REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Progress And Problems In Allocating Funds Under Titles I And II-- Comprehensive Employment And Training Act

Department of Labor

Progress in meeting the act's objectives for public service employment under title II has been hampered by Labor's methods for (1) defining eligible areas and (2) allocating funds. This has caused inequities and dilution of funding. Problems exist in funding concentrated employment programs under title I. This report recommends corrective actions.

MWD-76-22

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

B-163922

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

This report is the first of a series contemplated by our Office on how the Department of Labor is implementing the Comprehensive Employment and Training Act of 1973. It discusses allocation of Federal funds under titles I and II of the act.

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

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

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

PROGRESS AND PROBLEMS IN ALLOCATING FUNDS UNDER TITLES I AND II--COMPREHENSIVE EMPLOYMENT AND TRAINING ACT
Department of Labor

D I G E S T

The Comprehensive Employment and Training Act of 1973 gives State and local authorities a greater voice in determining and managing employment and training programs. Under the act, the Department of Labor makes grants generally to States and local governments (prime sponsors) on the basis of plans and programs developed by the sponsors and approved by Labor. (See pp. 1 to 4.)

Title II of the act is designed to provide (1) transitional employment opportunities and needed public services in areas of substantial unemployment and (2) training and manpower services to enable enrollees to obtain jobs not supported under this title. Progress in meeting the act's objectives has been hampered by the methods Labor used in

--defining areas of substantial unemployment and

--allocating funds for fiscal years 1974 and 1975. (See pp. 6 and 7.)

Among areas of substantial unemployment, inequities were caused by

--differing interpretations of Labor's definition of a qualifying area (see pp. 7 to 13.)

--differing policies on job eligibility for persons living within qualifying areas (see pp. 14 to 16.)

The impact of title II funds was diluted by the use of

--inconsistent periods for determining eligibility (see pp. 16 and 17.)

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--unemployment data that did not take into account seasonal patterns in unemployment (see pp. 17 to 21.)

In addition, there appeared to be a "trade-off" between the initial and discretionary fund allocations. (See pp. 21 and 22 and app. I.)

Under title II of the act, the first 80 percent of available funds is to be allocated to areas of substantial unemployment (6.5 percent or more for 3 consecutive months) on the basis of the number of persons unemployed. The remainder is to be used at the discretion of the Secretary of Labor. (See pp. 2 and 3.)

Title I of the act authorizes comprehensive manpower services to be provided by prime sponsors. (See p. 2.) In determining which governmental units had sufficient population to be eligible for prime sponsorship in fiscal year 1975, Labor used 1970 census information (Labor considered it the best available) but did not consider data on more recent population changes. Cities and counties with populations of 100,000 or more may have been disqualified from becoming prime sponsors. More recent data, however, was used for fiscal year 1976 allocations. (See pp. 27 to 30.)

The act states the general basis for allocating title I funds, but Labor chooses the specific method to be used. Labor did not establish uniform criteria to compute the funding levels for four rural concentrated employment programs for fiscal year 1975. After computing, for each program, an annualized expenditure figure for a prior period, adjustments were made--which Labor could not adquately explain and document--which increased the funding of two programs while decreasing the funding for the other two. (See pp. 34 and 35.)

Title I states that the Secretary of Labor first use his discretionary funds to provide each prime sponsor with an amount equal to at least 90 percent of prior year manpower funding. The discretionary funds may also be used to fund concentrated employment programs.

Two of the four concentrated employment programs received funds not legally available to them, and two States operated title I manpower programs as balance-of-State prime sponsors in areas also served by a Concentrated Employment Program. This also violated the statute.

GAO does not believe it would be beneficial at this time for the Secretary of Labor to attempt to retroactively adjust these funds. In GAO's view, Labor should take those steps necessary to assure that such irregularities do not occur again. (See pp. 35 to 38.)

The Bureau of Labor Statistics developed new methods for estimating State and local unemployment that avoid certain problems of the previous methodology. Labor is taking steps to improve the data. (See pp. 41 to 44.)

GAO recommends steps the Secretary of Labor should take to correct the problems cited above. (See pp. 23, 24, 38, and 39.)

Labor generally agreed with GAO's recommendations on funding under title II but disagreed with its recommendations on funding the rural concentrated employment programs. (See pp. 24 to 26, 39, and 40 and app. II.)

CHAPTER 1

INTRODUCTION

The system for delivering services for three of the Nations' largest manpower appropriations was changed with the passage of the Comprehensive Employment and Training Act of 1973 (CETA) (29 U.S.C. 801). The act incorporates services available under the Manpower Development and Training Act of 1962 (42 U.S.C. 2571) and parts of the Economic Opportunity Act of 1964 (42 U.S.C. 2701), both of which CETA repealed in whole or in part, and the Emergency Employment Act of 1971 (42 U.S.C. 4871). Manpower programs established under other legislation, such as the employment security program (Wagner-Peyser Act--29 U.S.C. 49) and the Work Incentive program (Social Security Act--42 U.S.C. 630), remain in effect.

CETA's purpose is to establish a flexible and decentralized system of Federal, State, and local programs to provide job training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons and to insure that training and supporting services lead to maximum opportunities and enhanced participant self-sufficiency.

CETA gives State and local authorities a greater voice in determining and managing employment and training programs. Instead of operating separate manpower programs through almost 10,000 grants and contracts with public and private organizations, the Department of Labor makes grants to over 400 prime sponsors--usually States and local governments--on the basis of plans and programs developed by the sponsors and approved by Labor.

The act requires prime sponsors to use services and facilities available from Federal, State, and local agencies to the extent the prime sponsors deem appropriate. These include State employment services, State vocational education and vocational rehabilitation agencies, area skill centers, local educational agencies, postsecondary training and education institutions, and community action agencies. The prime sponsors may also use services and facilities of private businesses, labor organizations, private employment agencies, and private educational and vocational institutions.

Before CETA, manpower programs were designed by Labor's headquarters and implemented by nonprofit organizations and other institutions under grants and contracts with Labor. Under CETA, the prime sponsor is responsible for program design, with Federal influence being exerted through Labor's technical assistance, plan approval process, and monitoring of prime sponsors' activities.

Through its 10 regional offices, Labor provides prime sponsors with training, technical assistance, research and development, program evaluation, and labor market information. It must assure that manpower services are available to target groups designated by the act and that prime sponsors comply with its provisions.

Title I of CETA authorizes grants to prime sponsors for comprehensive manpower services. Funds may be used for:

1. Recruitment, orientation, counseling, testing, placement, and followup services.

2. Classes in occupational skills and other job-related training, such as basic education.

3. Subsidized on-the-job training by public and private employers.

4. Payments to persons in training.

5. Support services, such as necessary medical care, child care, and help in obtaining bonding needed for employment.

6. Funding jobs, in public agencies, which eventually lead to permanent positions.

The mixture and design of services are determined by the prime sponsors. A sponsor may choose to continue programs funded under previous acts, such as the Opportunities Industrialization Centers, Jobs for Progress, Urban League on-the-job training projects, and others, or it may develop new ones. Training allowances may not be paid for any course lasting more than 2 years.

To obtain funding, a prime sponsor must submit annually to the Secretary of Labor, and have approved, a comprehensive manpower plan. This plan must describe performance goals and the geographic areas to be served and provide assurances that manpower services will be directed to persons most in need.

Title II of CETA established transitional public employment programs in areas with 6.5 percent or more unemployment for 3 consecutive months. To receive funds under this title, eligible applicants (title I prime sponsors and certain Indian tribes) must submit a plan to Labor setting forth a public service employment program designed to (1) provide employment in jobs providing needed public services for persons who reside in areas of substantial unemployment and who

have been unemployed for at least 30 days or are underemployed; (2) provide, where appropriate, otherwise unavailable training and manpower services related to such employment; and (3) prepare persons for employment or training not supported under this title.

The law enumerates 26 conditions and assurances which must be included in an application for title II funds. For example:

--No persons can be hired to fill openings created by laying off regular employees.

--Not more than one-third of the participants can be hired in a professional capacity, except teachers.

--Special consideration must be given to Vietnam-era veterans.

--The program must eliminate artifical barriers (such as unnecessary physical and education requirements for jobs).

--No job can be filled except at entry-level in each job category until applicable personnel procedures and collective bargaining agreements have been complied with.

Title III establishes manpower programs for special groups (Indians, migrants, etc.) and authorizes research programs, a comprehensive system of labor market information, and an automated job-matching system; title IV maintains a federally directed Job Corps program; title V establishes a National Commission for Manpower Policy; and title VI establishes emergency job programs.

We reviewed only fund allocations under titles I and II. Under title I, 80 percent of the funds are to be allocated on the basis of a prime sponsor's (1) prior year manpower funding, (2) number of unemployed persons, and (3) number of adults in low-income families, with one percent of this amount distributed for State manpower services councils. The remainder of the funds are to be for vocational education services for prime sponsors; for statewide manpower services; for incentives to encourage formation of consortia (generally combinations of cities and/or counties); and for the discretionary use of the Secretary of Labor. Under title II, funds are to be allocated among areas of substantial unemployment, with 80 percent to be allocated based on each area's total number of unemployed persons and 20 percent to be used at the Secretary of Labor's discretion.

In addition, the act provides funding to phase out manpower programs authorized under the Manpower Development and Training Act, the Economic Opportunity Act, and the Emergency Employment Act, in which many people were enrolled when CETA was passed.

Although title I is entitled "Comprehensive Manpower Services" and title II is entitled "Public Employment Programs," the law provides that funds under these two titles may support similar activities. Public employment programs under title I must meet the same requirement as programs under title II. They are not, however, subject to the 6.5 percent unemployment rate criterion.

Likewise, the act provides that title II funds may be used for services like those authorized under title I to persons living in areas of substantial unemployment. According to Labor's statistics, approximately 4 percent of the persons enrolled in title I programs as of June 30, 1975, were in public service employment.

FUNDS APPROPRIATED

Of the $2.4 billion appropriated for comprehensive manpower assistance for fiscal year 1975--the initial funding for title I--$1.58 billion was for title I services.

Under title II, $370 million was appropriated to be spent in fiscal years 1974 and 1975, and an additional $400 million of the $2.4 billion total for fiscal year 1975 was for title II.

The Emergency Jobs and Unemployment Assistance Act of 1974 (Public Law 93-567, Dec. 31, 1974, 29 U.S.C. 961) added a new title VI to CETA, entitled "Emergency Job Programs." Subsequently, $1 billion was appropriated for this title, of which $125 million was transferred to the Commerce Department for Economic Development Administration projects.

The 1974 act provides that at least 90 percent of the title VI funds be allotted by formula to approved applicants (title I prime sponsors and certain Indian tribes), as follows:

--50 percent to all prime sponsors, based on total unemployment;

--25 percent to all prime sponsors, based on unemployment in excess of 4.5 percent of the labor force; and

--25 percent to title II prime sponsors based on the total number of unemployed persons living in areas of substantial unemployment.

The remainder of the funds (up to 10 percent) is to be allocated at the discretion of the Secretary of Labor.

Although we limited our review to titles I and II, some of the problems noted in title II activities may also occur in title VI activities.

SCOPE OF REVIEW

We reviewed (1) CETA and its legislative history, (2) the appropriation of title I funds for fiscal year 1975 and title II funds for fiscal years 1974 and 1975, and (3) Labor's policies and procedures for allocating these funds. We examined records and interviewed officials at Labor headquarters and four regional offices. We also interviewed certain State and local officials in California, Connecticut, Georgia, Maryland, Massachusetts, and Virginia. We contacted officials of several additional Labor regional offices and State and local agencies by telephone.

Although we inquired into the source and methods used in generating unemployment data used to make the allocations, we did not review certain aspects of the methodology or the practices involved, such as the definition of unemployment and the sampling procedures.

CHAPTER 2

PUBLIC EMPLOYMENT PROGRAMS

The purpose of title II of CETA is to provide transitional employment opportunities and public services in areas of substantial unemployment--those experiencing an unemployment rate of 6.5 percent or more for 3 consecutive months--accomplished through grants to States and local governments which provide jobs in public agencies to unemployed and underemployed persons. Labor's regulations allow private nonprofit agencies also to act as employing agents.

The act provides that title II funds are to be allocated among areas of substantial unemployment, with 80 percent (the initial allocation) of the allocation based on each area's total number of unemployed persons and 20 percent (the discretionary allocation) to be used at the Secretary of Labor's discretion, taking into account the severity of unemployment in the areas.

Progress in meeting the act's objectives has been hampered by (1) the methods Labor used in defining areas of substantial unemployment and (2) the methods Labor adopted in allocating funds for fiscal years 1974 and 1975. These problems resulted in funding inequities among areas of substantial unemployment and diluted the impact of Federal funding.

Labor issued instructions to State employment security agencies on how to determine the geographical boundaries of areas of substantial unemployment. The State agencies were initially responsible for identifying areas which qualified; their determinations were reviewed by Labor's regional and headquarters personnel.

In metropolitan areas, the elements used in identifying the area boundaries generally were census tracts, the smallest geographical units for which 1970 census data was generally available. Outside metropolitan areas, other geographic units such as counties or towns were used.

Although Labor issued these instructions, they were interpreted differently by the regional offices and by State officials, resulting in inconsistent delineation of areas of substantial unemployment and in funding inequities. Also, inequities existed in the distribution of jobs to persons residing within areas of substantial unemployment. Labor was inconsistent in determining eligibility periods for qualification as an area of substantial unemployment, which

led to diluting the impact of title II funding. Finally, Labor's procedures favored areas with seasonal unemployment, at the expense of areas without it. This tended to further dilute the impact.

IDENTIFYING BOUNDARIES OF AREAS OF SUBSTANTIAL UNEMPLOYMENT

The act states that areas of substantial unemployment 1/ must have an unemployment rate of 6.5 percent or more for 3 consecutive months and be of sufficient size and scope to sustain a public employment program. Further, an area will receive initial funding based on the number of unemployed persons residing in it. The more unemployed persons residing in an area, the larger that area's share of available funding.

The Conference Report (H. Rept. 93-737) on CETA does not explain how areas of substantial unemployment are to be delineated. The House Report on the proposed legislation (H. Rept. 93-659 on H.R. 11010) ultimately enacted as CETA states that areas must be of sufficient size and scope to sustain a public service employment program and must have severe and substantial unemployment and that areas within cities such as Chinatown in San Francisco, Watts in Los Angeles, and Harlem in New York should be designated as areas of substantial unemployment.

Labor's instructions defined an area of substantial unemployment as any city or county which met the first two of the following conditions and smaller geographic units which met all four of the conditions:

1. Having 10,000 or more population according to the 1970 census.

2. Having unemployment rates of 6.5 percent or more for 3 consecutive months.

3. Not being part of a city or county which met the criteria.

4. Being a discrete identifiable area known as an identifiable neighborhood or community, or separately identified as a target area under specific

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1/Public Law 93-567, enacted Dec. 31, 1974, changed the term "area of substantial unemployment" in title II to "area qualifying for assistance" for most purposes.

local manpower, antipoverty, or Model Cities programs, including areas previously identified and qualified under section 6 of the Emergency Employment Act of 1971.

Labor also required that the area qualify for a grant of at least $25,000 and that all parts of the area be "contiguous" (touching).

Labor officials, however, said the precise boundaries of an area of substantial unemployment were not always clear and establishing them involved a degree of judgment.

We identified two contrasting methods of identifying areas of substantial unemployment:

1. A Labor official in one region said he advised the State agencies in his region that any area selected must possess some common interest or characteristic, such as being a labor market area or a previously defined Model Cities or Concentrated Employment Program (CEP) area.

2. In another region, the State employment security agencies were encouraged by Labor's regional office to increase an area's share of initial funding through gerrymandering. This involves including as many census tracts as possible (and thus increasing the total unemployment figure used in the initial allocation formula)--without regard to common interests or characteristics--so long as the total unemployment rate for all these tracts averages at least 6.5 percent for 3 consecutive months.

We identified a number of examples of each of these two contrasting methods of defining an area of substantial unemployment and present three of them, one of the first method and two of the second, below for the purpose of illustration. Although these examples are for fiscal year 1974, Labor generally did not allow prime sponsors to redefine their area of substantial unemployment for fiscal year 1975. 1/

An example of the first method of defining an area of substantial unemployment (which adhered to a stricter interpretation of Labor's instructions) is Hammond, Indiana, where three contiguous census tracts, which were part of a

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1/Fiscal year 1974 allocations were made in June 1974, and fiscal year 1975 allocations were made in Oct. 1974.

a Model Cities area, each met the 6.5 percent unemployment criterion for 3 consecutive months. (See map on p. 10.) Additional census tracts could have been included without lowering the overall rate below 6.5 percent. A State official said that the State interpreted Labor's instructions to mean they should attempt to limit the areas defined to previously identified poverty areas.

Gerrymandering to increase initial funding

In deciding on the boundaries of an area of substantial unemployment, a prime sponsor could first compute the total unemployment for a group of census tracts, which individually had an unemployment rate of at least 6.5 percent for 3 consecutive months. The sponsor could then start including the unemployed from neighboring contiguous tracts having an unemployment rate of less than 6.5 percent. All of these tracts could be included in the area of substantial unemployment, so long as the average unemployment rate remained at 6.5 percent or above.

Including tracts having less than 6.5 percent unemployment would increase the total reported unemployment (and the share of Federal funding) while decreasing the unemployment rate for the entire area. This could be done as long as the rate for the entire area remained at least 6.5 percent for 3 consecutive months. It mattered little whether the reported unemployment rate for an entire area was 11 percent or 6.5 percent, since the key element for the initial allocation was the number of unemployed persons. 1/

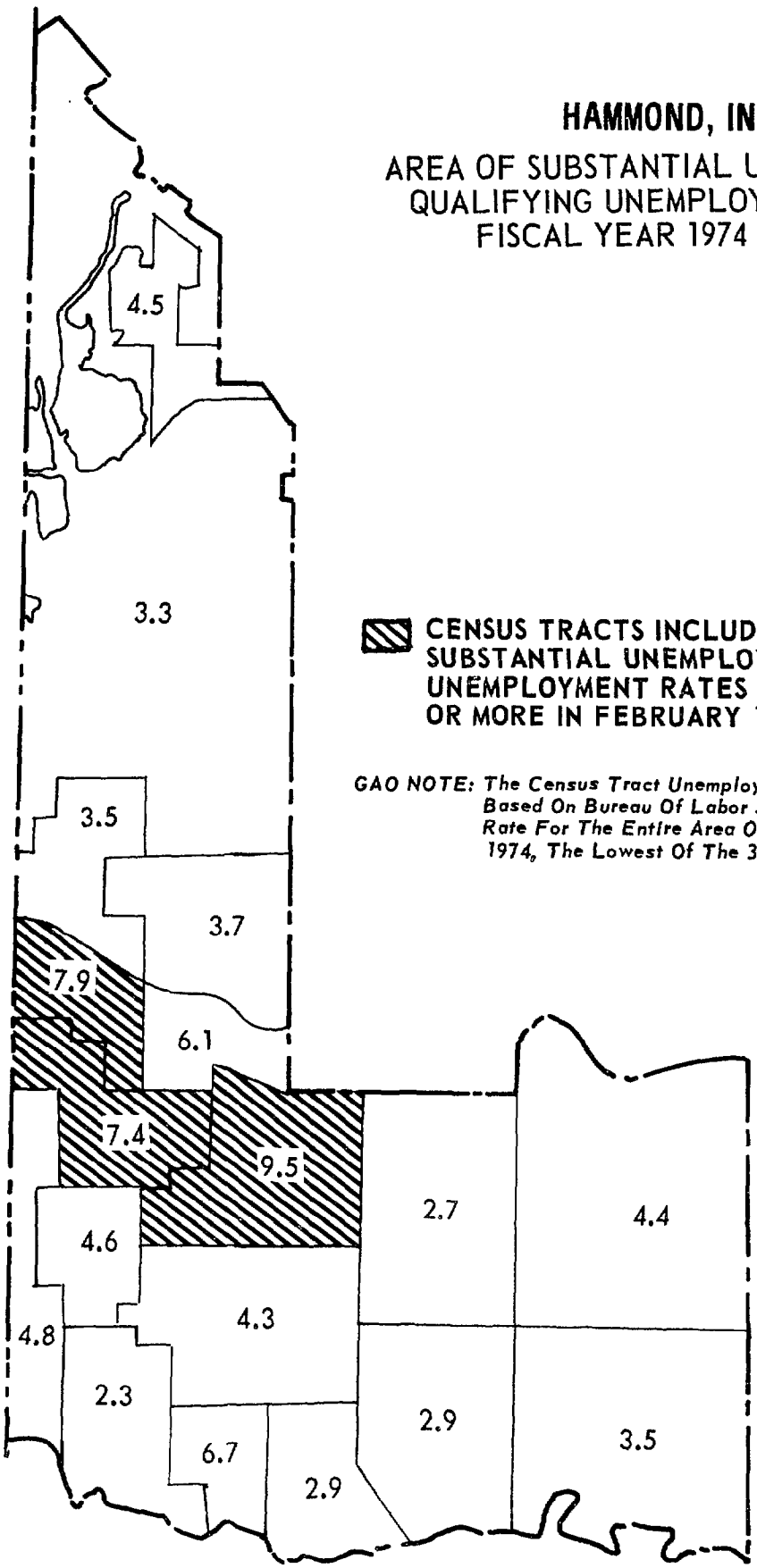
Gerrymandering was used for the fiscal year 1974 allocation to Richmond, Virginia. (See map on p. 11.) Richmond's designated area of substantial unemployment had 20 census tracts, including 9 with an unemployment rate of 6.5 percent or more--from 6.7 through 10.3 percent--in August 1973 2/

1/Areas which attempted to gerrymander in delineating an area of substantial unemployment may have been subject to a trade-off between the initial and discretionary allocations. (See pp. 21 and 22 and app. I.)

2/Aug. 1973 had the lowest unemployment rate of the entire area of substantial unemployment's 3 qualifying months (June 1973, 9.0 percent; July 1973, 7.4 percent; Aug. 1973, 6.5 percent) and, therefore, was most likely to be reduced to less than 6.5 percent through adding on low-unemployment census tracts.

HAMMOND, INDIANA

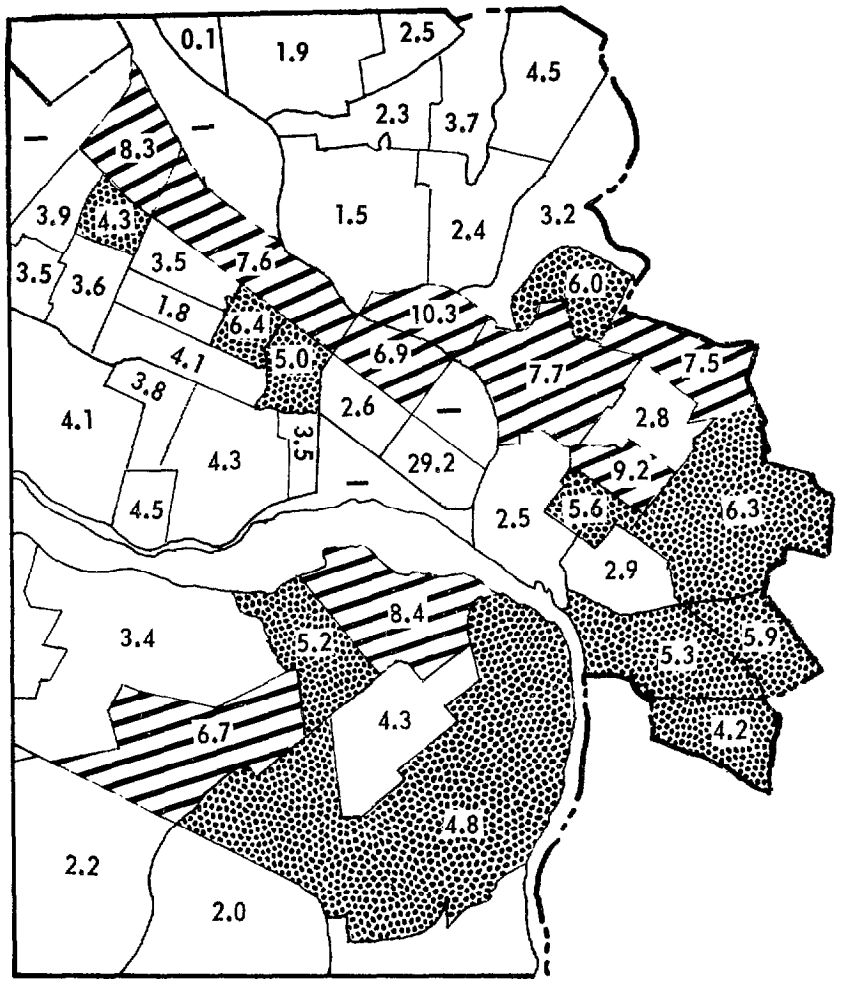
AREA OF SUBSTANTIAL UNEMPLOYMENT AND QUALIFYING UNEMPLOYMENT RATES FOR FISCAL YEAR 1974 ALLOCATIONS



CENSUS TRACTS INCLUDED IN THE AREA OF SUBSTANTIAL UNEMPLOYMENT WHICH HAD UNEMPLOYMENT RATES OF 6.5 PERCENT OR MORE IN FEBRUARY 1974.

GAO NOTE: The Census Tract Unemployment Rates Shown Were Computed By GAO Based On Bureau Of Labor Statistics Methodology. The Unemployment Rate For The Entire Area Of Substantial Unemployment For February 1974, The Lowest Of The 3 Qualifying Months, Was 8.2 Percent.

RICHMOND, VIRGINIA
AREA OF SUBSTANTIAL UNEMPLOYMENT AND QUALIFYING UNEMPLOYMENT RATES FOR FISCAL YEAR 1974 ALLOCATIONS



CENSUS TRACTS INCLUDED IN AREA OF SUBSTANTIAL UNEMPLOYMENT WHICH HAD AN UNEMPLOYMENT RATE OF 6.5 PERCENT OR MORE IN AUGUST 1973.

CENSUS TRACTS INCLUDED IN AREA OF SUBSTANTIAL UNEMPLOYMENT WHICH HAD AN UNEMPLOYMENT RATE OF LESS THAN 6 5 PERCENT IN AUGUST 1973.

GAO NOTE: The Census Tract Unemployment Rates Shown Above Were Computed By GAO Based On Bureau Of Labor Statistics Methodology. The Unemployment Rate For Entire Area Of Substantial Unemployment For August 1973, The Lowest Of The 3 Qualifying Months, Was 6.5 Percent.

and 11 with an unemployment rate of less than 6.5 percent--from 4.2 percent through 6.4 percent. Of the first nine, only seven were contiguous to other census tracts with rates of 6.5 percent or more. The other two, despite unemployment rates of 6.7 and 8.4 percent, respectively, did not, individually, meet the minimum population necessary to qualify as an area of substantial unemployment and, therefore, could be included in the designated area only through gerrymandering.

Because the unemployment rates for the 7 contiguous census tracts with rates of 6.5 percent or above were well above 6.5 percent for 3 consecutive months, the other 13 tracts--all but 2 of which had rates below 6.5 percent--could be added to increase the number of unemployed persons living within the designated area and, thus, increase the title II initial allocation. The total unemployment figure used in the initial allocation formula was more than doubled by adding the 13 tracts, while the unemployment rate for all 20 tracts was reduced to 6.5 percent.

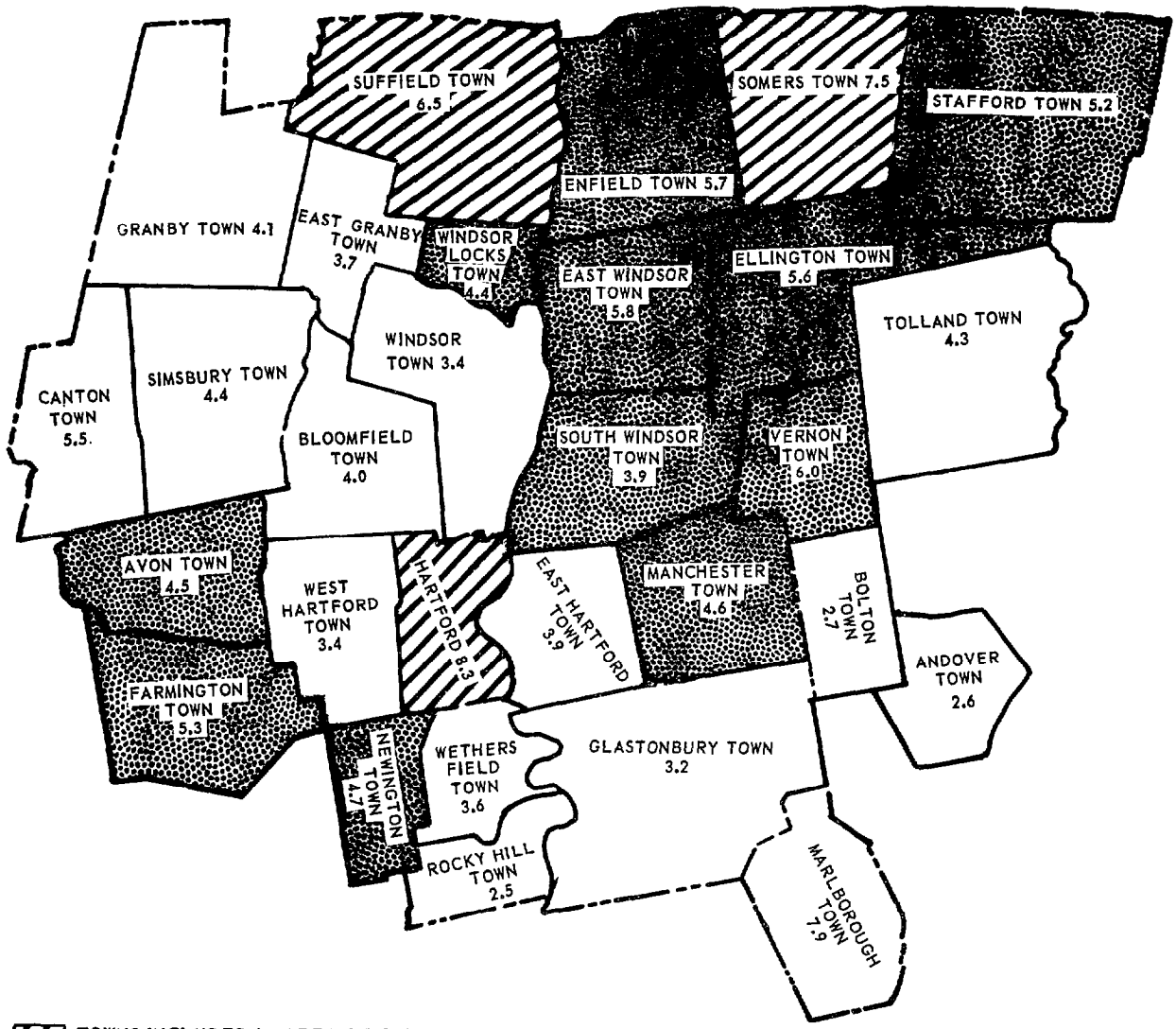
Gerrymandering to increase initial funding also occurred in Hartford, Connecticut. (See map on p. 13.) The Hartford consortium, which qualified for a comprehensive manpower services program under title I, could not qualify in its entirety under title II, because its overall unemployment rate was not at least 6.5 percent for 3 consecutive months. The city of Hartford, which was only part of the consortium, could have qualified for the fiscal year 1974 allocation with an unemployment rate of 8.3 percent for the lowest of its 3 qualifying months.

To increase the total unemployment figure used in the formula, and thus increase the total funding under the initial allocation, 13 towns were added to the city of Hartford to make up the total area of substantial unemployment. Only two of these towns had at least the minimum qualifying unemployment rate of 6.5 percent for 3 consecutive months; but, because neither met the 10,000 population minimum, they could not have individually qualified as areas of substantial unemployment. Also, these two towns were not contiguous to Hartford. Adding the 13 towns almost doubled the reported number of unemployed persons included in the initial allocation formula.

Because of the population minimum and the requirement of contiguity for an area of substantial unemployment, certain census tracts or towns, included in both of the examples of gerrymandering shown above, had lower unemployment rates than other census tracts or towns not included.

HARTFORD, CONNECTICUT, CONSORTIUM

AREA OF SUBSTANTIAL UNEMPLOYMENT AND QUALIFYING UNEMPLOYMENT RATES FOR FISCAL YEAR 1974 ALLOCATIONS



TOWNS INCLUDED IN AREA OF SUBSTANTIAL UNEMPLOYMENT HAVING UNEMPLOYMENT RATES OF 6.5 PERCENT OR MORE IN AUGUST 1973.

TOWNS INCLUDED IN AREA OF SUBSTANTIAL UNEMPLOYMENT HAVING UNEMPLOYMENT RATES BELOW 6.5 PERCENT IN AUGUST 1973.

GAO NOTE: The Unemployment Rates Shown Above Were Obtained From The Connecticut Labor Department. The Unemployment Rate For The Entire Area Of Substantial Unemployment For August 1973, The Lowest Of The 3 Qualifying Months, Was 6.5 Percent.

Eligibility for jobs

The act states that the Secretary obtain assurances that only the residents of areas of substantial unemployment get the jobs created under title II. Accordingly, the way in which areas of substantial unemployment are identified also affects which residents are eligible for title II jobs.

In Hammond, Indiana, for example, only residents of the three census tracts in the designated area of substantial unemployment were eligible for title II funded jobs. (All three tracts had an unemployment rate of 6.5 percent or more.) In Richmond, Virginia, 11 of the 20 census tracts of substantial unemployment did not meet the 6.5 percent criterion. However, since these tracts were considered part of the identified area of substantial unemployment, their residents were eligible for jobs. Conversely, certain Richmond residents lived in census tracts--one of which had an unemployment rate above 6.5 percent--which were not eligible for jobs even though residents of tracts with lower unemployment rates were eligible.

Another situation occurs when a prime sponsor or program agent, 1/ such as a city, has a rate of unemployment equal to at least 6.5 percent for 3 consecutive months. Because it qualifies as a whole, it is not necessary to identify pockets of high unemployment. Labor's regulations call for such prime sponsors or program agents (other than States) to allocate funds, to the extent feasible, for filling jobs in identifiable areas that have 6.5 percent or more unemployment. However, this is not mandatory.

For example, Oakland, which citywide had a qualifying unemployment rate of 11.2 percent for 3 consecutive months for fiscal year 1975 funding, used data, according to local officials, from the State and other sources to identify East Oakland as a critical unemployment area. The city designated about 25 percent of title II funds for use in East Oakland. Conversely, San Francisco--which is part of the same metropolitan area as Oakland and had a qualifying unemployment rate of 9.2 percent--did not allocate funds to neighborhoods, according to local officials, because of the inadequacy of available data.

1/Program agents are general local governments which (1) have a population of at least 50,000 but less than 100,000, (2) contain an area of substantial unemployment, and (3) are delegated the administrative responsibility for funds for that area of substantial unemployment.

Instructions from Labor's Boston regional office made the procedure for distributing funds within the area of substantial unemployment even more stringent. They required that for the residents of any component of an area of substantial unemployment to be eligible for jobs, the component itself must, to the extent feasible, meet the criteria (6.5 percent unemployment for 3 consecutive months; 10,000 population; and qualify for a $25,000 grant). The instructions said that the 6.5 percent criterion must be employed but that the minimum population and grant amount could be waived.

For fiscal year 1974, only residents of the city of Hartford were eligible for title II jobs. Labor's Boston regional office approved a request for a waiver of the last two criteria for fiscal year 1975 for the towns of Somers and Suffield. Hartford did not request a waiver for the towns in the consortium with unemployment rates below 6.5 percent. Residents of these towns were not eligible for title II-financed jobs. 1/

The Mayor of Springfield, Massachusetts, on behalf of the Hampden County Manpower Consortium, wrote to Labor's Boston regional office concerning job eligibility, under title II for fiscal year 1974, of persons residing within the area of substantial unemployment. He said that the consortium had interpreted CETA and Labor regulations to mean that the 10,000 population and $25,000 grant minimums applied only to defining the area of substantial unemployment, not to geographical units below that level. They believed that any citizen of the area of substantial unemployment was eligible.

Labor replied that, in determining which areas were eligible for title II jobs, the smallest definable area for which unemployment data was available should be used. In

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1/In the letter granting the waiver to allow residents of Somers and Suffield to be eligible for jobs, Labor's regional office also allowed residents of the town of Vernon to be eligible for jobs. Vernon met the minimum population and grant requirements but did not have an unemployment rate of at least 6.5 percent for 3 consecutive months during the 3-month period for which the Hartford area of substantial unemployment qualified. However, by counting the month of August 1974--which was beyond the period used by Labor in computing title II allocations for fiscal year 1975--Vernon did have at least 6.5 percent unemployment for 3 consecutive months.

one case, three towns comprised a census tract. Even though the unemployment rate for the entire census tract was 7.9 percent, for one town it was 3.6 percent. Because this was less than 6.5 percent, the residents of that town were not eligible for jobs. In another case, six towns comprised a census tract. Even though the unemployment rate for the entire census tract was 6.4 percent, for one town it was 7.5 percent. Because this town's rate was above 6.5 percent, residents of this town alone were eligible for jobs.

Labor headquarters officials said it was not proper to exclude any resident of an area of substantial unemployment from title II job eligibility solely because of the unemployment rate in the census tract or town where the person lived. In August 1975 a Labor official said the Department was planning to clarify existing regulations on job eligibility for residents of areas of substantial unemployment.

Eligibility period for qualification

The act states that the Secretary may consider periods of unemployment before the passage of the act in determining whether areas of substantial unemployment meet the 6.5 percent unemployment rate requirement for 3 consecutive months. The act also states that the Secretary must redetermine unemployment rates at least annually.

To determine which areas qualified for fiscal year 1974 title II initial funds, Labor used unemployment data for an 11-month period--June 1973 through April 1974. Within the 11-month period, any area with 3 consecutive months of at least 6.5 percent unemployment and meeting the other criteria previously discussed, qualified. Labor officials said they originally requested 6 months data from the States--June through November 1973. However, Labor used the 11-month period because, as the Congress continued consideration of the Labor appropriations bill, data for the 5 months after November 1973 was obtained. In June 1974 an appropriations bill was enacted which provided fiscal year 1974 and 1975 funds for title II, and Labor decided to use the entire 11-month period to avoid eliminating prime sponsors who qualified on the basis of the first 6 months but not on the last 5.

Labor's preliminary calculations for fiscal year 1975, using the most recent 3, 6, or 12 months of data, showed that some areas which had received funds in fiscal year 1974

would not qualify for funds in fiscal year 1975. According to a Labor official, some of these areas would not have qualified for fiscal year 1975 funds on the basis of 12 months or shorter periods, because such periods would have split up the summer months of June, July, and August 1973, and data was not then available for August 1974.

Because many teenagers enter the labor force during the summer and have difficulty finding jobs, these tend to be the months of consecutively highest unemployment in some urban areas. To retain such areas in the program, Labor used the 14-month period June 1973 through July 1974. This allowed certain areas to qualify based on the period June-July-August 1973, which would not have qualified without the first two of these months. Because some funds were allocated to such areas, fewer funds were available for areas where unemployment rates were 6.5 percent or higher during more recent periods. This tended to dilute the impact of title II funds in fiscal year 1975.

Labor used the 7-month period September 1974 through March 1975 in determining eligibility under title II for fiscal year 1976.

METHOD OF ALLOCATING FUNDS

The act states that 80 percent of the title II funds (the initial allocation) be allocated based on the number of unemployed persons residing in areas of substantial unemployment in relation to all the unemployed in all such areas approved for funding. The act leaves the distribution of the remaining 20 percent (discretionary funds) to the Secretary of Labor, taking into account the severity of unemployment in these areas, but not prescribing a specific method.

Seasonality in unemployment data

The procedures used by Labor in allocating both initial and discretionary funds under title II favored areas with seasonal unemployment and gave these areas relatively larger fund allocations, at the expense of areas without seasonal unemployment. These procedures tended to dilute the impact of title II funding.

For both the fiscal year 1974 and 1975 initial allocations, Labor allocated each area its share of funds based on the relationship between each such area's number of unemployed persons (reported average for highest 3 consecutive months) and the total reported number of unemployed persons for all such areas. This included only areas that averaged

6.5 percent or more. For each allocation, each area received the same number of dollars for every unemployed person on the basis of the average number of unemployed persons during the 3-month qualifying period.

The discretionary funds were allocated on the basis of the number of unemployed persons, in the respective areas, in excess of 6.5 percent of the labor force in their areas, reported for the month of April 1974 for fiscal year 1974 allocations and for the month of July 1974 for fiscal year 1975 allocations. A Labor official said these months were used for allocating the discretionary funds because they represented the latest data available at the time of the allocations.

At the time Labor made its allocations for fiscal years 1974 and 1975, seasonally adjusted unemployment data 1/ was available as a nationwide statistic but was not being computed for all State and local areas.

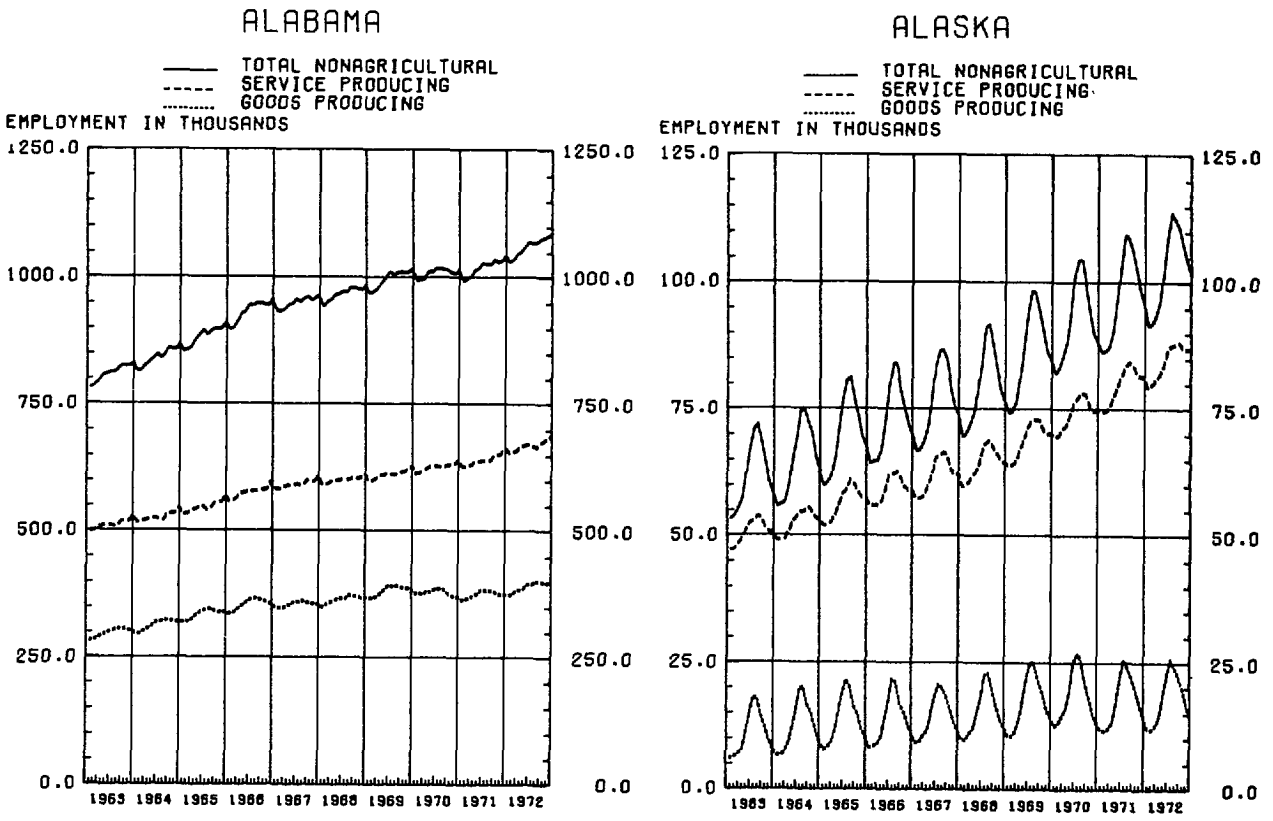
Construction, tourism, agriculture, and other important industries are subject to wide variations in employment during the year. In part because such industries are more important in some States and localities than in others, areas have widely different seasonal patterns. The graphs on page 19 show two extreme examples of seasonality in nonagricultural employment--Alaska with very marked fluctuations and Alabama with minor fluctuations.

Because small areas (such as localities) are generally less likely than large areas (such as States) to include a mix of industries having seasonality patterns which counterbalance each other, patterns in local areas may be even more pronounced.

An example of local seasonality occurs in Atlantic City, New Jersey, which is heavily dependent upon tourism and has a peak season during the summer months. The beginning of winter heralds increased unemployment rates, as shown on page 20.

1/Seasonal adjustment is a statistical technique designed to remove the annual repetitive patterns, which make certain months consistently higher or lower than others, from longrun trends and cycles and random irregularities.

EMPLOYMENT BY STATE



SOURCE: BUREAU OF LABOR STATISTICS

	1973	1974
Jan.	10.4%	9.7%
Feb.	10.6	10.7
Mar.	9.8	9.2
Apr.	8.1	7.5
May	6.1	6.8
June	6.0	6.9
July	5.7	6.0
Aug.	5.0	5.4
Sept.	5.6	6.2
Oct.	6.3	7.6
Nov.	5.9	8.2
Dec.	8.6	10.7

To determine how fluctuations occur in employment because of seasonality and other factors, we compared the unemployment patterns in various prime sponsors' areas. There were 20 prime sponsors or program agents whose average unemployment rate was 6.0 percent during a recent 12-month period. Although their annual average unemployment rates were the same, the average of their 3 consecutive highest month's unemployment rates ranged from 6.6 to 8.9 percent.

Our comparisons showed that, because of the differences in the high 3-month average, these areas with the same average annual rate of unemployment received widely different amounts of title II funds for every unemployed person for the fiscal year 1975 initial allocation.

For example, the Jonesville area of the South Carolina statewide consortium, which had an unemployment rate of 8.9 percent (not seasonally adjusted) during its 3 high consecutive months and an annual average of 6.0 percent, received about $110 average for every unemployed person. In contrast, Minneapolis, Minnesota, which had an unemployment rate of 6.6 percent (not seasonally adjusted) during its 3 high consecutive months and an annual average of 6.0 percent, received about $81 average for every unemployed person.

A similar problem arises in using only 1 month's data (not seasonally adjusted) for allocating the discretionary funds. Such data reflects unemployment rates at that time but does not separate seasonality factors from underlying economic trends.

The extent of month-to-month variation in unemployment data can be illustrated with the case of the De La Warr section of New Castle County, Delaware. This area is heavily

dependent on the automobile industry, according to a regional Bureau of Labor Statistics official, and the annual model changeover--which typically occurs in August--has a pronounced effect on area unemployment. As shown in the following table the August unemployment rate for both 1973 and 1974 was substantially higher than the preceding or succeeding months' rates.

	1973	1974
June	8.1%	9.9%
July	7.1	7.9
Aug.	9.0	11.6
Sept.	5.9	6.8

Bureau of Labor Statistics officials said they had been preparing to derive seasonally adjusted data in early 1975 for States and certain metropolitan areas. However, they said the increased workload necessitated by the December 1974 amendment to CETA (adding the new title VI) forced them to postpone their work until the fall of 1975.

The trade-off factors

As previously discussed, certain prime sponsors (1) attempted to increase their proportionate share of initial funding by adding census tracts having unemployment rates below 6.5 percent or (2) included such tracts because the prime sponsors' areas qualified as a whole. However, without prior notice of the precise method, Labor allocated discretionary funds on the basis of the number of unemployed persons in excess of 6.5 percent of the labor force, which had the effect of preventing some prime sponsors from maximizing the Federal funding they could otherwise have received.

The initial allocation for both years was distributed on the basis of the average number of unemployed persons during the qualifying 3-month period. The bulk of the discretionary funds, on the other hand, was distributed on the basis of the number of unemployed persons in excess of 6.5 percent during a single month.

By allocating discretionary funds on the basis of the number of unemployed persons in excess of 6.5 percent, a trade-off factor was introduced. This occurred because the more census tracts below 6.5 percent the prime sponsor included in his area of substantial unemployment--so long as the total remained at least 6.5 percent--the lower the rate for the entire area fell, thus, reducing the amount the prime sponsor could receive under discretionary funding.

On the basis of (1) the variables involved in the allocation (such as the relative amounts of initial and discretionary funds available and the number of unemployed persons) and (2) the assumption that the average number of persons unemployed during the qualifying period was the same as during the month used for allocating discretionary funds, it can be mathematically determined that a prime sponsor could probably obtain more funds by including any census tract with greater than about 4 percent unemployment for fiscal year 1974. (Note that this trade-off point is not unique and is very sensitive to the above assumptions.)

This occurred because the funds the prime sponsor received as a result of increasing the total unemployment count (accomplished by adding tracts having less than 6.5 percent) more than offset the funds that were lost because of the decrease in to the unemployment rate for the entire area. The decrease in the unemployment rate reduces the number of unemployed persons in excess of 6.5 percent--the basis for the discretionary allocation. (See app. I.)

An example of how an area received less total funding because it included certain census tracts may be examined in the fiscal year 1974 allocation to Washington, D.C. The entire city qualified based on the months of June, July, and August 1973, with unemployment rates of 8.3 percent, 6.9 percent, and 7.0 percent, respectively.

Because the average number of unemployed persons during Washington's qualifying period was greater than the number unemployed during the month used for allocating discretionary funds, the critical rate for Washington was 3.9 percent. According to our computations, of the city's 152 census tracts, 78 were estimated to have an unemployment rate of 6.5 percent or more in July 1973; 1/ 45 to have a rate from 3.9 percent through 6.4 percent; and 29 to have a rate below 3.9 percent.

Washington's total allocation was reduced by the inclusion of these last 29 census tracts, because the discretionary funds were reduced by more than the addition to initial funds attributable to unemployed persons in these tracts.

1/The lowest unemployment rate of Washington's 3 qualifying months was July 1973 and, therefore, was most likely to be reduced to less than 6.5 percent because of the inclusion of low-unemployment census tracts.

CONCLUSIONS

In allocating initial and discretionary title II funds, certain actions are needed to insure consistent delineation of areas of substantial unemployment and equitable distribution of jobs to residents of these areas on a nationwide basis. Because public service employment funds are limited when compared with total manpower needs--8.5 million unemployed persons (seasonally adjusted) in May 1975 versus an estimated 331,000 persons in all public service jobs as of the end of the same month--and title II is aimed at areas experiencing severe unemployment problems, these funds should not be diluted by channeling them into areas experiencing moderate unemployment.

The legislative history of the act does not offer a specific definition of an area of substantial unemployment. Labor issued instructions to its regional offices and the States listing requirements which an area must meet, including that it must be a discrete identifiable neighborhood or community area or a separately identified target area under other Federal programs.

However, the definition of an area of substantial unemployment is subject to varying interpretations. This is illustrated by the different views of Labor's regional offices concerning the necessary characteristics of an area of substantial unemployment and by the different types of areas delineated by State officials.

Labor's instructions apparently need to be more specific in order to insure that the areas identified are consistent with the congressional intent that title II funds be allocated and job eligibility be determined on an equitable basis.

Labor should adopt a consistent period of time for delineating areas of substantial unemployment and use data which does not favor, under either the initial or discretionary allocation, areas with seasonal unemployment at the expense of areas without it. Also, Labor should advise State employment security agencies and prime sponsors as early as possible of the manner in which both initial and discretionary allocations will be made, so they will not be subject to an unexpected trade-off in the two allocations.

RECOMMENDATIONS

We recommend that the Secretary of Labor:

--Reconsider the definition of an area of substantial unemployment for fund allocation and job eligibility purposes to insure that funds and jobs will be distributed uniformly. At a minimum, whatever definition is adopted, all State employment security agencies and prime sponsors should be notified of the definition, so they can have an equitable opportunity to receive title II funds.

--Limit consideration of time periods for qualifying as an area of substantial unemployment under title II to a maximum of the most recent 12 months and apply this consistently.

--Take into account, in future initial and discretionary title II allocations, the seasonality factor so as not to favor areas with seasonal unemployment patterns at the expense of areas without it.

--Fully inform State employment security agencies and prime sponsors of the manner in which all title II funds will be allocated for each fiscal year.

AGENCY COMMENTS

In response to our August 21, 1975, request for comments, Labor, in a November 11, 1975, letter agreed with our first and second recommendations. (See app. II.) Labor said that (1) a revised set of instructions has been drafted regarding delineation of areas of substantial unemployment and that training sessions for its regional office staff will be held, if necessary, (2) any changes in the definition of an area of substantial unemployment will be supplied to all prime sponsors, and (3) the revised instructions limit the time periods to be considered for title II qualification.

Labor partially concurred with our third recommendation. It agreed that seasonal adjustment of unemployment rates in determining eligibility would help reduce allocations based on seasonality but did not agree that the actual number of unemployed should be adjusted. We believe adjusting only unemployment rates does not offer a complete solution; the number of unemployed should also be seasonally adjusted.

In hearings on Senate bill 1695--a proposed revision of CETA--before the Senate Subcommittee on Employment, Poverty, and Migratory Labor, the Assistant Secretary of Labor for Employment and Training testified on June 6 1975, against allowing "the three consecutive months of highest unemployment during the most recent twelve months to be used

* * * in allocating funds to qualifying areas* * *. He said that doing so

> "would provide additional funds to areas affected by purely seasonal fluctuations in unemployment even during the present period of high unemployment, and thus dilute the impact of the program on other severely hit areas."

Moreover, Office of Management and Budget draft circular A-46 of March 28, 1975, provides, in part, that executive agencies:

> "* * * shall use the most current National, State, or local area labor force or unemployment data published by the Bureau of Labor Statistics, United States Department of Labor, with respect to all program purposes, including the determination of eligibility for and/or the allocation of Federal resources, requiring the use of such data unless otherwise directed by statute. Not later than six months after the issuance of this Circular or as soon thereafter as the Bureau of Labor Statistics publishes data adjusted for seasonal variation, such data shall be used for all program purposes unless otherwise required by statute." (Emphasis added.)
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> * * * * *
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> "The data published by area shall at a minimum, be the current estimates before seasonal adjustment, and as soon as possible but not later than one year after issuance of this Circular, shall also provide the estimate adjusted for seasonality." (Emphasis added.)

The Secretary of Labor, commenting on this draft circular in a May 27, 1975, letter, said Labor supported the circular basically as written, subject to certain reservations. Of these reservations, only one related to seasonal unemployment data. It discussed only when such data might be available, not whether generating such data would be technically feasible or whether using such data would be advisable.

Accordingly, we believe seasonal adjustment, in areas where technically feasible, should be applied both to unemployment rates and absolute numbers to insure equity among prime sponsors. Certainly, the problem of seasonality will

not be solved by qualifying prime sponsors on the basis of seasonally adjusted data and then allocating funds on the basis of data which was not seasonally adjusted, as advocated in Labor comments.

Labor partially agreed with our fourth recommendation. It agreed that prime sponsors would be notified in advance, if possible, about allocation of the 80 percent (initial) portion of the title II funds. However, Labor said early announcement of plans concerning allocations of the 20 percent (discretionary) portion in fiscal year 1976 would have made it difficult to comply with the congressional intent of the 1976 continuing resolution and the Department did not plan to make such announcements.

CETA provides that the discretionary funds be distributed at the discretion of the Secretary of Labor, taking into account the severity of unemployment. The Senate and House Reports (S. Rept. 94-201 and H. Rept. 94-289) on the continuing resolution, providing fiscal year 1976 funds for Labor, specifically discussed the maintenance of then-existing levels of public service employment jobs, including those supported under title II of CETA. According to a Labor official, this was interpreted as congressional approval of Labor's plans to allocate the fiscal year 1976 discretionary funds, not in accordance with the current severity of unemployment in various areas, but to maintain existing job levels.

When Labor's method of allocating the discretionary funds creates a trade-off between the initial and discretionary funds, as appeared to exist in fiscal years 1974 and 1975, we believe prime sponsors deserve to be notified in advance.

CHAPTER 3

COMPREHENSIVE MANPOWER SERVICES PROGRAMS

The act defines which governmental and other units are eligible for prime sponsorship under title I. For fiscal year 1975 Labor approved 388 State, city, county, and territorial governments, and combinations thereof; 11 "exceptional circumstances" prime sponsors; and 4 rural concentrated employment programs.

In determining which units of general local government had a sufficient population to be eligible for prime sponsorship in fiscal year 1975, Labor used 1970 census information--which Labor considered the best available--but did not consider data on more recent population changes. Thus, certain cities and counties with populations of 100,000 or more may have been disqualified from becoming prime sponsors. More recent data, however, was used for fiscal year 1976 allocations.

The act states the general basis for allocating title I funds, but Labor chose the specific method to be used. Labor did not establish uniform criteria to compute the funding levels for the four rural CEPs for fiscal year 1975. After computing an annualized expenditure figure for a prior period for each CEP, adjustments were made--which Labor could not adequately explain and document--which increased the funding for two CEPs while decreasing the funding for the other two.

Title I states that the Secretary shall first utilize his discretionary funds to provide each prime sponsor with an amount equal to at least 90 percent 1/ of prior year funding; the discretionary funds may also be used to fund CEPs. All four CEPs received some discretionary funds from Labor. However, two CEPs also received initial allocations from Labor which were not legally available to them. For the other two CEPs, Labor provided funds to two States to operate title I manpower programs as balance-of-State prime sponsors in areas also served by a CEP. This also violates the CETA statute.

ELIGIBILITY FOR FUNDS

Only prime sponsors are eligible for financial assistance under title I of CETA. Prime sponsors are defined as

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1/The act requires the Secretary to first use discretionary funds to bring all prime sponsors up to at least 90 percent of their prior year manpower funding. This is known as the "hold harmless" provision.

(1) the State, but only with respect to areas--the balance of the State--not served by other prime sponsors; (2) a city or county with a population of 100,000 or more; (3) a combination (consortium) generally of cities and/or counties, as long as one member of the combination has a population of 100,000 or more; (4) a city or county which does not meet the population criterion, in certain exceptional circumstances; and (5) a limited number of rural CEP grantees.

City, county, and State prime sponsors

Initially, Labor listed 490 possible city, county, and State prime sponsors in January 1974. Because of the formation of consortium arrangements by a number of State and local sponsors, which are encouraged under the act, 403 prime sponsors were funded for fiscal year 1975.

Profile of Title I Prime Sponsors

Type	Number	Percentage of funds allocated (note a)
City (note b)	58	22.4%
County	156	15.3
Consortium (note c)	134	30.5
State (note d)	47	31.2
CEP (note e)	4	0.5
Territory (note f)	4	0.2

a/Total does not add to 100.0 because of rounding.

b/Includes three jurisdictions where city and county are coterminous.

c/Includes five statewide consortia.

d/Includes the District of Columbia and Puerto Rico; statewide consortia are listed as consortia.

e/Includes only funding to CEPs from Secretary's discretionary amount.

f/Title I provides that at least $2 million be allotted among Guam, the Virgin Islands, American Samoa, and the Trust Territory of the Pacific Islands.

California, with 36 prime sponsors, had more than any other State. On the other hand, because no city or county in

Maine 1/, North and South Dakota, Vermont, or Wyoming was populous enough to qualify as a prime sponsor, the State was the only prime sponsor. In Montana, the State was the prime sponsor, but there was also a CEP. Statewide consortia were formed in Idaho, New Hampshire, South Carolina, Utah, and West Virginia.

Political jurisdictions below the State level also joined to form a variety of consortia, including interstate, multi-county, and city-county consortia. For example, of 12 non-State prime sponsors in New England, 9 established consortia for themselves and surrounding communities. These ranged from 2 communities in the Stamford, Connecticut, consortium to 29 communities in the Hartford, Connecticut, consortium.

The act states that the eligibility of cities or counties is to be based on the most satisfactory current population data available to the Secretary. In determining which cities and counties had a population of at least 100,000, and were therefore eligible to be prime sponsors for fiscal year 1975 operations, Labor officials said they used the most current national data available--Bureau of Census data from 1970.

Labor was criticized in hearings before the Subcommittee on Labor and Health, Education, and Welfare, of the Senate Appropriations Committee 2/ because it did not consider population changes after 1970 and, therefore, may have prevented certain areas with population increases to 100,000 or more from becoming eligible to be prime sponsors during fiscal year 1975--the first year of title I CETA operations. These areas, however, were entitled to receive manpower services as part of a balance-of-State area but would not have been able, generally, to control their own programs. The act specifies that a State serve all areas--the balance-of-State--not included in another city or county prime sponsor area.

In response to the criticism that Labor could have used population data, for certain counties, that was obtained in 1971 and 1972 through a cooperative effort by the Census

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1/According to the 1970 census, there were three counties in Maine with 100,000 or more population, but counties in New England were not considered by Labor to be units of general local government for the fiscal year 1975 allocations.

2/"Departments of Labor and Health, Education, and Welfare, and Related Agencies Appropriations for Fiscal Year 1975," United States Senate, 93d Cong., 2d sess., H.R. 15580 (Washington, D.C., U.S. Government Printing Office, 1974) pt. 3, pp. 2081-2119.

Bureau and State governments, the Assistant Secretary of Labor for Employment and Training replied that such data was not available for all cities and counties and that Labor had decided to use the same data in allocating funds under CETA as had been used by the Treasury Department in allocating general revenue sharing funds. He also stated that new Census Bureau estimates of population for cities and counties, as of July 1973, would be used in determining eligibility for fiscal year 1976. A Labor official said that the 1973 data--the most current available--was, in fact, used and that updated data was expected to be available annually in the future.

"Exceptional circumstances" prime sponsors

A city or county could qualify to become a prime sponsor under the exceptional circumstances clause if it did not meet the population criterion but fulfilled the following other requirements:

--Serving a substantial portion of a functioning labor market or being a rural area with a high level of unemployment.

--Demonstrating a capability to operate manpower programs.

--Showing a special need for services in the area.

--Demonstrating a capability to carry out the programs as effectively as the State.

In addition, serious consideration must be given to the comments of the Governor and the otherwise eligible prime sponsor.

About 200 units of government asked for Labor approval under such circumstances; Labor approved the following 11.

--East St. Louis, Illinois.

--Humboldt County, California.

--Imperial County, California.

--Johnson and Union Counties, Illinois.

--Lowell, Massachusetts.

--Mayaguez, Puerto Rico.

--Richmond, California.

--Roanoke, Virginia.

--Texarkana, Arkansas/Texas.

--Webb County, Texas.

--Wilmington, Delaware.

Lowell, Massachusetts, for example, formed a consortium with seven other communities and filed a letter of intent to be considered a prime sponsor due to exceptional circumstances. According to Labor's Boston regional office's evaluation, Lowell met the following criteria of the act or regulations:

1. The consortium represented a substantial portion of a labor market area. Over 98 percent of the Lowell standard metropolitan statistical area was included in the consortium.

2. Lowell had demonstrated the ability to carry out the program because it had satisfactorily run a public employment program and a CEP.

3. A special need for services existed because the unemployment rate in the Lowell metropolitan area exceeded 10 percent in 1972 and 1973.

4. Lowell had demonstrated to Labor's authorized representatives and the State Office of Manpower Affairs that it could operate the program as effectively as the State.

5. The State, which otherwise would have had the Lowell area in its balance-of-State area, indicated that Lowell should be a prime sponsor.

Five other Massachusetts cities or consortia which applied to be prime sponsors due to exceptional circumstances were rejected for failing to meet one or more of the criteria.

Concentrated Employment Programs

Although CETA generally restricts eligibility for prime sponsorship to States and local governments serving 100,000 or more persons, the act allows funding of a limited number of CEP grantees serving rural areas having high levels of unemployment. The CEPs must be designated by the Secretary as having demonstrated special capabilities for carrying out programs in such areas.

CEPs are a system of packaging and delivering manpower services in a clearly defined geographic area. Working through a single contract with a single sponsor, the Employment and Training Administration provides a flexible package of manpower programs. Manpower employability and training services are provided only to eligible residents of the locally defined CEP area.

To determine which CEPs would be designated as prime sponsors in fiscal year 1975, Labor rated the performance of 12 existing rural CEPs on the basis of 5 factors, with the greatest weights given to cost per completion and percent of enrollees completing the program. The scores ranged from 54 to 83. Labor decided to fund only the top four.

Rural CEP	Score
Minnesota	83
Wisconsin	82
Kentucky	81
Montana	77
Missouri	71
Arizona	70
Maine	69
New Mexico	62
Michigan	61
Arkansas	57
North Carolina	55
Mississippi	54

ALLOCATION OF FUNDS

Although the act states the general basis for distributing title I funds, Labor selected the methods to be used, such as the period for which the degree of unemployment is to serve as a basis for allocation. In the case of the CEPs, Labor was not able to fully explain and document the method used.

City, county, and State prime sponsors

The act requires that 80 percent of the funds appropriated for title I (the initial allocation) be allocated to city, county, and State prime sponsors on the basis of a three-part formula which has been incorporated into Labor's regulations as follows:

1. 50 percent is to be allocated on the basis of the ratio that the certain Federal manpower funds received by the sponsor's area in the previous year bears to the total manpower funds distributed in previous year. 1/

2. 37.5 percent is to be allocated on the basis of the ratio that the number of unemployed persons in the area bears to the total number of unemployed persons in all areas.

3. 12.5 percent is to be allocated on the basis of the ratio of the number of adults in low-income families in the area to all such adults.

The fund allocations computed on the above bases are, however, subject to certain adjustments. The act states that 1 percent of the 80 percent is to be given to States for State Manpower Services Councils on the same three-part formula basis. Also, generally, no prime sponsor may receive more than 150 percent of the prior year funding.

To develop the needed title I formula data regarding a non-CEP prime sponsor's prior year funding, Labor issued instructions to its regional offices in February 1974. The data to be obtained was to be based on fiscal year 1974 new obligational authority that was already obligated through December 1973 and on planned obligations for the remainder of the fiscal year, under certain categorical manpower programs which CETA replaced, for each prime sponsor's geographic area.

The measure of unemployment used in the fiscal year 1975 allocation was the calendar year 1973 average monthly number of unemployed persons. State and local unemployment estimates were obtained from State employment security agencies based on standard methods approved by the Bureau of Labor Statistics. (See ch. 4.)

Data on the number of low-income family adults was based on an estimate of the number of adults in families with an annual income below $7,000 within the area. This estimate was derived from the 1970 census.

1/Since fiscal year 1975 was the first year of CETA title I funding, the previous year funds refer to funding under certain authorizations under the Manpower Development and Training Act and the Economic Opportunity Act.

CEP prime sponsors and other uses

The act states that the remaining title I funds (20 percent) are to be allocated on the following basis:

--Up to 5 percent of the total available funds may be used to provide additional funds, to consortium sponsors, which cover substantial portions (for example, 75 percent) of labor market areas.

--5 percent of the total available funds (allocated according to the three-part formula) are for grants to the Governors to provide vocational education services in areas served by prime sponsors.

--4 percent of the total available funds (allocated according to the three-part formula) are for the Governors' use in providing statewide manpower services.

--Approximately 6 percent is for the Secretary's discretionary use (the discretionary allocation), with first priority given to assuring that no prime sponsor receives less than 90 percent of its previous year's funding (as a result of the formula application). The discretionary allocation also may be used to fund some rural CEPs as prime sponsors.

In the case of prime sponsors other than CEPs, Labor used fiscal year 1974 new obligational authority as the measure of prior year funding for formula allocation purposes. However, the program year for the CEPs was not July 1 through June 30 (then the usual Government fiscal year) but November 1 through October 31 in two cases and other nonstandard periods in the other two cases.

Also, in anticipation of CETA's enactment, according to a Labor official, none of these four CEPs were funded for a full 12 months. Hence, he said, it would not have been fair to use fiscal year 1974 new obligational authority in these cases.

For each rural CEP, Labor calculated the average monthly expenditure rate for a recent period and annualized the monthly rate to yield a funding level for fiscal year 1975. The periods ranged from 2 months to 16 months.

According to a Labor official, adjustments were made in each case. For Minnesota, the approximate amount of a recently signed CEP annual contract with Labor was used. Labor officials could not fully explain and document the basis for the other adjustments.

Details follow:

--Kentucky. The annualized expenditure rate was based on expenditure data available for the 16-month period from November 1972 through February 1974. This represented a full program year plus 4 months of an 8-month extension. The average monthly expenditure rate during that period was $191,290, which resulted in an annualized rate of $2,295,480. Labor allocated the rural CEP $2,760,000, or $464,520 more than the annualized rate.

--Montana. Based on available expenditure data for 9 months of the program year (July 1973 through March 1974), Labor computed an average monthly expenditure rate of $72,963 and an annualized rate of $875,556. Labor allocated the rural CEP $864,000, or $11,556 less than the annualized rate.

--Minnesota. The target area to be served by the rural CEP prior to CETA was enlarged at the beginning of the 1974 program year. The annual funding level was increased from $1,685,339 for program year 1973 to $2,058,662 for program year 1974. Expenditure data was available for only 3 months of the 1974 program year and indicated an average monthly expenditure rate of $200,548 and an annualized rate of $2,406,576. According to a Labor official, Labor believed that the early months of the enlarged program might not accurately reflect typical operations because of substantial startup costs. Hence, he said, the rural CEP was funded at $2,059,000--the approximate level of annualized funding for the increased target area.

--Wisconsin. At the end of the rural CEP's 1973 program year in November 1973, there was a major modification of the contract to provide continued funding only through July 22, 1974. The annualized expenditure rate was $1,247,424, based on only 2 months' data--the only data available for the new program year. Labor allocated the Wisconsin rural CEP $1,526,000, or $278,576 more than the annualized rate.

DISCRETIONARY FUNDS

The act states that the Secretary shall first utilize his discretionary funds to provide each prime sponsor at least 90 percent of prior year funding. The funds may also be used to fund CEPs.

90 percent "hold harmless"

The President's fiscal year 1975 budget, submitted in February 1974--shortly after the enactment of the act--did not request enough funds to allow the Secretary to provide each prime sponsor at least 90 percent of prior year funding. The budget request was too low, according to a Labor official, because complete data on each prime sponsor's fiscal year 1974 manpower funding was not available when the budget request was formulated. Moreover, the addition of $397 million for summer programs in June 1974 further increased the fiscal year 1974 base after the President's budget request had been made.

Based upon the amount in the President's budget requests, Labor made preliminary calculations via the three-part formula. Even using discretionary funds to attempt to bring all prime sponsors up to 90 percent, there would have been 293 prime sponsors below the 90 percent level. A summary of those computations follows.

Formula allocation as a proportion of prior year funding	Number of prime sponsors
At least 60 but less than 70%	23
" " 70 " " " 80	148
" " 80 " " " 90	122
" " 90 " " " 100	47
" " 100 " " " 110	32
" " 110 " " " 120	12
" " 120 " " " 130	4
" " 130 " " " 140	1
" " 140 " " " 151	8
Total	a/397

a/This total differs from the prime sponsor total cited elsewhere, because it excludes rural CEP grantees and certain other prime sponsors whose allocations were established by the act and because of changes in consortium composition since the date of the computation.

In May 1974 Labor issued planning estimates to prime sponsors for fiscal year 1975 title I programs for comprehensive manpower services. These estimates were based on the assumption that all prime sponsors would receive at least 90 percent of prior year funding and were issued with the understanding that the final allocations might be different, because of differences between the President's budget request and the appropriation.

When Labor's fiscal year 1975 appropriations bill was enacted on December 7, 1974 (Public Law 93-517), it included $2.4 billion for comprehensive manpower assistance, of which $1.58 billion was for title I. Labor's subsequent allocation of title I funds for fiscal year 1975 resulted in all prime sponsors receiving at least 90 percent of their prior year manpower funding.

In commenting on the fiscal year 1975 comprehensive manpower assistance appropriation in November 1974, the Secretary stated that, under the proposed funding level and the existing economic situation, all title I prime sponsors would receive at least 90 percent of their prior year funding. He stated, however, that this should not be construed as a commitment to hold prime sponsors harmless at 90 percent in fiscal year 1976.

CEP funding

In addition to bringing prime sponsors up to 90 percent of prior year funding, the Secretary's discretionary funds may be used to fund CEPs. The act provides that CEPs cannot receive title I funds from the initial 80 percent of funds to be allocated by formula.

This rule was followed in the cases of the Montana and Wisconsin CEPs, which were funded by Labor solely with discretionary funds. However, the Kentucky CEP, in addition to receiving $2.76 million of discretionary funds, also received $9.29 million from the initial formula allocation, in violation of the act. This action reduced by $9.29 million the amount available for distribution to all non-CEP prime sponsors in the Nation under the initial allocation, three-part formula. The result was to reduce the amount that each prime sponsor received under the initial title I allocation by its proportionate share of the $9.29 million.

Similarly, in Minnesota the CEP received, in addition to $2,059,000 in discretionary funds, $1,445,842 from the initial formula allocation funds. This, too, reduced the amount available to all non-CEP prime sponsors under the initial formula allocation and violated the law.

- - - -

Because the act provides that the Secretary shall first use his discretionary funds to bring prime sponsors up to 90 percent of the prior year funding, Labor would not have been able to fund the CEPs in fiscal year 1975 if the Congress had not appropriated more funds than requested in the President's budget.

PRIME SPONSOR JURISDICTIONS

The act provides that a State shall not qualify as a prime sponsor under title I for any geographic area within the jurisdiction of any other prime sponsor unless the other prime sponsor has not submitted an approvable manpower plan for that area under title I. This precludes Labor from providing title I funds to a State for operating manpower programs as a balance-of-State prime sponsor in any area being served by a CEP as prime sponsor.

In accordance with the act, the rural CEP agency in Kentucky was the only prime sponsor to receive title I funds to operate a comprehensive manpower program in the 22-county CEP area. The same situation existed in Minnesota's 19-county CEP area.

However, in the other two States (Montana and Wisconsin) where Labor provided funds to rural CEPs, title I funds were also allocated for the CEP target area counties as part of the balance-of-State programs. Providing title I funds for two prime sponsors to operate comprehensive manpower programs in the same area violates the law.

CONCLUSIONS

Labor used dated census information in determining the eligibility of local units of government to serve as prime sponsors under title I for fiscal year 1975. However, this was done to be consistent nationwide, and Labor used more current census data for making eligibility determinations for fiscal year 1976.

Labor should insure that the rural CEPs are funded under uniform criteria and that title I funds are not provided to CEPs and States operating comprehensive manpower programs in the same area. In addition, funds granted to CEPs should be limited to the sources of funding authorized by the act.

With regard to the violations of the CETA statute involving the funding and operation of the CEPs, we do not believe it would be beneficial at this time for the Secretary to attempt to retroactively adjust those funds. In our view, the better course of action would be for Labor to make sure such irregularities do not occur again.

RECOMMENDATIONS

We recommend that the Secretary of Labor:

--Insure that uniform criteria are used for computing funding levels for the CEPs.

--Insure the CEPs do not receive funds from the 80 percent of title I funds to be allocated by formula.

--Insure that title I funds are allocated to only one prime sponsor for operating comprehensive manpower programs in any one area, as required by the act.

AGENCY COMMENTS

Labor did not agree with any of our recommendations concerning the four rural CEPs.

Concerning the first recommendation, Labor said a formula allocation of discretionary funds is not legislatively required; three criteria were used in determining funding levels; and adjustments were made to optimize the availability and use of allocated funds. Although a formula allocation of the discretionary funds to the CEPs is not required, considerations of equity suggest that some consistent method be used. Although Labor mentions three criteria which were used, it did not explain how particular dollar amounts were calculated. Hence, it is not possible to judge whether these amounts did, in fact, optimize the availability and use of funds. In fact, we have repeatedly tried, without success, to obtain information from Labor that would show how the dollar amounts were calculated.

Concerning the second recommendation, Labor did not challenge the facts as stated but said two CEPs received funds from the initial title I allocation at a balance-of-State prime sponsor's request. We believe that such a disposition of the funds was improper.

The CETA statute provides in section 103(g) that:

"Grants made to prime sponsors designated under section 102(a)(5) [CEPs] shall be from funds not allocated under subsection (a) [initial allocation money]."

The congressional intent that CEP funds not come from section 103(a)--initial allocation--funds is clear when one looks to the history of the cited section. The House committee report on the bill that gave rise to section 103(g) stated:

"* * * grants to certain concentrated employment program grantees shall come from the Secretary's discretionary funds." (H. Rept. 93-659, p. 27.)

Thus, we believe the intent of the CETA statute was that CEP funds would come from moneys available to the Secretary under section 103(f), discretionary funds, rather than the allotted funds, section 103(a).

Similarly, concerning the third recommendation, Labor did not challenge the facts as stated but said the act's prohibition against two prime sponsors operating in any one area does not apply because of the previous unique funding arrangements for the CEPs. Again, we believe the act's provision is clear, notwithstanding previous arrangements.

The statute specifically provides that

> "A state shall not qualify as a prime sponsor for any geographical area within the jurisdiction of any prime sponsor described in paragraph * * * (5) of subsection (a) unless such prime sponsor has not submitted an approvable comprehensive manpower plan for such area." (Section 102 (b)(1).)

Paragraph (5) of subsection (a) is the section that provides for CEPs to become prime sponsors.

The only exceptions in the statute that allow State activities within the areas served by CEPs (which, as here, are not units of general local governments) are the specific activities enumerated in section 106(c), which are separately funded under section 103(e), and the specific activities shown in section 112--provisions that do not appear to apply to the CEPs in question.

It follows that when a CEP is a prime sponsor in an area, the act precludes a State from using title I manpower program funds in that same area when it is acting as a balance-of-State prime sponsor.

Furthermore, although Labor's comments imply that compliance with the law would have resulted in manpower services being denied to many persons, in actuality the Secretary of Labor has ample discretionary authority, under the authorizing legislation, to insure that this does not occur.

CHAPTER 4

NEW METHODOLOGY FOR ESTIMATING STATE AND LOCAL UNEMPLOYMENT DATA

Estimates of State and local employment and unemployment, based on methodology of Labor's Employment and Training Administration, have been criticized by various sources in recent years. Labor's Bureau of Labor Statistics devised a new methodology for making these estimates, which were to be used in making allocations under titles I and II of CETA. The new methodology avoids certain problems inherent in the previous method.

THE PREVIOUS METHODOLOGY

Area unemployment estimates have been developed in increasing detail since World War II. Until November 1972 Labor's Employment and Training Administration provided technical assistance to the State employment security agencies, who developed the estimates.

These estimates, prepared according to a so-called "70-step method," were based on State unemployment insurance agencies' records for the number of jobs held by workers covered by unemployment insurance and separate estimates for those not so covered. They were originally prepared only for standard metropolitan statistical areas, but the same techniques were later used to estimate unemployment for successively smaller and less populous areas.

In recent years, these estimates were criticized by various sources, including a 1971 GAO report, which pointed out that the data was not reliable. 1/

THE NEW METHODOLOGY

In November 1972 the primary responsibility for insuring the technical accuracy of the statistics was assigned to Labor's Bureau of Labor Statistics. The Bureau's new methodology is designed to strengthen weaknesses of the previous system, by providing accurate and consistent estimates for States and local areas. State employment security agencies were directed to use the new methodology in making the unemployment estimates on which CETA allocations were based.

1/"More Reliable Data Needed as a Basis for Providing Federal Assistance to Economically Distressed Areas" (B-133182, May 10, 1971).

The new system modifies and updates the existing techniques by retaining important elements of the prior system but adding more rigorous statistical techniques and a wider range of data sources. The major changes are:

--Estimates are to be based on the number of workers rather than the number of jobs, to eliminate double-counting of persons holding second jobs.

--Estimates are to be based on place of residence rather than on place of employment, to eliminate the effect of commuting patterns.

--Estimates for States and local areas are to be adjusted, where feasible, to estimates from the Current Population Survey (CPS) 1/ to reduce the discrepancy between State and local, and national estimates.

--Estimates for workers not covered by unemployment insurance are to be updated and made more reliable.

Data from the CPS provides monthly estimates of national unemployment. At present, according to the Bureau, this data is also adequate for making separate estimates for 27 large States, the 30 largest metropolitan areas, and the central cities of 11 of those 30 areas. The Bureau estimates that these areas account for about 88 percent of the Nation's unemployed persons. CPS estimates (benchmarks) for these areas are calculated at the end of each calendar year; month-to-month changes from this survey level during the following year are estimated by the revised 70-step method.

State employment security agencies were directed to begin using the new methodology in January 1974. Additional changes were introduced in January 1975.

DATA RELIABILITY

Unemployment data is subject not only to seasonal variation but also to statistical variability. Because all unemployment data used in titles I and II allocations under CETA was based on samples and estimates, this data may differ from the figures that would have been obtained if a complete census had been made.

1/The Current Population Survey is a monthly survey of 47,000 households conducted by the Bureau of the Census and compiles, among other items, employment and unemployment data for the Bureau of Labor Statistics.

For States and localities where unemployment estimates can be checked against estimates from the CPS, the statistical variability is greater for areas with a smaller population (generally greater for a city than a State). Were a complete census to be made of a metropolitan area with a population of 100,000 and an estimated unemployment rate of 7 percent, there is a 95 percent probability that the actual unemployment rate would lie somewhere between 4.5 percent and 9.5 percent. With a population of 1,000,000 there is a 95 percent probability that the actual rate would lie somewhere between 6.2 percent and 7.8 percent.

The statistical variability is also greater for shorter time periods (greater for a month than a year). An estimate of the annual average number of unemployed persons is expected to be twice as accurate as an estimate for a 3-month period; the annual average is expected to be five times as accurate as an estimate for a 1-month period.

Efforts to improve

To allow more complete coverage by the CPS, Labor submitted to the Office of Management and Budget, in May 1974, a proposed amendment to the fiscal year 1975 budget to allow Labor an additional $8 million to contract with the Bureau of the Census for an expansion of the survey sample from 47,000 to 79,000 households. This would have provided consistent data for all 50 States and about 100 metropolitan areas. The proposal stated that the need for the data was urgent, because existing statistics for States and local areas were not adequate and because it was essential that labor force data for all States be comparable for allocating revenue sharing funds and for other purposes.

Labor's proposed amendment was not submitted to the Congress for consideration. During the Office of Management and Budget's review of Labor's budget, agreement was reached that the $8 million would not be requested and that fiscal year 1975 funds available under title III of CETA would be used to fund startup costs in fiscal year 1975. The Employment and Training Administration agreed to provide to the Bureau of Labor Statistics $2.75 million for fiscal year 1975 for startup costs for an expanded survey.

The President's budget for fiscal year 1976, submitted to the Congress in February 1975, called for a more limited expansion of the CPS to 60,000 households. No appropriated funds were requested for this purpose because, according to a Bureau official, the Employment and Training Administration was expected to provide additional funds to finance the expansion. The Employment and Training Administration agreed to

provide $4.55 million to the Bureau for this purpose in fiscal year 1976.

According to Bureau officials, the expansion to 60,000 households will allow State unemployment estimates to be adjusted to the CPS for all 50 States and the District of Columbia; however, no additional metropolitan areas will be able to be adjusted to the survey.

CONCLUSION

Because large sums of money are allocated under titles I and II of CETA based in part on estimates of State and local unemployment, it is important that these estimates be consistent and reliable. Labor is improving the unemployment data being used.

EXAMPLE OF THE EFFECT OF THE TRADE-OFF FACTOR ON FISCAL YEAR 1974 TITLE II ALLOCATIONS

The examples on page 46 demonstrate how the trade-off between the initial and discretionary portions of the fiscal year 1974 title II allocation could affect the optimal delineation of a prime sponsor's area of substantial unemployment. Census tracts with unemployment rates below 6.5 percent can be added only until the unemployment rate for the entire area is reduced to 6.5 percent.

Each begins with a census tract with a labor force of 1,000 and total unemployment of 100 (unemployment rate equals 10 percent). Example A assumes that no additional area is added. Example B assumes that a census tract with a 3 percent unemployment rate is added (3 unemployed divided by 100 labor force). Example C assumes that a census tract with a 5 percent unemployment rate is added (5 unemployed divided by 100 labor force). As shown, total allocations for Example A would remain unchanged, but total allocations for Example B would actually be reduced, while total allocations for Example C would be increased.

The computations are based on the following assumptions:

1. Initial funding of $294.1 million was allocated based on 3.53 million unemployed persons, or about $83 per person.

2. Discretionary funding of $65.1 million was allocated based on 502,000 "excess" unemployed persons, or about $130 per person.

3. The number unemployed in April 1974--the month used for the discretionary allocation--equals the average number unemployed during the qualifying period.

On the basis of the above assumptions, it can be determined mathematically that it would be beneficial to add any area with an unemployment rate above about 4 percent and would be harmful to add any with a lower rate. Changing any of these assumptions would change this critical rate.

	Example A	Example B	Example C
Labor force:			
Beginning	1,000	1,000	1,000
Added census tract(s)	-	100	100
Total	1,000	1,100	1,100
Unemployment:			
Beginning	100	100	100
Added census tract(s)	-	3	5
Total	100	103	105
Unemployment rate:			
Beginning	10.0%	10.0%	10.0%
Added census tract(s)	-	3.0	5.0
Combined	10.0%	9.4%	9.5%
6.5 percent of total labor force	65	71.5	71.5
"Excess" unemployment (number of total unemployed in excess of 6.5 percent of total labor force)	35	31.5	33.5
Initial allocation ($83 multiplied by total unemployment)	$ 8,300	$ 8,549	$ 8,715
Discretionary allocation ($130 multiplied by excess unemployment)	4,550	4,095	4,355
Total	$12,850	$12,644	$13,070
Gain in initial allocation due to addition of census tract(s)	-	249	415
Loss(-) in discretionary allocation due to addition of census tract(s)	-	-455	-195
Net gain or loss(-) from census tract(s) added	-	-206	220

APPENDIX II

U.S. DEPARTMENT OF LABOR
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON

NOV 1 1 1975

Mr. Gregory J. Ahart
Director
Manpower and Welfare Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Ahart:

This is in response to the GAO Draft Report titled - "Progress and Problems in Allocating Funds under Titles I and II -- Comprehensive Employment and Training Act " (CETA). Comments are keyed to specific recommendations in the report.

Recommendations - pp. 32 and 33:

1. "Reconsider the definition of an area of substantial unemployment for fund allocation and job eligibility purposes to insure that congressional intent is met. At a minimum, whatever definition is adopted all State employment security agencies and prime sponsors should be notified of the definition so they can have an equitable opportunity to review title II funds;"

Comment: Concur. The Department of Labor (DOL) has done this and a revised set of instructions has been prepared and incorporated in a draft Reports and Analysis Letter (RAL) submitted to the Office of Management and Budget (OMB) for clearance. Clearance of this document has not yet been received.

Any new instructions issued by DOL will be provided to State employment security agencies (SESA's). In addition, if necessary, training sessions will be held with DOL regional office staff to insure that, to the extent possible, equal application of procedures will be received. Any changes to the definition of an area of substantial unemployment will also be supplied to all prime sponsors.

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2. "Limit consideration of time periods for qualifying as an area of substantial unemployment under title II to a maximum of the most recent 12 months and apply this consistently;"

Comment: Concur. Previously cited RAL draft does exactly this.

3. "Take into account, in future initial and discretionary title II allocations, the seasonality factor so as not to favor areas with seasonal unemployment patterns at the expense of areas without seasonal unemployment."

Comment: Partially Concur. We agree to the extent that the seasonal adjustment of unemployment rates to determine eligibility would assist in reducing allocations based on seasonal employment. However, we do not agree if the recommendation implies that the actual number of unemployed should be adjusted. How is DOL to explain to a Mayor that his city did not really have 10,000 unemployed but rather 9,000 unemployed, due to seasonal adjustment and, therefore, 10 percent less funds will be provided?

4. "Fully apprise State employment security agencies and prime sponsors of the manner in which all title II funds will be allocated for each fiscal year."

Comment: Partially Concur. With respect to the 80 percent of total title II funds allocated to prime sponsors using the formula provided in section 202 of the act, the DOL concurs with this recommendation. Insofar as appropriations are made in a timely manner, advance apprisal of the manner in which these funds will be allocated will be made prior to the fiscal year.

No such apprisal is believed necessary nor is one planned with respect to the Secretary's discretionary funds. These discretionary funds have, in the past, been used for purposes which were not wholly consistent with those purposes for which these funds were originally intended in the act. This was done in accordance with congressional intent, as stated in the language accompanying the 1976 continuing resolution under which funds were made available. Had the DOL earlier announced and disseminated the actual methodologies to be used in the allocation of these discretionary funds it would have been difficult or almost impossible to meet congressional intent. To continue to effectively utilize these discretionary funds, no such apprisal could be made prior to this fiscal year.

Recommendations - p. 52:

1. "Assure that uniform criteria are used for computing funding levels for the Rural CEPs (RCEPs);"

Comment: Do not concur. We agree with GAO's concern that uniform criteria be used to fund RCEP's. However, we do not feel that a formula allocation of discretionary funds is legislatively required. The RCEP's in FY 1975 were funded taking into account their previous year's funding levels, monthly expenditure rates, and need to maintain a minimum level of operational efficiency throughout the fiscal year. Since RCEP's funding is not subject to formula allocation, adjustments were made to optimize both the availability and use of allocated funds.

2. "Insure that RCEPs do not receive funds from the 80 percent of title I funds to be allocated by formula;"

Comment: Do not concur. The RCEP's grants were funded from title I discretionary funds. The balance of State (BOS) allocations were funded from title I, 80 percent funds. However, the BOS prime sponsors were required to establish some mechanism to assure equitable funding to the RCEP's area (not the RCEP itself). The BOS sponsors were allowed to select any of the following options to meet this requirement: (1) Request direct Federal funding of a negotiated portion of the BOS allocation to the RCEP's sponsor; (2) subgrant all or a portion of the RCEP's area share of the BOS allocation to the RCEP's sponsor; or (3) utilize previously existing deliverers of services, or select new ones. As noted in the GAO report, two RCEP's sponsors did receive funds in their grants from the BOS allocations, but this was at the request of the BOS prime sponsors in accordance with option one above. The two other BOS prime sponsors elected to operate as they had in the past (a combination of options 2 and 3 above).

3. "Insure that title I funds are allocated to only one prime sponsor for operating comprehensive manpower programs in any one area."

Comment: Do not concur. We believe the Rural CEP's represent a special case in which the provisions of section 102(b)(1) and section 102 (b)(2) of the act do not apply because of previous unique funding arrangements in RCEP's areas.

In the past, programs operating within RCEP's target areas have been funded from two sources:

APPENDIX II

a. They have been funded from Concentrated Employment Program monies administered by community action agencies, employment service agencies, etc., serving a multijurisdictional area.

b. They have also received funding from non-CEP sponsors in response to a variety of needs.

Typically, non-CEP funds are used to provide additional program support in portions of the area served by the CEP sponsor; however, in all instances such funding is administered by other agencies, such as local school boards, counties, towns, etc. As a result, the combined level of funding in many RCEP's target areas accounts for a substantial portion of the total resources that were attributed to the balance of State line item for purposes of calculating the funding level under the CETA, title I, formula.

The combination of the provisions of section 102(b)(1) and section 102(b)(2) (relating to no two prime sponsors operating in the same area) would deny manpower services to many persons in RCEP's areas simply because non-CEP program activities were previously administered by an agency which is not a unit of general government (e.g., a local school board), and funds for such programs were included in the balance of State allocation for Fiscal Year 1975. We do not believe congressional intent was to deny manpower services to individuals in RCEP's areas on such a basis. Consequently, the State, as BOS prime sponsor, was required to provide some mechanism to insure appropriate additional manpower assistance in the RCEP's area not otherwise funded through the RCEP's portion. Contrary to the language of the report, we feel the Department's actions were in full accord with the intent of the Congress and the requirements of the act.

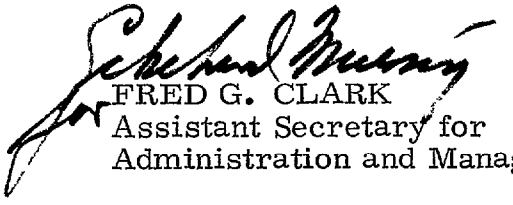
[See GAO note 1 on p. 51.]

APPENDIX II

[See GAO note 1.]

We appreciate the opportunity to comment on this report. If my office can be of further assistance, feel free to contact me.

Sincerely,



FRED G. CLARK
Assistant Secretary for
Administration and Management

GAO note:
1. The deleted comment relates to a matter which has been revised in the final report.
2. Page references in this appendix refer to the draft report and do not necessarily agree with the page numbers in the final report.

PRINCIPAL DEPARTMENT OF LABOR OFFICIALS

RESPONSIBLE FOR ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of Office	
	From	To
SECRETARY:		
John T. Dunlop	Mar. 1975	Present
Peter J. Brennan	Feb. 1973	Mar. 1975
ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING (note a):		
William H. Kolberg	Apr. 1973	Present
COMMISSIONER OF LABOR STATISTICS:		
Julius Shiskin	Aug. 1973	Present

a/Before November 12, 1975, the position title was Assistant Secretary for Manpower.

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