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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(3)

The Honorable Warren G. Magnuson, Chairman
Subcommittee on Labor; Health,
Education, and Welfare
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

As requested by your office, we have inquired into certain aspects of the impact of reduced appropriations for fiscal year 1975 on the Work Incentive program. The results of our inquiry are summarized in the enclosure. As stated therein, our calculations were based on information made available by the Department of Labor.

Because of the urgency of your request, we have not obtained formal comments from the Department of Labor or the Department of Health, Education, and Welfare on the information in this report.

We trust this report serves your purpose.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Enclosure

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ENCLOSURE

RESPONSES TO QUESTIONS

OF SENATE LABOR-HEW APPROPRIATIONS SUBCOMMITTEE

ON IMPACT OF REDUCED APPROPRIATIONS FOR

THE WORK INCENTIVE (WIN) PROGRAM FOR FISCAL YEAR 1975

Q.1. Determine the impact that the cut of $70 million in fiscal year 1975 appropriations is having on levels of training ($50 million, Labor) and child care ($20 million, HEW) effort.

Response

Funding for the WIN program for fiscal year 1975 is about $325.9 million. Funds allocated by the Department of Labor for intake services and work and training components total $231.5 million out of available resources of $264.2 million consisting of $140 million appropriated for fiscal year 1975 and $124.2 million in carryover obligations from fiscal year 1974. Funds allocated by HEW for child care and supportive services total $94.4 million out of available resources consisting of $70 million appropriated for fiscal year 1975 and $24.4 million in carryover obligations from fiscal year 1974.

In allocating WIN funds to its regions for distribution among the States, Labor funded Regions III (Philadelphia) and X (Seattle) at 89 percent of their fiscal year 1974 program levels; Region VIII (Denver) at 90 percent; Region II (New York) at 93 percent; Region VI (Dallas) at 100 percent; Region V (Chicago) at 109 percent; and Regions I (Boston), IV (Atlanta), VII (Kansas City), and IX (San Francisco) at 117 percent on the basis of performance factors.

Labor training

Our discussions with Department of Labor WIN officials and our independent cost and workload calculations based on Labor data indicate that the major impact of the reduced appropriation will be in the size of the program carried forward into fiscal year 1976 and in the continuity of the work and training components. According to program officials, recent contacts with WIN sponsors in the States indicate that the reduction has already adversely affected the fiscal year 1975 level of work and training.

Reduced funds mean that fewer contracts and positions will extend beyond fiscal year 1975, thereby limiting the number of participants who would be assigned to work and training activities extending into fiscal year 1976.

The adverse impact in fiscal year 1975 could be (1) fewer WIN participants being provided work and training experience due to fewer contracts between WIN sponsors and providers of work and training opportunities, (2) not all available openings in existing contracts being filled, (3) new contracts possibly being initiated with shorter periods of training and fewer openings for participants, or (4) program sponsor staff being reduced, causing more registrants to be kept in the registrant pool and not have a chance to enter work and training.

On the basis of actual unit cost (per person-year of workload) for fiscal year 1974, where available, we estimate that total program costs for fiscal year 1975 will exceed Labor's original fiscal year 1975 budget request by about $8 million, at the estimated workload included in Labor's fiscal year 1975 budget. Coupled with the reduced budget for fiscal year 1975 and the somewhat reduced amount of prior year obligations to be liquidated during fiscal year 1975, the carryover of obligations to be liquidated in fiscal year 1976 is about $30 million, or about $62 million less than Labor's fiscal year 1975 budget estimate of $92 million. Such measures as limiting new contracts and numbers of positions to those expiring by the end of fiscal year 1975 would be needed to maintain the budgeted program level for fiscal year 1975 WIN operations. A Labor official said the WIN program sponsors had been given such instructions shortly after the conference report on fiscal year 1975 appropriations was issued.

Another Labor official said that, in order to provide program continuity, an estimated $75 million in obligated funds needs to be carried over into fiscal year 1976 to maintain the WIN program at the fiscal year 1974 activity level. Details as to the specific components of this figure were not provided. However, using this figure and our calculated carryover amount of $30 million shown above, we calculated a possible shortage of $45 million in obligations to be carried over into fiscal year 1976.

Concerning program growth, we annualized the person-years of workload in the work and training components of WIN on the basis of the number of participants by component for the first quarter of fiscal year 1975 provided to us by Labor. Using these figures with the reported actual cost per workload unit in fiscal year 1974 for work and training as well as for intake services and the budgeted workload for intake, we calculated a program cost increase for fiscal year 1975 of about $47 million more than Labor had estimated in its budget. Comparing this calculated program cost of about $273 million with the available appropriation and carryover of obligations from prior years to be liquidated in fiscal year 1975 of about $264 million results in no carryover of obligations to fiscal year 1976 and, in fact, a possible shortage of about $9 million for fiscal year 1975. Adding to this the Labor estimate of $75 million needed for program continuity by carryover of obligations into fiscal year 1976, we calculate a possible shortage of $84 million at the start of the next fiscal year.

These calculations would be directly affected by any changes in actual workload and workload unit costs resulting from actions taken or to be taken during fiscal year 1975 by Labor and the WIN program sponsors.

For example, the extent to which the program sponsors implement the program redesign proposed in joint Labor-HEW regulations of September 18, 1974, would affect these calculations. A major element of the redesign is the job search activity applicable to WIN registrants who have not yet been certified as participants and WIN participants not actively engaged in a WIN component. Registrants and participants required to undertake a job search would need supportive services, such as child care, medical services, and transportation to the supportive services. The nature and scope of the job search would be the responsiblity of the States consistent with the regulations. Details of the implementation, projected effects, and costs had not been received by Labor headquarters, so no early judgments could be made of the effects of implementation.

A corollary effect on the costs of the Labor portion of the WIN program results from the amount of funds available to HEW to provide child care and supportive services to WIN participants and, in the case of the redesign, WIN registrants. The amount of such funds determines how many and to what extent people in need of such services can participate in WIN components. This effect cannot be determined at present.

<u>HEW child care</u>

Our discussions with the WIN program manager for HEW and our review of available information at Labor indicate that the reduced appropriation for child care and supportive services for fiscal year 1975 may reduce the amount of such services provided to WIN participants.

On the basis of State estimates of program cost made in May 1974 for fiscal year 1975 and the actual (for

34 States) monthly expenditure rates for the first quarter of fiscal year 1975, WIN program staff estimate that the presently available funds (90/10 Federal matching) for WIN child care and supportive services will be used up by about the end of February 1975. According to the data, in most States 75/25 matching funds in the social services appropriation under title IV-A of the Social Security Act would be available to provide child care and supportive services if the States could pay the additional 15 percent. However, the need to use 75/25 matching funds would partly negate the incentive provided by the Congress through the availability of 90/10 matching funds to encourage State participation in the WIN program.

The incentive apparently worked, because, according to WIN data for fiscal year 1974, for the first time virtually all funds available for child care and supportive services were obligated. Also, expenditures for program costs exceeded the fiscal year 1974 budget estimate by about $14 million.

Because of uncertainties about the demands of the WIN redesign on child care and supportive services funds (timing and extent of implementation during FY 1975) and the curtailment of work and training activities that has already taken place, one WIN program official said the States' cost estimate of $162 million (made in May 1974) for such services may no longer be valid. Another official said that, if the program needs during fiscal year 1975 equal the annualized spending rate of the fourth quarter of fiscal year 1974, or about $134 million, the available funds of about $94 million would be insufficient and the level of child care and supportive services would have to be reduced.

A WIN program official stated that restoring the appropriation cut and requiring that the funds be spent during fiscal year 1975 would permit providing supportive services and child care to WIN participants at about the level of total fiscal year 1974 expenditures, with some reduction in expenditures likely during the fourth quarter of fiscal year 1975, with no program expansion, and with no carryover of obligations to be liquidated in fiscal year 1976. According to this official, if no requirement to spend is added, the Office of Management and Budget's imposed expenditure ceiling of $94 million would prevail and the additional funds would have virtually no effect on the program during fiscal year 1975.

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We have discussed above only the problems associated with funding reductions for the WIN program during fiscal year 1975. We have not included (1) information on the effectiveness of program operations or (2) data on the relatively poor labor market existing during fiscal year 1975, which may have an adverse effect on WIN operations, because both would require extensive time and effort to develop.

Q.2. Determine what the carryover fund balances are and how much will be available for carryover into fiscal year 1976.

Response

According to Labor and HEW WIN program staff, the carryover funds are not unobligated funds being "carried over" to a subsequent fiscal year for obligation but represent obligations for services to be provided partly in a subsequent year, when the obligations will be liquidated. In their opinion, the account title "Program Costs Funded in Subsequent Years" is a misnomer; it should reflect payment in later years of obligations incurred in prior years.

Labor

WIN program officials said the carryover balance results because contracts for work and training components are fully obligated in the year in which the contracts are signed but, because of project startup time, phase-in of program participants, phase-down of project and close-out time, many cover more than one fiscal year. Therefore, funds expended (obligations liquidated) during one fiscal year cover some part of current year contracts and some part of prior year contracts (program costs funded in prior years) and leave some current year obligations to be liquidated (funds expended) in the next fiscal year (program costs "funded" in subsequent years). Payment of these obligations are made from funds obligated for the years in which the contracts were signed, not from current year appropriations. Carryover funds are, therefore, not free.

HEW

A WIN program official explained that obligations for child care and supportive services generally have to follow obligations for work and training of WIN participants, because they are needed to permit the people to take advantage of these program components. Therefore, some obligations for these services must of necessity carry over from one fiscal year to the next for liquidation when the services are provided.

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As indicated in our response to question 1, there may be no carryover of child care and supportive services obligations from fiscal year 1975 to fiscal year 1976 at the current level of the appropriation and the estimated expenditure rate. Similarly, our calculations based on data provided by Labor indicate a possible carryover of about $30 million for Labor's portion of WIN program costs.

Q.3. Provide information on how the amount of carryover funds could be reduced.

Response

Labor

Basically, Labor can reduce the amount of its carryover funds for the WIN program by contracting for work and training projects as early in each fiscal year as possible to reduce the number of those contracts with periods of performance extending into a subsequent fiscal year. A program official indicated that this is being done on the basis of available funds. As stated earlier, this WIN program official estimated that the carryover needed to maintain program continuity at the current program level of work and training and related costs is about $75 million.

HEW

The HEW program manager indicated that the child care and supportive services component could operate with minimal carryover funds if adequate appropriations were made early in a fiscal year to meet the level of services required by the program.

Additional comments

Another factor affecting the WIN program level is the recent increase in the minimum wage. This will affect the amount of child care and supportive services obtainable with available funds because higher wages will have to be paid to providers of some services. It may also limit the number of WIN participants who can take part in a work and training component of the program because services available to enable participation may be reduced. The extent of this effect cannot be determined at this time.