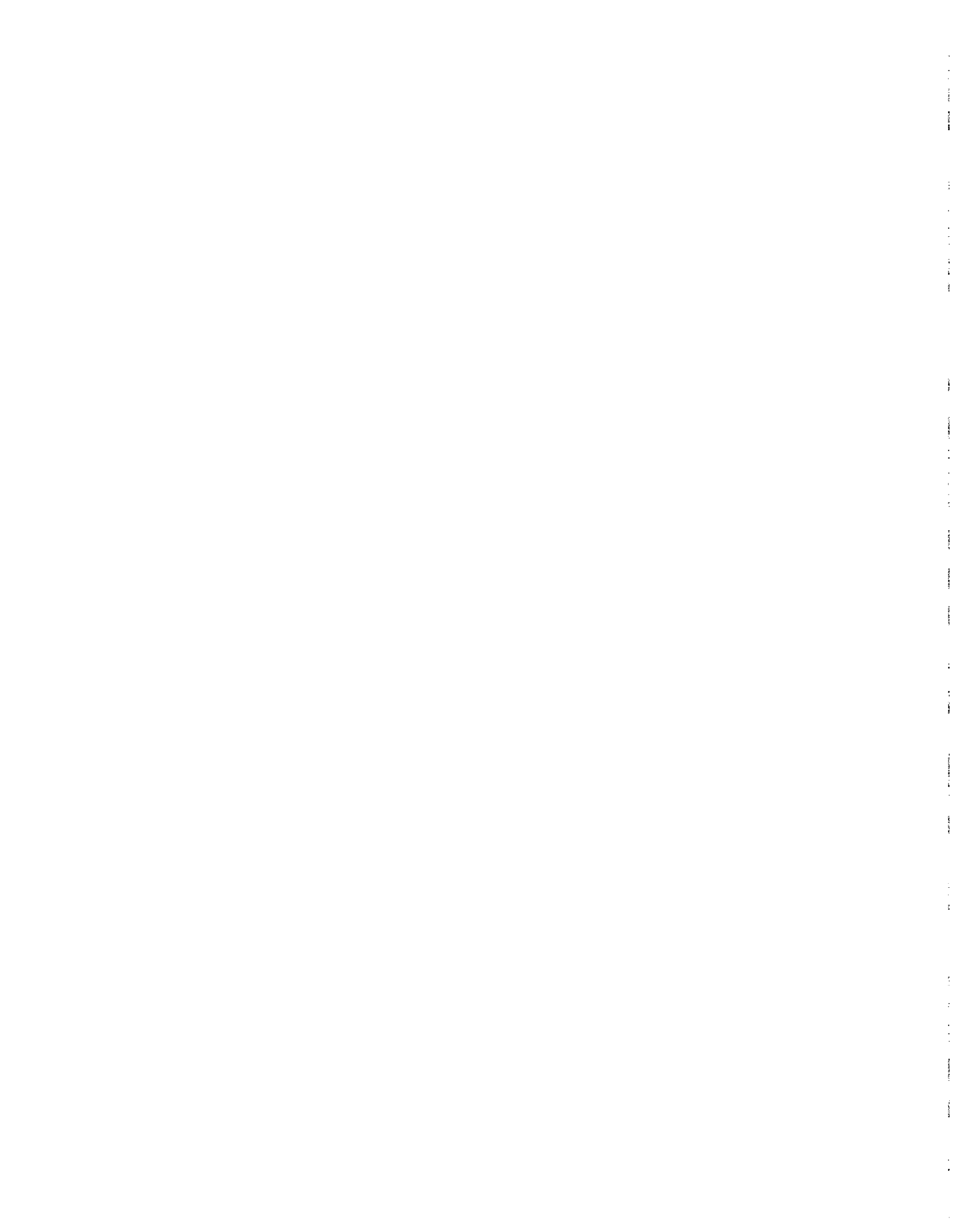
Sincerely,

A handwritten signature in cursive script, appearing to read "T. H. Bell".

T. H. Bell







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