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ADDRESS OF  
ELMER B. STAATS  
COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE THE  
INTERGOVERNMENTAL FINANCIAL MANAGEMENT CONFERENCE  
ST. LOUIS, MISSOURI  
SEPTEMBER 24, 1976

PROSPECTS FOR RESOLVING  
INTERGOVERNMENTAL MANAGEMENT PROBLEMS

Conferences such as this, which provide a forum for officials from all levels of government to examine and seek solutions to problems in our intergovernmental system, will help assure that future generations celebrate federalism's 300th year.

The nature of the Federal system makes intergovernmental problems and conflicts inevitable. From time to time the operation of our decentralized governmental system has been described as "mildly chaotic," or in similar words.

We all know that governments, anywhere and everywhere, do not on occasion perform well. There is a story about a jobber from the Acadian country of Louisiana who needed a Federal Housing Administration loan. His lawyer, applying for the FHA loan, traced the necessary land title back to 1803. Back came a letter, but no approval of the loan, as follows:

"We received today application for your client, supported by abstract of title. We have observed that you have not chained the titles back of the year 1803. Before final approval it will be necessary that the titles be chained back of that year. Yours truly."

The lawyer dictated the following letter to the FHA.

"Gentlemen:

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"I was unaware that any educated man failed to know that Louisiana was purchased by the United States from France in 1803. The title of the land was acquired by France by right of conquest from Spain. The land came into possession of Spain by right of discovery made in 1492 by Christopher Columbus, seeking a new route to India for Queen Isabella.

"The Queen, a pious woman and careful about title--almost as careful as the FHA--took precaution to secure the blessings of the Pope upon the voyage before she sold her jewels to help Columbus.

"Now the Pope is the emissary of Jesus Christ who is the Son of God. And God, it is commonly accepted, made the world. Therefore, I believe it is safe to assume that He also made that part of the United States called Louisiana. I hope to hell you're satisfied."

Among constitutional responsibilities of public officials is maintaining an acceptable balance of power between Federal, State, and local governments. This requires self-restraint by all, but particularly by the Federal Government. Some would argue--no doubt many of you here today would agree--that the Federal level could do better in restraining itself.

Federal aid and Federal attempts to influence State and local government date back to our Nation's beginnings. Although Federal assistance to States and localities was small in earlier times, it was as controversial then as now. State and local governments have always wanted to be as free from Washington control as possible. They have found this freedom increasingly difficult to attain as Federal assistance and Federal involvement in domestic programs have increased.

While Federal responsibilities have grown steadily decade after decade, State and local governments have expanded even faster. Between 1954 and 1974, State and local expenditures increased from about 8.2 to nearly 15 percent of the gross national product. Federal spending hovered near 20

percent of GNP during this period. Similarly, State and local employment more than doubled in these 20 years to 11.6 million. Federal civilian employment increased in that time only from 2.2 million to 2.7 million. Overall--Federal, State, and local--the public sector is the fastest growing component of our economy.

The growth of the State and local governments has been partly fueled by the proliferation of Federal grant programs, which totaled nearly \$60 billion in 1976.

The well-known commentator, James J. Kilpatrick, calls the proliferation "the fastest-growing and richest sport in America." His word for this is "grantsmanship" and he goes on to say:

"To the connoisseur of political affairs, grantsmanship is more than a mere game. It is an art, a science, a profession. The true grantsman must have the eyes of an eagle, the speed of a quarterhorse, the tenacity of a bulldog and the greed of a hungry hog. A first-rate practitioner of this highly skilled craft is worth his weight in gold. No progressive state or city can afford to be without one."

Kilpatrick, of course, is famous in Washington for hyperbole, but I think we will all agree that his point has some foundation.

The web of interrelationships between Federal, State, and local governments has become increasingly intricate as Federal funds have grown to account for over 25 percent of total state and local expenditures in 1976, compared with 10 percent in 1955.

But the overall impact of Federal assistance is greater than even these figures might indicate. Why? Because most of the assistance is conditioned or designed to:

- Produce action in a particular way.
- Direct State and local budgetary resources to a different set of priorities, primarily to meet national as opposed to State or local objectives.
- Stimulate additional taxes or borrowing efforts.

In recent years, the Federal Government's role has become particularly influential in areas such as health, education, and income security. For example, about a decade ago, some 30 percent of Federal aid went for highways; in 1976 only 12 percent was so budgeted.

At latest count, more than 1,000 Federal domestic assistance programs were available. Collectively, they present an array of activities and initiatives which defy understanding to all but the most serious students of our grant system. A recent GAO count identified 186 programs which could provide Federal funds for community development. Administrative responsibility for the programs is spread among 20 Federal agencies.

Virtually all Federal grant programs have laudable objectives, but their growth has caused detrimental side-effects on the intergovernmental management system. Each program tends to build its own constituency, or "functional autocracy"--a phenomenon which causes balkanization of the three levels of government. Local specialists in education, health, and housing, for example, interrelate with their counterparts in the States and in the Federal agencies. In many cases, the elected State-local leadership--legislative bodies, mayors, county executives, or even Governors--are bypassed. Such bypassing can deal a deadly blow to

the ultimate goal of our intergovernmental system, which is to effectively relate the efforts of the 50 States and thousands of local governments into a cohesive strategy for meeting the Nation's problems.

Other features of the fragmented Federal assistance system include:

- Excessive administrative requirements and "redtape."
- An inability to respond promptly to changing priorities at the State-local level.
- A situation where the Federal level is providing overlapping sources of funds for the same or closely related purposes.

I recently read in the National Association of Counties' newspaper that a large southwestern community had turned down funding for several small sewage treatment plants by the Environmental Protection Agency because of difficulties in meeting Federal requirements. This occurred in spite of the Agency's stated goal of expediting the program and is a regrettable commentary on our intergovernmental system.

#### EFFORTS TO IMPROVE THE DELIVERY OF FEDERAL ASSISTANCE

The large growth in the number and variety of Federal assistance programs has been and continues to be accompanied by demands for reform. The legislative and executive branches of the Federal Government have tried to improve the delivery of assistance to States and localities and to resolve intergovernmental management problems associated with the system. Some headway has been made.

Several efforts were begun during the mid-1960s. These included an executive order requiring consultation with State and local officials on grant program regulations, the designation of intergovernmental liaison offices, and the first use of a consolidated block grant concept in the Partnership of Health Program of 1966.

The Intergovernmental Cooperation Act of 1968 was designed to improve the administration of grants-in-aid to State and local governments and to achieve improved cooperation and coordination of activities among levels of government. Among other things, the act provided that:

- The President issue regulations (and guidelines) governing the formulation, evaluation, and review of Federal programs and projects significantly affecting area and community development.
- All viewpoints--national regional, State, and local-- be considered to the extent possible, in planning Federal assistance development programs and projects.
- Federal agencies could provide reimbursable special or technical services to State or local governments.

Office of Management and Budget Circulars A-95 and A-98 implemented the grant-in-aid portions of the act. Circular A-95 established a process offering State and local governments opportunity to comment on the consistency of proposed Federal or federally assisted projects with State, regional, and local policies, plans, and programs. Circular A-98 prescribed a standard process for providing States information on grant awards.

In 1969, a year after the act was passed, the President started a program known as the Federal Assistance Review. The Office of Management and Budget and 14 major agencies attempted to streamline, simplify, and speed the flow of Federal assistance and to improve the Federal Government's responsiveness to State and local social and economic problems. Under this program:

- Agencies were to establish uniform boundaries and locations for their regional offices.
- Regional councils in the new centers were to improve coordination among the Federal programs, and develop closer relationships with State and local governments.
- Agencies were to move operational authority from Washington to their field offices.

- Reliance was to be placed on State and local governments for the detailed administration of Federal programs.
- Federal agencies were to reduce the time required to process grant applications.
- Standard administrative requirements were to be developed.
- Eliminating paperwork and administrative processes was to be given high priority.
- Legislation was to be requested to authorize joint funding of projects.
- Legislation also was to be requested to consolidate programs of similar purposes to reduce the increasing number of narrow-purpose grants.
- State and local requests for Federal grants were to be coordinated so that they would be informed of grants that had been approved.

What has been accomplished? Ten Federal Regional Councils have been established and are in operation. Some action has been taken to consolidate narrow-purpose grant programs into broader purpose programs. For example, the Comprehensive Employment and Training Act of 1973 replaced over a dozen categorical programs. The Housing and Community Development Act of 1974 consolidated 10 categorical programs into a comprehensive block grant program.

The General Revenue Sharing Program of 1972 represented another attempt to overcome problems associated with the categorical grant system. In considering the revenue sharing legislation, the Congress concluded that the aid made available under the program should give recipient governments broad flexibility in using the funds.

Revenue sharing is clearly one approach in attempting to deal with many of the management problems that State and localities have faced under the categorical grant programs; further consolidation of categorical

grants into "bloc" grants represents, in my opinion, an even more fruitful approach.

In 1974 the Joint Funding Simplification Act was passed. This permits use of more simplified and uniform administrative rules and procedures when a State or local government or private nonprofit organization wishes to develop a project for which assistance is needed from two or more programs administered by more than one Federal agency.

Joint funding is essentially a management tool, designed to coordinate the delivery of separate Federal assistance programs which contribute to similar or closely-related goals.

Under the auspices of the Office of Management and Budget, some inter-governmental policy directives have been issued. Two such directives prescribe policies that agencies are to observe in handling administrative matters and in determining grant costs. All Federal agencies are to conform procedures and requirements to these uniform policies unless prohibited by legislation for the specific grant program.

HAVE THE REFORM EFFORTS  
HAD AN EFFECT?

There is little doubt that these reform efforts have brought some progress, although it may be agonizingly slow to many of us. Clearly, actions taken thus far are merely the beginning; the effort must be sustained, building on previous experience.

About a year ago I sent a report to the Congress entitled "Fundamental Changes Are Needed in Federal Assistance to State and Local Governments," a broad look at the Federal assistance system, its impact on States and



localities, and attempts at improvement. Our conclusions were that, despite attempts to improve it, the system:

- Lacks an adequate means for disseminating grant information because State and local governments must devote considerable time and effort to simply keep informed of available Federal assistance.
- Creates a high degree of funding uncertainty due to late congressional authorizations and appropriations as well as executive impoundment of funds.
- Encourages complex and varying application and administrative processes.
- Is fragmented; similar programs are administered by different Federal agencies that are too restrictive.

GAO recommended:

- That Congress consolidate separate programs serving similar objectives into broader purpose programs and assign programs with similar goals to the same Federal agency.
- Enactment of previously proposed amendments to the Intergovernmental Cooperation Act directing the President to recommend periodically to the Congress needed consolidations.
- That Congress authorize greater use of advance and forward funding and authorizations and appropriations for longer than 1 fiscal year.

The integrated grant administration program is designed to simplify the process by which grantees could seek out, apply for, and administer funds from several Federal assistance programs to carry out a single project. In a recent GAO review, we concluded that coordination and commitment on the part of participating Federal agencies was still lacking and as a result the program failed to achieve its potential.

GAO also made a series of recommendations which we hope will improve operations under the recently passed Joint Funding Simplification Act.

Another GAO study, on the A-95 process, revealed that parties which might be affected by proposed federally assisted projects did not always have a chance to review and comment on projects because many were not subject to the review and comment system. In two of the three States, more than half of the proposed projects were not submitted for review and comment before application was made for Federal assistance. The Office of Management and Budget has since acted to modify and expand the coverage of circular A-95.

As to Federal Regional Councils, GAO found that representatives of smaller units of local government generally were not familiar with them; that the councils were impeded by factors such as member agencies' lack of, or variation in, decisionmaking authority; and that these were limits on the authority of council chairmen and the division of time and effort by council members, staffs, and task force members between attention given to council and agency affairs.

Notwithstanding these factors, the establishment of the Federal Regional Councils is an important step in the right direction. However, they urgently need stronger management direction from Washington.

Balkanization is certainly not restricted to the Federal assistance system. It is difficult to think of a more balkanized structure than exists at the local government level. It is not at all unusual to find, within a major metropolitan area, several hundred governmental jurisdictions with taxing power. Of course, the problem is that the jurisdictional boundaries of metropolitan areas have no relation to social and economic problems that are more or less the same everywhere and, in fact, fragmentize programs designed to improve conditions.

The typical metropolitan area is confronted with a multitude of federally spawned substate regional organizations planning for the development of the region, further cluttering the already complex metropolitan landscape.

Federal policy, issued by OMB, encourages the use of a single area-wide organization to plan or coordinate Federally supported planning. A study we recently completed showed that the effort has not been totally successful, although obviously worthwhile. We found that the individual planning programs which were established over a period of years to satisfy particular needs or demands do not represent an interrelated system. Each of the programs tends to build its own constituency and this has made it difficult for State and local governments to mesh the programs into a coordinated planning effort for an area. Federal agencies often ignore the designated comprehensive planning agency, instead setting up separate planning groups for differing geographical areas. The States compound the problem by sometimes disregarding their own planning subdivisions in implementing Federal programs. And finally Federal agencies have varying requirements which create impediments to coordinated planning and make it difficult for one planning organization to satisfy all Federal requirements.

Legislation designed to strengthen the coordination of regional planning has been introduced in both the Senate and the House of Representatives. Hearings on these proposals likely will be held early next year.

## STEPS TO IMPROVE THE EFFECTIVENESS OF AUDITING

Since improvements in the delivery of Federal assistance depend largely upon better financial and program information at all levels of government, legislators and government officials are, and will continue to be, looking to auditors for much of this information. In response, auditors at all governmental levels are extending their work beyond traditional financial audits to cover operating efficiency of programs and, to a more limited extent, the effective accomplishment of a program's goal. These audits at State, local, and Federal government levels are essential for identifying and recommending solutions to management problems in the Federal assistance system.

A national and 10 regional intergovernmental audit forums were organized in 1973 and 1974. The forums are made up of heads of Federal, State, and local government audit organizations, making them an instrumental body for resolving intergovernmental audit issues. We can expect that more Federal Assistance programs will now be reviewed with more useful results going to more managerial and governmental levels.

Since States and large local governments typically have grants from a number of Federal agencies, cooperative audit efforts of all agencies involved will reduce overall costs and minimize disruptive effects on the program. The audit forums are promoting more cooperative auditing where two or more audit groups combine efforts, and the forums will be working to reduce duplication where two or more audit groups are independently securing the same information.

Some months ago the U.S. Treasury made a study of grant auditing problems, in response to problems brought to Secretary Simon's

attention by members of the Governor's Conference. The principal problems involved centered around

- State auditors' difficulties in gaining access to Federal audits,
- reaching agreements with Federal grant-administering agencies concerning State audits of federally assisted programs, and
- reimbursing States for audit work performed for the Federal agencies.

The study was presented to the Economic Policy Board by Secretary Simon in February 1976. Since that time, we have had an exchange of letters with Secretary Simon to find a means of developing solutions to the very complex problems in these areas of State-Federal audit relationships.

There is now agreement that the Joint Financial Management Improvement Program would be a suitable organization to take the lead in devising solutions to these problems. By working with the Intergovernmental Audit Forums, we hope that the Joint Program will be able to consider the concerns of the States and the Federal agencies involved in grant programs and bring about solutions to these audit problems that will be effective and fair to all.

#### NEED FOR INCREASED PRODUCTIVITY

States and localities, as well as many Federal agencies, should also look at their management capabilities and make necessary improvements. In many cases, financial management systems need to be strengthened. A good financial management system, of course, should provide accurate and timely cost information. It can also provide measures of productivity, or efficiency, and program effectiveness to help managers deliver cost-effective services to the public.

A good management information system is to the body politic as the bloodstream is to the human body. The productivity of government workers is receiving increased attention. Cooperative efforts of GAO and other agencies over the last few years have shown that the productivity of a large portion of the government work force can be measured. The studies have also shown that there are many opportunities for improving productivity at all levels of government. The National Center for Productivity and Quality of Working Life, established last November, has overall responsibility for leadership of productivity efforts in both the private and public sectors. We have given and will continue to give the Center our full support.

One of the active committees established by the National Center is the Public Sector Committee chaired by Governor Daniel Evans of the State of Washington. I am serving on this Committee, which is addressing itself to unemployment, regulation, public capitalization, taxation, and the Federal role in State and local government management.

#### FUTURE PROSPECTS

From GAO studies of the intergovernmental system, I am convinced that the prospects for meaningful and continuing resolution of intergovernmental management problems depend on our ability to create and maintain a strong mechanism at the Federal level to deal with intergovernmental issues, enforce agency compliance with Government-wide policy, and resolve interagency conflicts. Every President since the mid-1950s has made special arrangements for intergovernmental staffing, but there has not yet emerged a permanent focus of recognized leadership for policy formulation and conflict resolution. It is encouraging to note,

however, that the need for a stronger Federal central management mechanism for intergovernmental matters seems to be growing in such places as the Advisory Commission on Intergovernmental Relations, Office of Management and Budget, and the Domestic Council.

Let me close by endorsing as strongly as I can the focus of this conference--to improve intergovernmental relations. In the "real world" of our daily work lives, this means that policymaking officials from all three levels of government must maintain a regular dialog. An old adage which goes something like this is appropriate:

"Governments are inanimate objects of brick and stone.  
They don't interrelate. People do."

Some intergovernmental tension is not only inevitable but probably healthy. As I suggested at the beginning of this talk, the desire of State and local officials to keep Washington at arms length never can be completely reconciled with the responsibility of the President and the Congress for doing all they can to see that national goals and objectives are satisfactorily achieved.

That is why the purposes for which this conference was convened are so important, and I close by reminding us all what they are:

- To identify mutual problems.
- To intensify discussions of issues.
- To understand better the causes of conflicts.
- To do our best to find ultimate resolution of the problems confronting us all.

# # #



*Sep. 24*

*EBL - Luncheon Speaker*

**JOINT FINANCIAL MANAGEMENT  
IMPROVEMENT PROGRAM**

*St. Louis, Mo*

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**AUG 5 1976**

TO : Heads of GAO Divisions and Offices  
FROM : Executive Director, JFMIP - *Donald C. Kull*  
SUBJECT : Intergovernmental Financial Management Conference

I am writing to call your attention to the Intergovernmental Financial Management Conference to be held at Stouffer's Riverfront Towers in St. Louis on September 23-24, 1976. This conference may be of interest to a number of GAO staff members.

You will note from the attached program that Mr. Staats is the luncheon speaker on the second day. Additional copies of the program are available if needed.

Please let me know if you have any questions.

Attachment