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REPORT TO THE CONGRESS

Legislation Needed To Simplify The Federal Funding Of State Employment Security Agencies' Administrative Expenses B-115349

Department of Labor

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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JULY 23, 1973

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-115349

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

This is our report on the funding of administrative expenses for State employment security agencies by the Department of Labor

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U S C 53), and the Accounting and Auditing Act of 1950 (31 U S C 67)

We are sending this report to the Director, Office of Management and Budget, and to the Secretary of Labor

Elmer B. Staats

Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
ICESA	Interstate Conference of Employment Security Agencies

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DIGEST

WHY THE REVIEW WAS MADE

GAO was asked to comment on statements by a State employment security agency official that a change in the policy for funding administrative expenses may jeopardize true reporting of activity time and consequently invalidate the State's cost accounting system GAO concurred in these observations (See pp 5 and 6)

GAO also studied the matter further to find the reason for the change by the Manpower Administration, Department of Labor, and to find alternative solutions which would insure accurate accounting information

For fiscal year 1974 Federal funds of more than $1 billion are being requested for administrative expenses of the State employment security agencies The agencies operate in the 50 States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands

FINDINGS AND CONCLUSIONS

The Department of Labor grants obligational authority to each State from several Federal fund sources and relies on the States to account for the funds, however, the Department is responsible for complying with the Antideficiency Act (31 U S C 665)

Until recently obligational authority was granted to the States with a limitation placed on the total funds provided, even though funds were provided from several sources During fiscal year 1972 the Department advised the States that the obligational authority would apply to each of the various fund sources, rather than to the total funds provided, and that an overcharge to any fund source would be regarded as a violation of the Antideficiency Act

Several States complained when the Department changed its policy They pointed out that, since services are similar, employees are used on various programs as required Such use is more efficient and economical than allowing employees assigned to a particular program to remain idle while additional employees are hired to help in another program

State officials contend that the current instruction could force State agencies to charge their expenses to programs which have remaining funds rather than to programs to which they actually relate This would, in effect, negate the benefits of the States' cost accounting systems and result in reporting incorrect information regarding operating costs of the programs. (See p 4)

Legislation is needed to simplify the Federal funding of administrative expenses of State agencies.

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JULY 23, 1973

Without this legislation the Department is faced with the dilemma of either (1) requiring that State agencies correctly report the use of funds and thereby run the risk of violating the Antideficiency Act for particular fund sources or (2) allowing the State agencies to incorrectly report fund usages to avoid recording and disclosing such violations (See p 4)

There are several alternatives which, GAO believes, can solve the dilemma However, to achieve this, congressional action is needed (See p 9)

RECOMMENDATIONS

We recommend that the Secretary of Labor request legislation embracing some form of joint funding and permitting State agencies to obligate administrative expenses against a single allocation of funds (See p 8)

AGENCY ACTIONS

The Department agrees that there is a need to simplify the Federal funding of administrative expenses of State agencies Moreover, the Department and the Office of Management and Budget concurred in the principle of providing some type of joint funding that would permit States to obligate administrative costs against a single limitation The Department has agreed to request such legislation as recommended (See p 8)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider legislation to simplify the funding of administrative expenses for State agencies GAO is suggesting several alternatives to accomplish this objective, which the Department has agreed to consider in preparing its request for legislation (See p 9)

CHAPTER 1

INTRODUCTION

The Department of Labor was established on March 4, 1913 (37 Stat 736) Its responsibilities are based on the act creating it and on subsequent legislation The Manpower Administration, a component of the Department of Labor, administers the Federal-State Employment Security programs which are carried out by State employment security agencies in the 50 States, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands The services include paying persons covered by unemployment insurance, collecting unemployment taxes, assisting in job placement, making allowances for training and relocation, assisting employers in analyzing their requirements, and aiding communities in developing employment opportunities

Our review concerned the funding of the administrative expenses for these programs which is estimated at $1 billion for fiscal year 1974 We tried to identify the problems in accounting for administrative expenses by the Department and by the State agencies for grants funded under the Federal-State Employment Security programs We studied Department and State policies and procedures for accounting for funds granted to the States and discussed the accounting for these funds with officials of the Department and with representatives of two States We also reviewed related documents obtained from the Department

CHAPTER 2

FUNDING OF STATE EMPLOYMENT

SECURITY AGENCIES' ADMINISTRATIVE EXPENSES

Legislation is needed to simplify the Federal funding of administrative expenses of State agencies Our review of Federal and State policies and procedures for accounting for funds granted to the States indicated that current funding arrangements tend to discourage the States from accurately accounting for costs by program

Under present legislation the Department is faced with the dilemma of either (1) risking violation of the Anti-deficiency Act for particular fund sources even though funds are available through other sources or (2) allowing the State agencies to incorrectly report fund usages to avoid recording and disclosing such violations

CONTROL OF OBLIGATIONS UNDER PRESENT FUNDING ARRANGEMENTS

The Department grants obligational authority to each State from several Federal fund sources and relies on the States to account for funds, however, it is responsible for complying with the Antideficiency Act The Department obtains funds from direct appropriations and by transfers from several appropriations made to other agencies Obligation authority of more than $1 billion is being requested for administrative expenses in 1974 through eight different funding authorities Fund sources for 1974 and the amounts of obligational authority estimated to be granted to the States for each are shown in appendix I

The State administrative expenses are predominantly for personal services. State employees interview, test, and counsel applicants to determine eligibility, capability, and availability for placement in various training programs or directly in a job and determine eligibility and make payments of authorized financial benefits to individuals

Since the services are similar, employees are used on various programs as required Such use is more efficient and economical then allowing employees assigned to a particular program to remain idle while additional employees are hired to help in another program The State accounting system is designed to charge costs to the programs where the work is done and to distribute the related obligations to the financing appropriations

Until recently obligational authority granted to each State for its administrative expenses was allowed to be considered as a single limitation even though funds were provided from several sources Actual administrative costs and obligations incurred by programs were then reported by the States without regard to each fund source limitation It was anticipated that, although overobligations might be reported by some States for a particular fund source, these would be offset by underobligations reported by other States However, late in fiscal year 1972, administrative expense funds authorized for some programs were being exceeded by several States, and it appeared that overobligations of individual funds on an overall basis might result To avoid violations of the Antideficiency Act, which limits obligations to the amount available from each appropriation, the Department rescinded the States' authority to combine obligational authority (referred to as bottom-line authority)

Under current procedures each State is required to furnish the Department with a monthly Status of Obligational Authority report which, for each fund source, compares obligations incurred with obligational authority The Department instructed the States in August 1972 to limit reported obligations for each fund source to the fund's obligational authority and, when obligations incurred exceed these amounts, to adjust reported obligations so that an overobligation would not be disclosed

In January 1973, the Department rescinded this instruction and directed that no adjustments be made The Department advised the States that any overcharge to an appropriation, if not covered by additional funding, would be regarded as a potential violation of the Antideficiency Act and as cause for disallowance during a subsequent audit

CONCERNS EXPRESSED BY STATES ON ACCOUNTING FOR ADMINISTRATIVE EXPENSES

Several States complained when the Department rescinded bottom-line authority For example, on May 4, 1972, the administrator for the Employment Division, Oregon State Employment Service, informed the Department that that State's managers would be coerced by funding constraints to see that employees report their time as budgeted rather than as actually worked Thus he pointed out that emphasis on funding may jeopardize true reporting of activity time and consequently invalidate the State's accounting system results The administrator sent a copy of his letter to the Chairman, House Committee on Government Operations The Chairman of that Committee's Subcommittee on Intergovernmental Relations sent the letter to GAO on May 11, 1972, for comment On

June 13, 1972, we replied that we concurred in the Oregon official's observations

The acting commissioner of the Washington State Employment Security Department similarly informed the Department in May 1972 that removing bottom-line authority would "kill the State's cost accounting system as an accurate measure of true program cost" and that, if the States were held to program budget figures, honest time reporting would "be a figment of the imagination "

A Department official advised us that States' objections to removing bottom-line authority were widespread In March 1972 the Administrative Financing Committee (comprising State Employment Security Agency representatives from 11 States) of the Interstate Conference of Employment Security Agencies (ICESA) resolved that removing bottom-line authority prevented State agency managers from proper use of their resources and recommended that the ICESA Executive Committee act to insure the return of bottom-line authority

In June 1972 the Executive Committee, which included State Employment Security Agency representatives from 11 other States and Puerto Rico, unanimously approved the resolution and, accordingly, the ICESA president brought the matter to the Department's attention In a June 9, 1972, letter to the Department, the ICESA president stated that

> "* * * the objective of the [State] Cost Accounting System [prescribed by the Department] was to secure an honest accounting of the cost of specific programs and activities That system is an excellent management tool, but only so long as personnel functioning within it are motivated to report costs honestly It is suggested that removal of bottom line authority will result in State agencies and personnel being inclined perhaps to 'put the costs where the dollars are,' resulting in the Cost Accounting System becoming inaccurate and useless as a management tool Further, it is suggested that it is technically impossible for a State agency to know on a current day-to-day basis what its position is in regard to funding expenditures in each particular program, so as to come out even at the end of a reporting period with the allocation in each program Thus, unless unhappily the figures at the end of each reporting period were adjusted to fit the allocation, the flexibility of bottom line authority to some extent at least is essential "

During a visit to the Oregon State Employment Service to review that agency's implementation of the Department's prescribed accounting system, Oregon officials described the funding-reporting system--which was used before bottom-line authority was implemented--as a vicious circle costs would be reported in the same amounts as budgeted and these costs, in turn, would be used to prepare future budgets There was a constant widening of the gap between reported and actual costs to the point that reported costs had little resemblance to actual costs Oregon officials looked favorably upon bottom-line authority as a means of breaking this circle and of being able to determine actual costs by program in order to better support management decisions

In November 1972 we visited the Department's Denver Regional Manpower Administration office and the Colorado State Employment Security office Officials of these offices said that the recision of bottom-line authority and the then-current requirement for the State to adjust reported obligations so that an overobligation would not be disclosed may cause the States to instruct their employees to charge their time to programs having remaining unobligated funds rather than to programs on which they actually worked The States could then avoid making monthend adjustments, and the State agency's accounting system would indicate that no fund sources were exceeded and no adjustments or report showing actual costs differing from reported obligations would be required This, of course, would return the situation where reported costs have little relationship with actual costs

The Department's subsequent instructions prohibiting adjustments and providing that appropriation overcharges may be disallowed could also encourage the State agencies to have their employees charge their time to activities having remaining funds rather than to activities on which they actually worked

One of the primary beneficiaries of a good accounting system with true reporting of costs is the Congress itself When administrative costs by program differ from appropriations therefor, the Congress can make more informed judgments as to future funding levels needed, whether to continue the program, and whether to continue to have State agencies administer the program or to seek other means to accomplish the program goals

Whenever administrative expenses are adjusted to funding levels, directly or by purposefully reporting of time incorrectly, reports to the Congress will incorrectly show operating results in about the same amounts as were appropriated

RECOMMENDATION

We recommend that the Secretary of Labor request some form of joint funding legislation to simplify the funding of administrative expenses for State agencies by permitting the States to obligate administrative expenses against a single allocation of funds and to report actual administrative costs for individual programs Several alternatives for meeting this objective are discussed in chapter 3

AGENCY ACTIONS

The Department agrees that the funding of administrative expenses of State agencies needs to be simplified Moreover, the Department and the Office of Management and Budget concurred in the principle of providing some type of joint funding that would permit States to obligate administrative costs against a single limitation The Department agreed to request such legislation

CHAPTER 3

MATTER FOR CONSIDERATION BY THE CONGRESS

The Congress should consider some form of joint funding legislation to permit State agencies to obligate administrative expenses against a single allocation of funds The following alternatives could be considered

- --Limiting the Department's responsibility under the Antideficiency Act to total funds available to State agency administration instead of to each available fund source

- --Establishing an administrative operations fund similar to that authorized for the Department of Housing and Urban Development, the Federal Home Loan Bank Board, and the General Services Administration

- --Providing one appropriation for all State agency administrative expenses

- --Providing some other type of joint funding

If the Congress authorizes some form of joint funding, the various appropriations and funds available to the Department for State agency administration could be merged The Department could then issue a total obligational authority to each State to finance all administrative work under the various programs authorized and active in the State The Antideficiency Act would apply to the total of merged funds rather than to the individual fund sources

Each State would be required to limit its total obligations to the total authority received from the Department and to report periodically on those obligations Each State would also periodically report actual administrative costs (unadjusted) by program to the Department where they would be compared with projected or budgeted costs and analyzed to promote more efficient State operations The Department would also accumulate total reported administrative costs for each program for all States combined to enable preparation of more accurate future budget requests

We believe that joint funding legislation would be most practical because it would satisfy the requirements of the Congress, the Department, the State employment security agencies, and other agencies that support the programs Joint funding would (1) provide for the same basic appropriation structure and appropriation process as in existence,

(2) establish the framework for improving the reliability of financial reports and financial information, (3) recognize the policies and procedures employed by the States in managing and controlling administrative funds, and (4) provide the Department with the capability to comply with the requirements of the Antideficiency Act while performing its mission

The Department agreed to consider the above suggestions in preparing its request for legislation

APPROPRIATIONS REQUESTED WHICH INCLUDE AMOUNTS TO BE MADE AVAILABLE

TO STATE EMPLOYMENT SECURITY AGENCIES

FOR ADMINISTRATION

Fiscal year 1974

Source	Total program	Available for State agencies (administration)	Purpose and limitations on States
	(000 omitted)		
Department of Labor Appropriation Act			
Department of Labor			
Manpower Administration			
Trust funds			
Limitation on grants to States for unemployment insurance and employment services	$ 817 400	$ 817 400	Pay State unemployment compensation to eligible workers collect State unemployment taxes from employers assist workers in obtaining employment assist employers in resolving their manpower problems $28 million contingency to be used only to meet cost increases from State law changes from increases in claims filed and claims paid and from State salary increases
General and special funds			
Federal grants to States for employment services	64 400	64 400	New appropriation in 1973 for employment security services not chargeable to the above In accordance with the employment security amendments of 1970 Public Law 91 373
Manpower Training Services	1 340 000	55 130	Screen test and counsel unemployed and underemployed persons for placement in training programs under the Manpower Development and Training Act of 1962 as amended the Economic Opportunity Act of 1964, as amended and the Trade Expansion Act of 1962 Also to pay allowances to certain enrollees in these programs to administer a computerized job placement program and to develop labor market information
Bureau of Labor Statistics			
General and special funds			
Salaries and expenses	47 400	2 415	In cooperation with the Bureau of Labor Statistics develop statistics on current employment and on labor turnover
Agriculture Environmental and Consumer Protection Appropriation Act			
Department of Agriculture			
Food and Nutrition Service			
General and special funds			
Food Stamp program	2 195 750	16 000	Screen test and counsel Food Stamp recipients for job development and employment
Department of Health Education and Welfare Appropriation Act			
Department of Health Education and Welfare			
Social and Rehabilitation Service			
General and special funds			
Work incentives	534 434	75 000	Screen test and counsel individuals receiving support from the aid to families with dependent children program for employment work experience and training
Social Security Administration			
Trust funds			
Limitation on salaries and expenses	325 560	200	Survey light and sedentary jobs for use by the Social Security Administration in evaluating applicants applying for physical disability benefits
Office of Emergency Preparedness Appropriation Act			
Office of Emergency Preparedness			
Disaster relief	100,000	500	Assist in implementing disaster relief programs
Total	$5,424 944	$1,030,845	

PRINCIPAL OFFICIALS

OF THE DEPARTMENT OF LABOR

RESPONSIBLE FOR ACTIVITILS

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY		
James D Hodgson	July 1970	Feb 1973
Peter J Brennan	Feb 1973	Present
ASSISTANT SECRETARY FOR MANPOWER		
Malcolm R Lovell	July 1970	Jan 1973
Paul J Fasser, Jr (actıng)	Jan 1973	Apr 1973
Wıllıam H Kolberg, Jr	Apı 1973	Present
DEPUTY ASSISTANT SECRETARY FOR MANPOWER		
Paul J Fasser, Jr	Oct 1970	Apr 1973

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