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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT DIVISION

MAY 8 1974

Mr. Graham W. Watt, Director
Office of Revenue Sharing
Department of the Treasury

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Dear Mr. Watt:

The General Accounting Office surveyed the revenue sharing activities of the State government of Mississippi and eight city and county governments in Louisiana, Mississippi, and Texas. The purpose of the survey was to test the "Audit Guide and Standards for Revenue Sharing Recipients," published by the Office of Revenue Sharing and to identify problems in conducting compliance audits. The places included in our survey were: Covington, Hammond, St. Tammany Parish, and Tangipahoa Parish, Louisiana; Bay St. Louis, Hancock County, and Harrison County, Mississippi; and San Antonio, Texas.

We examined accounting and other pertinent records, analyzed applicable State and local laws and procedures, and held discussions with State and local government officials.

Based on our limited survey, we believe the Audit Guide provides for coverage that is sufficient to assess compliance by a recipient government if the audit work contemplated by the guide is properly carried out by the auditor. Although we found no serious compliance problems during our survey, we have observed two areas which we believe warrant consideration by the Office of Revenue Sharing.

NEED TO CLARIFY DEFINITION OF PRIORITY EXPENDITURES

Section 103 of the State and Local Fiscal Assistance Act of 1972 lists the priority expenditure areas in which local governments may use revenue sharing funds. Except for a discussion of debt retirement, the regulations go no further than the act in defining the priority expenditure areas. This survey and our review work at other local governments have indicated that local jurisdictions are having difficulty determining whether certain operating and maintenance expenses are within the priority expenditure categories.

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For example, San Antonio, Texas spent $37,784 of its revenue sharing funds and budgeted an additional $58,240 for direct welfare payments under the priority category "Social Services for the Poor or Aged." The publication "General Explanation of the State and Local Fiscal Assistance Act" prepared by the staff of the Joint Committee on Internal Revenue Taxation contains a statement that the Congress intended that revenue sharing funds not be used for this purpose. City officials stated that after thoroughly reviewing the act and the regulations they had concluded that direct welfare payments could properly be made under the category, "Social Services for the Poor or Aged." They said that the prohibition against using the funds for direct welfare payments was not reflected in the regulations, and they had not seen the document indicating that such use was not in accord with the intent of Congress.

In a letter dated December 4, 1973, the San Antonio Director of Finance asked your office whether revenue sharing can be used for direct welfare payments and, if not, what action the city should take to correct the situation. Your reply had not been received by the city at the time our review was completed.

As another example, we found that Harrison County, Mississippi spent $33,151 for Chancery Clerk services and general county employee salaries which in our judgment may have represented general administrative costs. The Chancery Clerk of Harrison County indicated agreement with our interpretation; however, he expressed the view that the Office of Revenue Sharing should take action to clarify non-permissible uses of revenue sharing. County officials later advised us that steps had been taken by the county to avoid this problem in the future. All payments to elected officials and salaries of county employees whose duties are of a general administrative nature were being paid from general county revenues.

The Office of Revenue Sharing publication "What is General Revenue Sharing?", dated August 1973, made a distinction between financial administration and general administration and explained that revenue sharing funds may be used for expenses of financial administration but not for general administration. This distinction is not contained in the regulations.

Conclusion and recommendation

In our opinion, compliance with the priority expenditure requirements could be enhanced by providing additional regulatory guidance to recipient governments. We recommend that the Director, Office of Revenue Sharing, expand the regulations dealing with permissible expenditures (Section 51.31) to provide more specific guidance as to the types of operating and maintenance expenditures that are not within the priority expenditure categories.

INACCURATE ACTUAL USE REPORTS

Our survey indicated that recipient governments experienced difficulties in preparing the initial Actual Use Reports. Of the nine governments we visited, one, Hancock County, Mississippi, had not filed its Actual Use Report. Of the eight governments that filed reports, only the State of Mississippi had prepared an accurate report.

Three of the seven jurisdictions that filed inaccurate reports did not include encumbrances in the reports as required by the reporting instructions. In San Antonio, Texas these encumbrances amounted to $803,270. The two other governments, Tangipahoa Parish, and Hammond, Louisiana, excluded encumbrances totaling $19,217 and $2,216. Bay St. Louis, Mississippi reported all funds received through June 30, 1973, as encumbered or expended even though it had actually encumbered or spent only a small portion of the total. Another government, Harrison County, Mississippi, misclassified $37,545 of expenditures.

The governments of Hammond, Covington, Tangipahoa Parish, and St. Tammany Parish, Louisiana, and Harrison County, Mississippi, understated interest earnings either because they did not accrue interest to June 30, 1973, or did not report all amounts actually received. These understatements ranged from $197 to $4,101. The reporting instructions were not specific as to whether accruals should be reported, although the Office of Revenue Sharing publication "What is General Revenue Sharing?" indicated that accrued interest should be reported.

These difficulties are being brought to the attention of the Office of Revenue Sharing for its consideration in preparing the instructional material that accompanies future Actual Use Report forms.

My staff is available should you or members of your staff wish to discuss this report or the audit work performed. I would appreciate being advised of any actions taken by the Office of Revenue Sharing on the matters discussed in this report.

Sincerely yours,

Albert M. Hair, Jr.
Assistant Director

cc: Dallas R.O.