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

GENERAL GOVERNMENT
DIVISION

B-208161



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JULY 13, 1982

The Honorable James Abdnor
United States Senate

Dear Senator Abdnor:

Subject: Summary of Recent GAO Reports on Managing
Intergovernmental Assistance Programs
(GAO/GGD-82-91)

I am responding on behalf of the U.S. General Accounting Office (GAO) to your April 2, 1982, letter to Mr. Henry Eschwege, Director of our Community and Economic Development Division. You requested us to inventory shared Federal/State programs and asked other questions related to Federal/State relationships in administering intergovernmental assistance programs. In subsequent meetings with your office, our staff provided an extensive inventory of all intergovernmental assistance programs appearing in GAO's Legislative, Authorization, Program and Budget Information System. We also discussed whether it is possible to identify a particular strategy or model of Federal oversight and supervision that seems to work best in securing effective State implementation of Federal objectives.

On the basis of this meeting, I am providing copies of several reports on the Federal intergovernmental assistance system that hopefully will be useful to you. As our staff noted at the meeting, it is difficult to specify any one model of Federal/State relations that could fit the various programs sponsored by the Federal Government; rather, different models probably should be applied depending on the goals and objectives desired by the Congress for each particular program. Nevertheless, work done by GAO, the Advisory Commission on Intergovernmental Relations, and others has identified certain issues that should be considered in the design of an intergovernmental program where States and localities are used to achieve Federal objectives. The basic message of these studies is that State involvement in administering Federal programs, although often necessary from political and fiscal standpoints, can produce friction and tension due to basic differences in interests and perspectives between Federal and State governments. This friction, however, can be ameliorated through better design of intergovernmental programs.

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We have carried out a considerable program of work over the past several years evaluating the effects of Federal assistance policies on all three levels of government. Our work has generally attempted to discover ways to implement Federal programs with minimal intergovernmental friction and conflict. A major conclusion of our reports over the years has been that, since the Federal Government relies so heavily on State and local governments to implement national objectives on a partnership basis, the Federal level needs to design programs that are more sensitive to the fiscal, legal, and administrative environments of State and local governments. Our principal recommendations have pointed to the need for such reforms of the Federal assistance system as:

- Consolidation of narrow and restrictive categorical grants within a functional program area into broader purpose programs to reduce costly duplication or overlap and enable State and local tailoring of programs to meet actual needs for services.
- Making greater use of financial incentives to encourage and reward efficient State and local program management in administering Federal assistance programs.
- Encouraging greater oversight of Federal grant programs by State and local elected officials to enhance the accountability of these programs to the public.
- More careful Federal agency selection of assistance instruments (grants or cooperative agreements) to better reflect their relationship with grantees and to more effectively concentrate scarce Federal oversight staff resources on those grantees and problems requiring the most attention.
- More careful design of Federal aid formulas so that Federal funds are appropriately targeted in accordance with congressional intent and so that the Congress is made more aware of the distributional consequences of its and Federal agencies' decisions.
- Standardizing and simplifying the ways that Federal agencies define and apply various cross-cutting policy requirements and mandates.

- Re-examining Federal grant requirements, such as matching, to better account for the aggregate fiscal burden imposed on the entire inter-governmental system.

Enclosed are GAO reports that reflect these concepts and recommendations. Their messages are briefly summarized below.

- Perspectives On Intergovernmental Policy and Fiscal Relations (GGD-79-62, June 28, 1979). This report summarized GAO's intergovernmental work program and policy conclusions.
- Fundamental Changes Are Needed In Federal Assistance To State And Local Governments (GGD-75-75, Aug. 19, 1975). In this report we concluded that the categorical structure of Federal assistance causes major management problems for all three levels of government and recommended basic changes, including grant consolidation.
- Proposed Changes In Federal Matching And Maintenance of Effort Requirements For State And Local Governments (GGD-81-7, Dec. 23, 1980). We conclude that matching and maintenance of effort requirements are not calling forth the State and local fiscal effort needed to give grantees a stake in program management. We recommend criteria for applying these requirements and suggest that the Congress consider other ways to generate State and local oversight and management interest in grant programs due to the fiscal burdens that matching can have, in the aggregate, on State and local priority setting and taxing levels.
- Federal Assistance System Should Be Changed To Permit Greater Involvement By State Legislatures (GGD-81-3, Dec. 15, 1980). We concluded that State legislative involvement is discouraged by the restrictive nature of the Federal grant process as well as by specific provisions of grant programs assigning exclusive control over program planning to Governors and State agencies. We found that legislative involvement generally benefits Federal grant programs by providing greater oversight and the legal and fiscal support often required to implement these programs and recommended that these Federal constraints on State legislative involvement be removed.
- Agencies Need Better Guidance For Choosing Among Contracts, Grants, and Cooperative Agreements.

(GGD-81-88, Sept. 4, 1981). Although the Federal Grant and Cooperative Agreement Act provides a basis for distinguishing Federal involvement for various types of intergovernmental transactions, we found that the act has not yet been used to establish clear differences in Federal guidance and oversight among grants and cooperative agreements in a way that could lead to a less burdensome and intrusive Federal assistance system.

--Removing Tiering From The Revenue Sharing Formula Would Eliminate Payment Inequities To Local Governments (GGD-82-46, Apr. 15, 1982). We found that although the General Revenue Sharing 3-factor formula provides a reasonable approach for allocating funds, the geographic tiering procedure for intra-State allocation causes unanticipated inequities.

--How Revenue Sharing Formulas Distribute Aid: Urban-Rural Implications (PAD-80-23, Apr. 22, 1980). We concluded that rural areas receive more revenue sharing funds per capita than urban areas due to current measures used in the formula to define fiscal capacity and fiscal effort.

--State and Local Government Productivity Improvement: What Is The Federal Role? (GGD-78-104, Dec. 6, 1978). We concluded that, in most cases, State and local governments are given no incentives to increase productivity when administering Federal assistance programs and recommended that the Federal Government provide positive incentives to promote greater productivity in Federal assistance programs.

--Gains and Shortcomings in Resolving Regulatory Conflicts and Overlaps (PAD-81-76, June 23, 1981). This report assesses specific cases of overlap and conflict between Federal and State agencies in enforcement of regulations on the private sector. We recommended increased Federal efforts to coordinate Federal regulations with the States.

As indicated during the briefing, we also have a number of intergovernmental studies in process. We are currently finishing a major report assessing early experiences under the block grants enacted last year. We will send you a copy of this report as soon as it is issued. We are also beginning several new studies assessing the administrative enforcement of Federal grant accountability requirements as well as Federal crosscutting policy provisions. In this regard, I am also enclosing a report by the Office of Management and Budget which

inventories the various statutory and administrative crosscutting requirements applicable to Federal assistance.

Finally, at the request of your office, I am providing copies of four recent GAO reports regarding the Federal-State partnership in grain inspection and agricultural marketing regulation. These reports serve to illustrate in a particular policy area the problems that can arise from joint Federal and State regulation of the private sector.

I hope that these reports will be useful to you. Please do not hesitate to contact us if you need further assistance or information.

Sincerely yours,



William J. Anderson
Director

Enclosures