

S. 88—THE LOCAL EMPOWERMENT AND FLEXIBILITY ACT OF 1995

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Y 4. G 74/9: S. HRG. 104-586

S. 88—The Local Empowerment and Fle... **ING**

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

ON

S. 88

TO INCREASE THE OVERALL ECONOMY AND EFFICIENCY OF GOVERNMENT OPERATIONS AND ENABLE MORE EFFICIENT USE OF FEDERAL FUNDING, BY ENABLING LOCAL GOVERNMENTS AND PRIVATE, NON-PROFIT ORGANIZATIONS TO USE AMOUNTS AVAILABLE UNDER CERTAIN FEDERAL ASSISTANCE PROGRAMS IN ACCORDANCE WITH APPROVED LOCAL FLEXIBILITY PLANS.

DECEMBER 5, 1995

Printed for the use of the Committee on Governmental Affairs

SUPERINTENDENT OF DOCUMENTS DEPOSITORY



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S. 88—THE LOCAL EMPOWERMENT AND FLEXIBILITY ACT OF 1995

TUESDAY, DECEMBER 5, 1995

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:34 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Ted Stevens, Chairman of the Committee, presiding.

Present: Senators Stevens and Glenn.

OPENING STATEMENT OF CHAIRMAN STEVENS

Chairman STEVENS. Good morning. I am constrained to say that my good friend and our colleague Senator Hatfield startled us all by his announcement last week. Mark, as I told you, it took me back so many years.

Senator Hatfield and I met at General Eisenhower's farm in about September of 1962, when he was Governor of Oregon, and later, fate brought me here, and I caught up with him in 1968, and I have been standing in his shadow since then. It is a large shadow, and I would just as soon stand in it for the rest of my time in the Senate, as a matter of fact. But I do welcome you, Senator.

This hearing this morning is on S. 88, your Local Empowerment and Flexibility Act. Every Member of Congress has heard complaints from our State and local governments about the bureaucracy involved in using Federal funds. We have heard that Federal rules and regulations stifle creativity and effectiveness. Each local government and each state is unique. They are unique in the exact nature of their specific problems, and they are unique in their own particular capabilities. But Federal grants and programs are designed primarily for the Nation as a whole and rarely recognize the uniqueness of our system.

We have a one-size-fits-all approach that wastes money and effort and minimizes effectiveness, due in large part to the fact that the programs are generally structured to focus on the process and not on performance.

Senator Hatfield, I believe you have initiated a very commendable effort to reverse the focus. You propose in S. 88 to allow local governments to restructure their Federal assistance and emphasize performance and results rather than uniform procedural requirements.

Your legislation encourages much greater coordination of Federal, State, local and private sector efforts and focuses on the problems of each community rather than on the Nation all at once.

In Alaska, we live under Federal rules and regulations written in Washington, DC that are particularly trying. For instance, under Federal housing rules, a flush toilet and a bathtub must be in every home financed by HUD; but 95 of our communities have no running water, and there is no water source to hook them up to, particularly in wintertime.

Although some villages have been creative and use their tubs to butcher game or to store fish, it is not a smart use of Federal funds to put a bathtub in a house that does not have plumbing.

Giving local communities the flexibility to either use the money that would otherwise be used for useless plumbing fixtures, to increase insulation in a harsh climate, or to build fewer homes and provide the money to establish and start a water system would make a lot more sense.

Partnering State and Federal funds seeking to accomplish the same goal will allow us to better marshal resources to address complex issues in the local area, such as we face with water and sewer in Alaska.

Congressman Clinger has introduced a companion bill in the House. There is bipartisan interest in this legislation, I believe, and like unfunded mandates, which we enacted earlier this year, I think this is an important reform that could and should be enacted by this Congress if we have the support of both parties.

We will be hearing from administration witnesses shortly, but let me thank Senator Hatfield for his leadership in this area, and I do believe, Mark, that this would be an excellent capstone to your outstanding legislative career.

Senator Glenn?

OPENING STATEMENT OF SENATOR GLENN

Senator GLENN. Thank you, Mr. Chairman. I will be just a moment here.

Senator Stevens said he met you at the Eisenhower Farm. I was not invited to that meeting, I do not believe, but that does not mean that I do not share a sense of loss in your announcement to retire. You are going to be missed. You have been a voice of reason and accommodation in trying to work things out. We see a lot of things going in the other direction around here these days, and I think that is to the detriment of the Senate, and while I can understand your decision, I do not agree with it, and I am sorry to see you leave, Mark.

I look forward to hearing testimony from our witnesses on legislation introduced by our colleague, Senator Hatfield, to provide greater flexibility to local governments.

When local officials look to the Federal Government for funding and assistance, they are confronted with a dizzying array of Federal grant programs. According to ACIR, the Advisory Commission on Intergovernmental Relations, there are currently more than 630 different Federal grant programs to State and local governments—630. In just one budget sub-function, elementary, secondary and vocational education, there are 78 different Federal grant programs. So I can certainly sympathize with local officials who are frustrated with the red tape, regulations and procedures that inevitably accompany such a large number of Federal programs. It is a tough

job just to keep up with what the programs are, let alone being able to get in and make some use of them.

We have made some progress in this Congress, however, in simplifying and rebuilding the intergovernmental partnership. Earlier this year, we enacted the Unfunded Mandates Reform Act, which was a big step forward—this Committee worked on it for several years—and the Paperwork Reduction Act, which goes beyond just paperwork reduction and also covers the computerization of Government. I am proud to have coauthored both of those bills. More recently, the Senate passed welfare and job training reform legislation which block grants and simplifies dozens of Federal programs.

Of course, turning responsibility for national programs over to the States and localities is not without its risk. That is why I believe we should insist on what some call “accountable devolution,” the key word being “accountable.” It is a version of the old concept that comes, I guess, out of the cold war: Trust, but verify.

In order for accountable devolution to work, we must have in place strong governmental information and evaluation systems so we can assess how these programs are implemented. We can then see what approaches work, what approaches do not, which States and local governments are succeeding and which ones are not.

Further, we must have strong financial systems to ensure that Federal funds are not misused or wasted. These are Federal taxpayer dollars, and we are under an obligation to see that they are not wasted at any of the three levels of Government.

I commend my colleague Senator Hatfield for his long-time advocacy of this bill. I also thank him for building some accountability provisions—that magic word again—into his legislation by requiring the development of specific goals and performance measurement criteria as part of any local flexibility plan.

I certainly want to work with him and the administration to strengthen these provisions, particularly as they relate to financial accountability. I do have some concerns about the overly broad scope of the bill. As the bill is currently drafted, a locality could get a waiver, for example—and granted, it would have to run back through the Flexibility Council—to shift Federal education funds into highway construction, or Alzheimer grant funds into rural housing, even though Congress may have stipulated in the law that those funds are only to be spent for their stated purpose. As I see it, that is an enormous amount of authority to grant to the Flexibility Council, which would be the authority that would grant such waivers.

And if the Council does not oversee these waived laws and rules and combined programs, who will? Will the Department of Education really be able to oversee how its education money is being used to build a local highway project—and granted, it has to come back through the Council.

But from the local point of view, I also think there are some questions. The bill sets up a performance-oriented planning process—and I understand that OMB has some ideas about strengthening that process. In an ideal world, that would be great, but it looks like an awful lot of work for localities.

Right now, many of the 600-plus Federal grants are made directly to local governments. When you add in the local planning re-

quirements and the need to coordinate with State governments, the goal of flexibility, I hope, does not get buried under red tape and new procedures. I think that is something we need to discuss further.

The goal of a balanced budget means less discretionary domestic spending, so we do need to think about creative ways for serving local needs. I like the concept behind this bill. I believe we want to work on its mechanics a little bit. As I said earlier, I would like to work with Senator Hatfield and my colleagues on the Committee to work these problems out and produce bipartisan legislation out of this Committee.

I do not think we should move to a markup until we have had a chance to discuss some of these things and decide where we are going; it might be counterproductive to move too soon. But I look forward to hearing from the witnesses on how the bill might work and how some of the problems I have raised might be addressed.

Thank you, Mr. Chairman.

Chairman STEVENS. Thank you, and I look forward to such a dialogue and conferences with Senator Hatfield and perhaps Members of the House who are similarly interested to see if we cannot work out a bipartisan bill. I am sure that is our colleague's goal.

Senator Hatfield?

TESTIMONY OF HON. MARK O. HATFIELD, U.S. SENATOR FROM THE STATE OF OREGON

Senator HATFIELD. Thank you, Mr. Chairman, Senator Glenn.

First, I appreciate your kind remarks and would indicate to you that as I look forward to a new career, I shall miss you as people, as friends, and I will have many fond memories as I leave the Senate, with great respect for the Senate, especially as made up of quality leaders like Senator Stevens and Senator Glenn.

Mr. Chairman, I would like to submit my written statement for the record and highlight my statement and then be responsive to your questions.

Chairman STEVENS. Without objection, it will be printed in full, Senator.

Senator HATFIELD. As all of us know, we have been through the reconciliation process; at least, we have moved measurably upon the accomplishment of those goals in the reconciliation process. But I do not believe that the reconciliation process or the general budget act, or rather, the budget resolution, is going to solve our problem of trying to balance the budget by the year 2002.

I think, if we are going to continue to do business as usual, that that goal will elude us because of the tremendous costs in administering the hundreds of categorical grants that Senator Glenn has referred to. And I think, unless we do provide localities with a certain flexibility and stimulate creativity, rather than stultify it as we do now, that we are going to fail. Because there is such escalation of costs of administering these programs, of bureaucrats talking to bureaucrats, you also exclude the opportunity to really deal directly with the constituents whom you are targeting.

I feel very strongly that there are many ways to analyze this, and I am happy to say that Speaker Gingrich and Majority Leader Dole sent a letter to President Clinton last December, urging the

President to consider the flexibility factor, and Vice President Gore has sent a letter indicating that the administration has been encouraging the State and local governments into innovation and entrepreneurship. So it appears that we have a fairly bipartisan, top leadership support for the concept.

Mr. Chairman, Senator Glenn, I want to also say that it seems to me that many of the problems we face today have failed to recognize that diversity is a strength, and that this Nation was founded on the principle of pluralism, of great diversity amongst our people, and therefore, with diversity and pluralism, we have to entertain and exercise flexibility. There are competing thoughts. There are competitive ideas of how this Government should operate, and we have created a very, very marvelous framework to be able to exercise that diversity.

I might also say that the creativity factor that goes with diversity is paramount. When we begin to look at some of these programs that we today take as national programs, we fail to recall that they really were experimented with in the laboratory of the States. Social Security, progressive income tax, workmen's compensation, unemployment compensation, women's rights, child rights, civil rights, and many, many more, were all experimented at the State level. And we have increasingly shut off the States' opportunity to experiment and to be innovative.

So I offer this bill with a little background as a Governor for 8 years, and my frustration at feeling, in the—that was in the late fifties and sixties, before we had a lot of the new regulations—but I recall that it seemed to me that we ought to try to encourage the able-bodied people on welfare to engage in some productive contribution for their communities. So, as a Governor, I put together a proposal that was approved, and we put it together in a way that incorporated participants and local officials.

We took three counties out of our State of 36 countries, and we said every able-bodied man shall labor in some community program for his welfare check—work fare, it came to be known. I think we were the first State, or one of the first States, to try this.

We worked with the labor unions, we worked with the county commissioners, the city mayors and councilmen. We wanted to get to those projects not to make work, but to have a specific contribution that they did not have the resources to budget. So it was not competing with other labor.

What we targeted was county roads, which needed a lot of brush removal and better vision through the brush removal; we created county parks and local parks to expand recreational opportunities for people. And we embarked upon that, providing the work clothes, providing the equipment, and under supervision, to get the able-bodied out there, contributing back to the community something they were receiving on a temporary basis, hopefully.

Now, that worked very well in those three counties until we were knocked in the head by the feds. The Federal Government sent a very, I would say, excited letter to me—they were very excited about this situation, but negatively so—"You cannot do this. You are adding State requirements to welfare criteria. You are preempting the Federal Government's rights." And they said, "Cease and desist."

Well, we did, but we also went out and made a very careful study of the recipients of that welfare check who were contributing back to the community, and we found 90-some percent of those recipients welcoming the opportunity to maintain their dignity, to maintain their status as contributing members of society and not as wards of the State. We were very, very pleased to be able to prove that in our State, at least for a brief period of time.

I only use that as an example. I think we also have to realize that there has been not only steady growth of the number of programs, as Senator Glenn has referred to, but let me say that we now have 202 volumes of Federal regulations, 202 volumes totaling more than 130,000 pages. We have 16 volumes alone on environmental regulations. We have 20 volumes alone on agricultural regulations. And we could go on and on and on.

Now, the crux of the Federal-State-local government relation today in these programs is one objective: Compliance—compliance, compliance, compliance with the regulations—not whether the programs are working, not whether you have been able to measure a success reaching a certain goal in these programs, but compliance, compliance, audits, filling out the annual reports, interviews, et cetera, et cetera—bureaucrats talking to bureaucrats. That is what the programs have now come down to in most or many instances.

Why not find a way to set goals that these programs were originally intended to achieve and have benchmark reviews as to whether they are achieving those goals and having some opportunity or incentive to be more innovative, again, going back to the pluralism of our society, the diversity in our society, and let the local people say: Hey, we have a better way to do this. We have agreed to the goal. We are going to have the progress of that goal reviewed in benchmarks. But at the same time, let us conduct us on this basis that we have created.

Now, when we talk about waiving Federal regulations, remember that that is with the exception of civil rights—no civil rights regulation waiver and no health and safety regulation waiver.

Taking education as an example, I believe that all of these things should be tried out, proven, and not have these massive national changes thrown at us. I cannot help but cite the Kerr-Mills approach to Medicare. When we had Kerr-Mills, it was to give every State an opportunity first to establish the base of need, an inventory of need, and an assessment of ability to meet that need. I am happy to report that Oregon was the first State to adopt the Kerr-Mills approach. I called together all of the various representatives of agencies of delivery, agencies like the medical association and all of those others involved, and we began to set up the whole base on how we felt Medicare would be required.

But no, that approach was overridden by the King-Anderson, where the Congress said, "We know all the answers. We know how it is going to work. It will never cost more than \$10 billion at the most in 25 years." And by the way, instead of \$10 billion, it was \$60 billion.

But nevertheless, we abandoned the approach of proving the case, demonstrating and experimenting, and we adopted national criteria which ended up costing us extraordinary amounts of money.

When I was able to get the Congress to agree to flexibility in the Goals 2000 program—that was adopted by both Houses and signed by the President—Secretary Riley set up five States where he would start the flexibility program. Oregon was selected as one of them. Now, bear in mind that there are more state regulations today governing our public education than there are Federal regulations; so in that, the State was going to have to lift its regulations as well as the Federal Government, and in turn, the State of Oregon, with a contract with the Federal Government, said we are going to pick so many school districts across our State—not the whole State—so many school districts that show an interest in wanting to apply this flexibility factor.

So out of these 5 States, out of the 10 districts within my State, we are beginning to build an experiment, a trial, to prove the theory, and I think that that is how flexibility should be approached—make it prove itself. It is easy for us to talk about theory here in this area of the Congress, but let us get out there where it is actually being applied and the people say, “We have a better way to do it.”

Now, by giving those waivers and waiving those regulations, they are agreeing to a set of goals. They are committed to the best method of achieving those goals, but they are given the flexibility to adapt to the diversity, the pluralism, within this country.

Some have raised the question about waiving environmentals; is this going to gut the environmental laws and regulations—or the labor regulations. No, no. I think what we again have to understand is that it is an agreed set of goals—the Federal, the State, the local—and there are waiver standards given to the President, there are waiver standards given to the Governors, so that they work within a framework of accountability. We do not yield one inch on accountability.

But surely, there must be something more than the accountability of money. There ought to be the accountability of whether the program is working. That is the key, in my view, of how we can really reach some improvement and reduce the costs.

Senator Stevens, you are on the Appropriations Committee. I think it is very interesting that when you look at the Department of Education today, it has more assistant secretaries than any other department—more assistant secretaries, which reflects the hierarchy of the Department of Education, which led in part the argument of the Reagan administration to abolish the Department of Education—which I did not agree with, throwing the baby out with the bath water.

But when you begin to add all of the hierarchy that we have, within the feds, within the States as well. And, relating to education, when you and I appropriate one dollar to a Head Start student in that classroom, we see a diminishing part of that dollar reaching that student, but being filtered off, skimmed off, by the process of administration. And those dollars should be targeted and should reach those people that we created the program for.

I am happy to say that today, we have, by your generosity, provided Sue Cameron, who is the administrator of Tillamook County Health Department in the State of Oregon. She is going to be on a later panel, talking about the success of this flexibility program

in Tillamook, Oregon and county. I think you will sense there that, as the local people have engaged in this process, they feel that they have evidence of its success.

I will not tarry longer on my opening statement. It is often like this, I know, in my own committees, in which people who bring a written statement say they will just highlight it, and they end up taking more time to highlight it than if they had just read it. So I am going to stop at this point and respond to any questions.

Chairman STEVENS. Thank you, Senator.

If a program involved only one department, would you envision that they still would have to go to a 21-member interagency council for review and to judge the flexibility plan?

Senator HATFIELD. Again, I would like to refer back to the flexibility factor. I think that we are going to have to have language that recognizes the diversity and the scope and the extent and complexities of programs within as well as between departments. I am not locked into anything like that, except I believe it might even be easier to try with one department that has, say, a single program that would be affected; it might be a good way to start this.

I am not suggesting that we throw the whole Government into this experiment at one time. By the way, we have the Work Fare program; we have the flexibility factor that Congress has adopted for the work program in the Department of Labor. We have had good response from the Cabinet officials in those departments, so we are starting out slowly, but I do believe that we have to have the overall generic authority for departments to wade in as they would see fit.

Chairman STEVENS. Well, I wondered if you would be amenable to having some sort of a review by the interagency council if a department refused to accede to a flexibility plan request, where it involved just one department. Most of the agencies—

Senator HATFIELD. Well, Senator, we are approaching it department by department, if I understand your question. For instance, in the Council on Competitiveness and in regulatory reform, the Senate adopted flexibility for each one of those bills, which have yet to become law.

Chairman STEVENS. Yes. Are you satisfied that the accountability factor would be there in terms of the real necessity to assure that the Federal funds have been used for the program for which they were intended to be spent?

Senator HATFIELD. Two things, when you raise the term, "legal." I would like to say also at this time that the American Law Division of the CRS has reviewed this local flex, and they feel that it does fall within the constitutional parameters of our Government.

Now, to the other part of your question, I think that in any agreement that is reached on any program, the financial accountability is part of that agreement, but it is not the sole focus. We are trying to shift from the accountability of money to incorporate and include as well the accountability of the worthiness of the program. Why put more money into a program that is either failing or is doing poorly without some kind of a report card? Right now, it does not make any difference whether the program is working or not, as long as you are complying with the rules and the regulations. And to me, that is a far cry from the totality of responsibility

that we have as Federal legislators to not only make the dollars accountable, but to make the program accountable, to some degree of success or achieving goals.

Chairman STEVENS. Let me be a little bit of a devil's advocate now. I do not know how many local governments we have in the country, but this plan envisions all of them having access to a 21-member interagency council. It is sort of like turning all of the district courts of the Nation into having direct access to the Supreme Court.

Is it possible that there would have to be a regional entity to deal with local problems and then go to the 21-member council for those that are—

Senator HATFIELD. It certainly ought to be able to be adapted in that kind of manner. Take the Bonneville Power Administration, which is so regional in character in purpose and so important to the Northwest. Certainly, we are trying to regionalize a fish program now to see if it succeeds, which we have not done in the past. So that sure, there will be regional applications as well as State and county and city.

Chairman STEVENS. Thank you very much.

Senator Glenn?

Senator GLENN. Thank you, Mr. Chairman.

I would appreciate your comments on the authority of the Flexibility Council, because it would have enormous power, it seems to me. It could waive any other regulatory requirements of Government, any other requirements of law outside of civil rights, ADA, and—what is the other one?

Senator HATFIELD. Health and safety.

Senator GLENN. That was not exactly what I was thinking of, but maybe that one, too. Anyway, you give enormous power to cut across all the other regulations of Government and all the other provisions of Government, and that is really centering more power than the executive branch has right now to do anything, and this will be centered in one council to waive all the things we pass here on the Hill, except for civil rights, ADA, and whatever the other one was—maintenance of effort.

Senator HATFIELD. While we are talking, Senator, let me make sure—we are talking not about waiving laws, but we are talking about waiving regulations made by the departments, made by the agencies, in the execution of granting money for certain programs. It is primarily focused on categorical grants.

Senator GLENN. Could they not waive Federal statutory requirements? As I understood it, they could waive Federal statutory and regulatory requirements.

Senator HATFIELD. Only what authority they have now. HCFA has some of those rights. Some agencies have those rights now, but only in the pursuit of the goals of their programs. We are not going to take money that is appropriated, say, for highways and transfer it by having the authority to waive some regulation or law, and take that highway money and put it over into education. We are not talking about that kind of flexibility. We are talking about flexibility only in achieving the goals that the departments set up as we set up through law. In other words, if we set up a law relating to an educational program, that law, executed through the Sec-

retary of Education, like Mr. Riley is doing now, say: These are the goals that we want to achieve, and any regulations that are inhibiting State and local governments from coming up with a better method, we are waiving to get to methodology, not to change the concept of the law. That is the only thing—in the administrative machinery.

Senator GLENN. OK. Maybe we need to talk a little bit about this separately. But in the bill, on page 18, Section 8(b), it says: "Notwithstanding any other law and subject to paragraphs (2) and (3), the Flexibility Council may waive any requirement applicable under Federal law to the administration of or provision of benefits under any covered Federal assistance program included in an approved local flexibility plan if that waiver is (a) reasonably necessary for the implementation of the plan and (b) approved by a majority of the members of the Flexibility Council."

That would appear to be very, very broad discretion to cut across any requirements of law.

Senator HATFIELD. Yes, but let me tell you what the intent of that is and what I hear the wording to mean. The regulations under that law are what they are going to be considered to waive, the regulations made by the departments and the bureaucracy under the law. They are not waiving the generic legislation to set up the program.

If that language needs clarification, of course, that is fine, and I am happy to do it; but all I am saying is that that council is waiving the regulations in that law or made under that law.

Senator GLENN. OK. Do you plan to put any limitation on what the Council could do with regard to transferring money across functions of Government? For instance, just to make a ridiculous example, could you take money intended for Alzheimer's research and use it to build a bridge?

Senator HATFIELD. No. That is not their function.

Senator GLENN. OK.

Senator HATFIELD. No. That is not the intent at all of the flexibility. And even when money is identified, say, for Alzheimer's, they cannot use it for cancer.

Senator GLENN. OK, but that would stay within a medical function, say, and that would be OK, then. If they decided they had a bigger problem with cancer there than they did with Alzheimer's, then they could not put in for—

Senator HATFIELD. I would not conceive that they could change the goal, basically, of the law. If we identify in the appropriations process \$310 million, as we have, for Alzheimer's, they are not going to set up a council that can take that \$310 million, or \$10 million of it, and say we are going to transfer it over to breast cancer.

Senator GLENN. They could not do that?

Senator HATFIELD. That is not the intent.

Senator GLENN. OK. When staff went through this and then briefed me, I think there was a little concern about this. We may want to work with you on some language on this.

Senator HATFIELD. That is not the intent.

Senator GLENN. OK. Now, the community sets up its own plan first. Could the State block a plan that the community has submitted from going on to the council?

Senator HATFIELD. The community and the State have to reach agreement with the Federal Government.

Let me go back to what is currently underway in the Department of Education. In the Department of Education, our State superintendent of public instruction is engaged in this as the State representative. She is working out the goals of these various categorical grants with the given local school districts that have either an elected county school superintendent or a school board, whatever the governing agency may be. She is working that out with them to present to Secretary Riley. Then, Secretary Riley, the State superintendent of public instruction, and that local school district agree on the goals that they want to achieve under this particular categorical grant. Then, they all waive the State and the Federal regulations—not the law, the regulations—that they have set up, and say, on the basis of the agreement we have made that you come forth in the local school district and say, We can do it better this way, we can achieve this goal better this way, if we just do not have to spend all of this time on compliance factors.

Now, the new agreement has accountability. It does not eliminate accountability, but they merely say the methodology by which you achieve that goal is now flexible for you to try that. For a given period of time, every 3 months, or every 6 months, we are going to have a benchmark review of how much of that goal you are achieving.

Senator GLENN. But where a Federal program goes directly to a city or a county or whatever, and they want to make some changes—say, they want more flexibility—they draw up their plan, and they are required to submit that to the State even though the State was not the administering entity to begin with.

Senator HATFIELD. Yes.

Senator GLENN. Could the State stop that at that point by disapproving it?

Senator HATFIELD. If there is a direct—if I understand your question—a direct county grant, such as the PILT program, but that is more of a block grant; that is the only thing that I can think of offhand going directly to the county without going through some State or regional agency—but if there is a program that goes directly to the county, which I cannot think of, and the State objects because a State does not have a hierarchical relationship, the State could object to that.

Senator GLENN. OK, but even if the State does have control of the funds that run through the State and down, and the local community draws up their plan, the State would have the authority to stop that plan, and it would not be submitted to the Federal financial—

Senator HATFIELD. You have got to have an agreement throughout the chain.

Senator GLENN. Now, would this—we do not cover in this States' responsibility to waive their own laws or regulations.

Senator HATFIELD. No.

Senator GLENN. That would still be up to the State.

Senator HATFIELD. That is required, too, because again, in the ed flex that we have adopted in Goals 2000, the State has to agree as well to lift or waive their regulations under their laws.

Senator GLENN. OK, so we are not trying to cover that.

Senator HATFIELD. No.

Senator GLENN. Anything where the States agree with the local council, and they are approving it and sending it on to the Federal flexibility council, if it requires some waiver of State law in some respect, or their own regulations, they would be responsible for doing all that?

Senator HATFIELD. Yes.

Senator GLENN. OK. Are there any others that you considered exempting from being waived under this bill besides civil rights, ADA, and maintenance of effort?

Senator HATFIELD. We have not at this point, but certainly, if there are such similar regulations that should not be waived, they should be incorporated.

Senator GLENN. I do not have a list. I just wondered if you had a list that you had started from on this, in putting this together.

Senator HATFIELD. In combing through the categories of regulations, we felt that they represented the most universal, accepted, and expected as well to be administered and not be waived.

Senator GLENN. This Committee was originally responsible for putting into effect the IG Act and expanding it back in 1988, so we now cover some 61 different agencies and branches of Government; and they have been doing a good job. They are concerned that their authority to follow up on where Federal dollars are going and to account for them might be a problem under this Act.

They have three concerns, and you can comment on all of them. They are concerned that their authority would now be supplanted and circumscribed by the new provisions giving responsibilities to the States. Second, let us assume that they retain authority. They are not going to be able to do these things, with budgets being cut the way they are, for the IGs, as they see it. And third—and I would agree with them on this—that as you send these things downhill to more and more different levels of Government, the chance of fraud, waste and abuse coming in is going to increase rather than decrease.

How are we going to handle that? I am very concerned about accountability. I am for the goals of what you are trying to do, but I am very concerned about accountability.

Senator HATFIELD. Well, I would respond in two ways. first of all, we are not prescribing this. We are making this an authorization or an intended empowerment for the agencies to take advantage of if they wish to.

Second, I think we have to recognize that the agencies are going to have, perhaps, a stimulus from the local and the State up to the Federal, but they still have to reach an agreement with those local and State. A local and State proposal, if it clears the council and so forth, is not automatically established until the Federal agencies say, We are in a position to do this.

We do not force the Federal agencies into this. Also, if I were head of a Federal agency, and this were now law, I would do as Secretary Riley. I would say let us try it, but let us try it on a re-

stricted basis until we have proven the case—take 50 counties across the country, and we will try it in 50 counties, and if it works, fine, then we will expand it. Otherwise, we are not going to put it into effect across-the-board. I would do that, and that was the intent of Secretary Riley.

Senator GLENN. Among the requirements in the bill, the local plan has to identify “fiscal control and related accountability procedures”. They would have to build them in at the local level. I presume that this does not mean that there could not be other levels of accountability. And is it your intent that the IGs would not be permitted to follow down into the local communities and audit the books on occasion and things like that, if they thought there was something wrong?

Senator HATFIELD. I do not think there is intended to be any restriction on an IG going right down—wherever the IG has authority to go now, I do not see anything that is going to or intended to restrict him from continuing that authority.

Senator GLENN. What would happen to Indian tribes?

Senator HATFIELD. Well, we are dealing there with nations, and of course, with nations, we are dealing with treaties, and we always have to make the exception, as we do in the gambling situation today.

Senator GLENN. So they would be exempt from this?

Senator HATFIELD. I would assume that they would be as we are exempting them from many other things that affect the 50 States. I have no intent of changing any of the treaty obligations or the status of the Indian nations.

Senator GLENN. We have a number of Indian programs, of course, and there might be a requirement for flexibility there, just for better purposes, just as much as there is anywhere else.

Senator HATFIELD. Well, I would say they ought to, in an administrative way, have the opportunity to avail themselves on any flexibility in the administrative machinery, but I am referring to their status as nations, the treaties, and so on.

Senator GLENN. It is sort of mind-boggling that we have 630 different programs. I think the dollar figure totals up to somewhere around \$225 billion a year for these 630 programs, and you probably have better figures, being on the Appropriations Committee, than I do; but I think that is the estimate that has been given for these 630 programs.

I think a big corollary effort to this should be to combine a lot of these programs, which the National Performance Review has been trying to do and working on, and we have worked with them on this Committee to do some of these things.

It is unbelievable—what did I read earlier—there are 78 different programs in elementary and secondary education alone. I think we should be working to try to combine many of these programs so that local communities can have a better handle on what is available.

Senator HATFIELD. I could not agree with you more, Senator Glenn. I do not believe this is a substitution for reorganization requirements that we have in our Federal Government, but I do think it is going to maximize more dollars to the targeted community or to the targeted demographics.

It is time we have another Hoover Commission, perhaps, dealing with that subject.

Senator GLENN. I agree with that.

Senator HATFIELD. And I would like to add to this Committee, if you start considering a Hoover Committee, I would suggest that a problem that we have had with reorganization efforts, going back to the Brownlee Commission under President Roosevelt, on up through the various others, even the most recent one that we have had, is that there is no follow-up. And reorganization to me is a continual policing job. If we are going to get a major reorganization, we ought to have a very independent police agency out there, watching it as it begins to revert to old habits.

Senator GLENN. Just one more question—I know I am taking a long time—and I will let Senator Levin question. But the Federal law that applies in some of these areas is the Single Audit Act, which prescribes how the auditing of Federal funds will be tracked, what will happen, and so on.

We had a case recently that was brought to light in Akron, Ohio by some of the auditing that was done following up under the Single Audit Act, as I understand it, and there were several articles in the Akron Beacon Journal dealing with that case.

Is your proposal in complete harmony with the Single Audit Act? That is another area that we might want to check, if that has not been checked. Do you know whether it is compliance with all of that?

Senator HATFIELD. I will have to check that.

Senator GLENN. OK, good.

Thank you. I may have some more questions, Mr. Chairman, but Senator Levin has been waiting.

Chairman STEVENS. Senator Levin?

Senator LEVIN. Thank you, Mr. Chairman.

Maybe we will call it a "Hatfield Commission" instead of a Hoover Commission and try to hang onto your expertise after you leave this place. Is there any chance we could con you into taking over that kind of a job?

Chairman STEVENS. And put the headquarters in Oregon. [Laughter.]

Senator LEVIN. Yes—that is the old appropriator in you. I have got to tell you, before I ask a few questions, how much we are going to miss you here, assuming—I cannot speak for myself because I am not sure I will be reelected, but I know how much the institution will miss you. And I am very happy for you and Antoinette, Mark, but I am very sad for those of us who will not have the benefit of your very, very special integrity and independence and just basic decency.

One of the few regrets I have is that I have never served on a committee with you. We have had a lot of dealings together in many areas, but I would have loved to have also served on a committee with you because you have very wonderful characteristics.

Senator HATFIELD. Thank you.

Senator LEVIN. The goal of your legislation is one that I share in terms of flexibility. I came here as a local official, frustrated by the one-size-fits-all thing, and knowing how different our communities are not only from communities in other States, but from each

other. It is not just that communities in Michigan are different from communities in Oregon, but each community has differences with other communities inside the same State. And we were instead faced with a rigid, kind of monolithic regulatory process which frequently made absolutely no sense. So we were constantly, just as you were as Governor of Oregon, bucking up against a Federal bureaucracy which adopted a regulation and was imposing it in a uniform way, and a way which it considered to be fair because it was not deviating for each particular unique circumstance, but which nonetheless created problems for us.

So I start with the same kind of frustration and, to put it positively, the same kind of goal that you have, which is to increase flexibility.

I do have a number of practical questions as to how this could be implemented in a fair way. First, it seems to me that you have got tens of thousands of local communities out there—I think they number 87,000 or something like that—and we have I do not know how many tens of thousands of nonprofits that also apply for categorical grants and would be eligible to seek flexibility through their municipalities and States.

So you have a huge number of potential applicants for flexibility—and I think it was Senator Stevens who used the analogy of the Supreme Court—all seeking flexibility from a 21-person agency that I think would be absolutely flooded with a huge volume.

Has anyone done any assessment as to how many categorical grants might be eligible? Do you know offhand? For example, are there 50,000 grants that would be eligible for this kind of flexibility, or 10,000, do you know? Do we have any feel for that?

Senator HATFIELD. Well, as Senator Glenn said and I have in my testimony here, I put it out in terms of volumes of regulations. That is one way to measure it. There are about 600 categories. In 1972—here are the statistics—there were 422 different types of categorical grants; in 1993, there were 578. That is your trendline. And I believe probably more recently—Senator Glenn uses the 600-plus figure—

Senator GLENN. Six hundred thirty.

Senator HATFIELD. It would probably be the difference between 1993 and 1995.

Senator LEVIN. Now, those are the programs.

Senator HATFIELD. Yes, categorical grants. That is the thing that it is targeted to is the categorical grants.

Senator LEVIN. Then you have literally tens of thousands of potential applicants who will be seeking waivers under a huge number of grant programs, so you have a big potential volume, and I think your instinct is to start slow.

Senator HATFIELD. Yes. It is not going to happen all at one time, Senator. Again, based on our efforts in the Clean Water Act, in the work bill, in the competitiveness bill, in the regulatory reform regulations, and as now implemented in the Department of Education, it has not just given blanket authority out there to all these thousands of groups as you indicate, and I do not think it is going to happen that quickly, even under this generic legislation that would empower the agencies to do that. They have to adapt; they have to have the flexibility to adapt to their particular programs. It may

work one way in a program, and it may work in a slightly different way in another program. The same program may work one way in Michigan and a different way in Ohio or Alaska or Oregon.

So we have got to keep the flexibility in the flexibility factor as well.

Senator LEVIN. You use the word "empower." It is your intention, then, that this process be discretionary, with each agency operating each grant program, so that if an agency says, "We are not ready to do that," there is no obligation created in here to do that?

Senator HATFIELD. No. That is not the intent.

Senator LEVIN. That is not the intent?

Senator HATFIELD. No, no, not at all.

Senator LEVIN. All right.

Senator HATFIELD. It cannot work if people do not want it to work. And there has to be some feeling that, hey, we want to make this work, and we are going to try it, with that positive approach. If it is going to be jammed down their throats, it will not work.

Senator LEVIN. I think there should be a clarification there, but that is the intent nonetheless.

Another area is the question of whether or not this applies to people who are applying for—is it intended that this flexibility apply as people apply for the grant, or after they have gotten the grant, or both?

Senator HATFIELD. The assumption now that we have these grants out there, and they are now receiving the moneys through these grants—any change to that is what we are talking about, any change to the present system as to how they are administering those grants and how they are being held accountable for those grants. It will be applied only to those who come up and say, "Hey, we have a better way; we have a new program that we would like to try in the administration of this grant." That would be reviewed, and that would pass the agreement requirement with the feds, the State and the locals.

Senator LEVIN. In other words, it is not your intent that this be used at the beginning of a grant process, where each—

Senator HATFIELD. No.

Senator LEVIN. OK. Only after it is granted.

Senator HATFIELD. It is to change the present method that we are now into, that I find unsatisfactory or that I think could be greatly improved upon.

Senator LEVIN. Now, you indicated a distinction between regulations which are enforcing the law as written and regulations which are not required by the underlying law. And it is only the latter regulations which you intend could be waived by this group.

Senator HATFIELD. Yes.

Senator LEVIN. Do you have any feel for what percentage—would that be the minority of regulations that would be those—we will call them discretionary regulations—or would that be the majority of regulations on the books, do you think?

Senator HATFIELD. Well, I see the potential of 600 agencies that could be involved, and the scope of that involvement would cover the 202 volumes of regulations.

Senator LEVIN. Sally Katzen's estimate on this, I am just informed, is that about 80 percent of the regulations on the books are

required by law, and about 20 percent fall into that discretionary area. Have you seen any numbers which are significantly different from that, or are you willing to assume it might be something like that?

Senator HATFIELD. I do not have that statistic. I will accept your staff estimate.

Senator LEVIN. OK. It is Sally Katzen's estimate of it, and she is in a pretty good position to know.

Senator HATFIELD. Yes.

Senator LEVIN. Thank you very much, Mr. Chairman.

Senator HATFIELD. Thank you.

Chairman STEVENS. Thank you, Senator. We appreciate your courtesy, and we are going to explore this very thoroughly today.

Senator HATFIELD. Thank you very much.

Chairman STEVENS. We have six more witnesses and about an hour and a left for the hearing, so I would urge the witnesses to follow the Senator's example and summarize their testimony and let us inquire about it.

We will now impose the 10-minute rule on the Committee, and our first witness will be Ms. England-Joseph, who is accompanied by some people. Would you please state who they are for the record?

TESTIMONY OF JUDY A. ENGLAND-JOSEPH, DIRECTOR, HOUSING AND COMMUNITY DEVELOPMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY PAUL POSNER, DIRECTOR, BUDGET ISSUES, AND SUSAN BEEKMAN, SENIOR ANALYST, COMMUNITY DEVELOPMENT ISSUES

Ms. ENGLAND-JOSEPH. Thank you, Mr. Chairman.

I am accompanied by Paul Posner, Director of Budget Issues at GAO, and Susan Beekman, who is the senior analyst responsible for community development issues. And I represent the housing and community development issues group within GAO.

Chairman STEVENS. Good. Thank you for appearing. We are pleased to have your testimony.

Ms. ENGLAND-JOSEPH. It is a pleasure to be here before the Committee to talk about the Local Empowerment and Flexibility Act of 1995 which, as we have been discussing, increases or intends to increase flexibility for local governments and private nonprofit organizations using Federal funds to assist communities and their residents.

My testimony is based primarily on a February 1995 report on community groups that are using a multifaceted or comprehensive approach that relies on resident participation to address housing, economic, and social services needs in distressed neighborhoods.

In that report, we examined why community development experts and practitioners advocate a comprehensive approach, what challenges they see to its implementation, and how the Federal Government might support such comprehensive approaches.

The report incorporated information obtained during our review of four organizations that are applying this comprehensive approach for improving their respective communities.

In addition, my testimony discusses how recent experience with the Empowerment Zone and Enterprise Communities Program may

provide helpful insights on the complexity of an undertaking such as that envisioned in the Flexibility Act.

In summary, our February report and recent work have shown the following. Community development experts advocate comprehensive approaches to address the problems of distressed neighborhoods because such complex, interrelated problems are better addressed in tandem than individually.

The comprehensive approach was endorsed by HUD in March of 1994, and several national foundations, frustrated with the results of programs they previously funded, have begun funding organizations that are now taking such a comprehensive approach.

However, multiple challenges confronted the four organizations we studied. The organizations had to, among other things, piece together a complex web of funding from several private and public sources to cover program and administrative costs. Overall, the groups relied on public funding for up to 30 to 60 percent of their budgets, often with conditions or other restrictions on their use. The organizations also faced the onerous task of managing a diverse set of concurrent housing, economic development, and social service programs.

The Federal Government assists distressed urban communities and their residents through such a complex system involving multiple Federal departments and agencies. Together, these agencies administer, as you have heard this morning, hundreds of programs in the areas of housing, economic development, and social services. These agencies have tended not to coordinate their efforts with one another because they have separate missions and have been concerned about losing control over their own resources.

In addition, the Federal efforts to coordinate that have been undertaken have had few successes, leaving community organizations such as the ones we reviewed with the burden of trying to piece together programs to serve their communities.

The result of all this with regard to the communities we visited was that they had difficulty in using and tracking funds from many different sources to meet their specific community needs. The organizations found the program and reporting requirements and the restrictions on the use of funds to be restrictive and burdensome. In some cases, these hurdles were daunting enough that they chose not even to use the Federal funds.

Representatives from the communities said that they had turned down funding from certain Federal programs, or had chosen not to apply for some Federal grants, because the programs were not flexible enough to be used to address their local needs.

There are several things that have occurred since the work that we did in the comprehensive area, including the implementation of the local Empowerment Zone and Enterprise Communities Program. And we thought it would be useful to look at the experience of that particular program because as a part of that program, communities who applied for this program were allowed to actually request waivers from Federal regulations in the hopes that that would address their local needs and streamline their program implementation.

As a part of this particular program, there were a number of applications that were received. Over 293 urban applicants, for exam-

ple, came in, and they requested over 1,100 waivers of Federal programs asking for greater flexibility that covered maybe as many as 17 different Federal agencies.

According to HUD, who has the lead on this, the waiver process was time-consuming and resource-intensive because localities often lacked enough knowledge about Federal programs to define the regulatory relief that they sought. For example, many of the requests submitted were relevant to State rather than Federal agencies. Others were requests to assist that could be resolved through dialogue rather than changes in either the regulations or statute, and technical assistance actually solved their problems.

Although the Community Empowerment Board was established under this program to serve as an inner-agency group, the majority of the agencies that actually support that group and are represented on that board have no formal process for reviewing and granting these waivers. In fact, what we found is that decision authority sometimes lies in the field in some agencies, or at the central headquarters level in others, and that adds to the time and the staff-intensive nature of the process.

In light of the lessons that HUD and others have learned from the experience with the Empowerment Zone and Enterprise Communities Program, some questions that policymakers may ask in considering the Local Empowerment and Flexibility Act of 1995 are as follows:

What kind of process will allow the flexibility plans to be approved and waivers to be granted in a timely manner while allowing the affected agency or agencies time to consider and process the requests?

The Empowerment Zone and Enterprise Communities experience suggests that communities are not always clear about which agency has responsibility for which requirements, or indeed whether the requirement is a Federal or State responsibility.

How will the waiver requests that cut across Federal agencies be approved and monitored? This becomes somewhat troublesome if the funds are commingled across various Federal agencies and Federal programs, where different requirements exist for those programs.

How can accountability for the funds and programs impacted by the waivers be built into the process without being overly burdensome for the localities? If performance standards in the flexibility plans prepared by the localities are not specific enough, it will be difficult to determine the waivers' impact and to ensure that program goals are achieved and funds are adequately safeguarded.

And finally, what level of resources will be needed to administer the provisions of this Act? Several agencies would face a time or resource burden similar to the one they faced under the Empowerment Zone and Enterprise Communities Program, and in an era of downsizing, where will these resources come from?

In closing, Mr. Chairman, while these and other questions may exist regarding the proposed Act, our work reviewing community-based comprehensive programs indicates a clear need for greater flexibility to address the problems and conditions in distressed communities, and S. 88 is a major step in that debate toward gaining greater flexibility.

I would be happy to answer any questions or comments that you all might have, and we are here to serve whatever you need.

Chairman STEVENS. Thank you very much.

You mentioned that in one instance, there were some 1,100 applications for flexibility and some of the difficulties that were involved, that they really were not asking for a waiver of Federal law, but of a State or local law. Did your examination indicate in how many instances flexibility was actually granted?

Ms. ENGLAND-JOSEPH. Do you want to talk about that?

Chairman STEVENS. Ms. Beekman?

Ms. BEEKMAN. They are still in the process of reviewing the applicants and granting them. What the board did was they started first with the waiver requests from what they call the "big 12," the empowerment zones that got most of the Federal funding, and there were about 270 waiver requests for those; about 115 were statutory requests, so they could not be granted, at least not right away. The board is going back to try to work out legislative proposals or try to figure out other ways to grant flexibility. There were 130 on which they told us they have been able to grant favorable action. They are now in the process of categorizing the rest of the waiver requests.

Chairman STEVENS. But what they did was they addressed those that had the largest amount of money first?

Ms. BEEKMAN. That is correct. They told us the reason for that is because they were afraid that not looking at those first would hurt those localities' chances of being able to implement their plans.

Chairman STEVENS. Do you have the ability to cost out what additional administrative costs we might incur because of this bill? You mentioned, Ms. England-Joseph, that this seems to be one of the major problems, that is, what would it cost to administer it. Have you the ability to cost that out?

Ms. ENGLAND-JOSEPH. No, sir, partly because I think the questions that we talk about needing to answer in terms of accountability—how much accountability do you really want; how much additional requirements do you want to impose; how much is involved in terms of reviewing these plans; to what extent do you want enough coordination and cooperation across agencies so that we are collaborating on some comprehensive approaches to addressing community needs—all of these things have to be decided as part of this legislation before you could really decide exactly how much resources you would have to expend.

Chairman STEVENS. Well, Ms. Beekman, can you tell us how much it has increased the costs of the programs you are looking at now?

Ms. BEEKMAN. That is not something we have looked at so far.

Chairman STEVENS. I did not ask that. Can you—can you—find a way to get an estimate of that?

Ms. ENGLAND-JOSEPH. We could get an estimate of the number of people who have been involved as part of the Community Empowerment Board and the agencies that have staffed it with detailees—that is the process they have used so far. We could at-

tempt a staffing estimate in terms of cost, but I do not know that that would cover all the costs you might be looking for.¹

Chairman STEVENS. What about the delay in terms of the programs getting to the beneficiaries, the delay involved in seeking the administrative flexibility; how long is that? How long a review are they doing on these 10 major zones?

Ms. BEEKMAN. It has taken an extraordinarily long time. The sites were designated last December, and the process has just been incredibly burdensome, trying to figure out exactly what the community is asking for. A lot of the waiver requests—they did not require any specific format, so a lot of them were very broad and very general. So it has taken a lot longer than what this bill would allow for the requests.

Chairman STEVENS. But is it fair to say that this is asking the people involved to give up some of their own authority? I mean, these waiver requests are made to the people who would otherwise administer the program, aren't they?

Ms. ENGLAND-JOSEPH. Yes, sir.

Chairman STEVENS. So that to the extent they grant the authority, they lose their own business.

Ms. ENGLAND-JOSEPH. Possibly. It really depends on the requested waiver. But it is not clear to us whether the length of time is because of the lack of incentive to try to approve these things or whether it is the lack of real forethought in the way in which the process was developed, so that when these waivers came in, they could be quickly evaluated and approved or quickly evaluated and disapproved.

Chairman STEVENS. This is probably too speculative, but I wonder if you have looked at this from the point of view of finding out if there is any other way we could grant flexibility in these programs. It does seem to me that it is needed, but I do not see that it is very probable that people who would lose their jobs if the programs become so flexible if the local governments could run them are going to grant the flexibility.

Ms. ENGLAND-JOSEPH. I think part of what this bill calls for, S. 88, is a paradigm shift in the way we think about the role of the Federal Government, and to some extent, I think we probably need to create the right incentives so that Federal program managers really see the input of their activity being the ultimate accomplishment of that outcome. To the extent that that occurs, perhaps there would be greater incentive to try to figure out how to increase the flexibility.

Chairman STEVENS. Thank you.

Senator

Senator Glenn. Thank you, Mr. Chairman.

I appreciate the need for flexibility. I am all for it, and NPR has worked toward that end, Senator Hatfield is proposing it, and I think it is a good idea. I am concerned about how it is going to be implemented, as I have indicated, and I am very concerned about the accountability in this process.

There is only one passing reference in S. 88 for the local plans to ensure, "fiscal control and related accountability procedures,"

¹ See letter on page 294.

and that is it. There is not much in the way of explicit requirements for financial reporting, audits or evaluations.

Do you have any ideas about how we are going to set this up, how we are going to make sure we protect against the fraud, waste and abuse farther down, when the more different levels of Government get involved, what greater chance is there for fraud, waste and abuse? How are we going to protect against that?

Mr. POSNER. If I could just take that question, we have an established framework for grant-in-aid programs, as you well know, with the Single Audit Act. And I would imagine that basically, the first thing you want to make sure of is that the money you are spending has appropriate internal controls and that financial management of those funds that is adequate. The Single Audit does do that and particularly does that well as you broaden the purpose of your assistance, because remember, the Single Audit Act focuses on the entity receiving the funds. In some sense, it makes sure that the vessels into which we are pouring Federal money are sound. So the Single Audit Act gives you a basic guarantee of—

Senator GLENN. Will it set up the accounting standards? It doesn't do that, does it?

Mr. POSNER. Well, the Single Audit Act uses the standards of the General Accounting Office, the Government auditing standards, and that kind of thing. Auditors use those kinds of things.

The second key issue on accountability, though, is what about the various program requirements and compliance requirements, and that is where the Single Audit may cover some of these kinds of requirements, as they do now; anything that is designated a major assistance program in dollar terms has to be checked.

And then, in terms of program monitoring, as long as these funds are appropriated for these purposes, you would have to have some process for monitoring the use of the funds and give yourself some assurance that the program results are on track. And you could do that through a combination of reporting, which as I understand it, is specified here to some extent, and agency—and management oversight by the Federal Government.

Senator GLENN. How far down does the Single Audit Act go?

Mr. POSNER. It goes to all State and local governments.

Senator GLENN. So it would apply for everything; it goes clear down to the local, county, city, town level?

Mr. POSNER. Yes.

Senator GLENN. So the Single Audit Act could follow it down and audit books.

Mr. POSNER. As I understand, it is any entity receiving over \$100,000 in funds.

Senator GLENN. I know we are in a big budget-cutting feeding frenzy around here, and I understand that, and it is necessary to do some of these things. I am concerned, though, in some of these enforcement activities and monitoring activities that we cut funds in those areas I think too much. IGs are not going to be able to do all of this. Their funds are in general going down. GAO is not going to be able to take on some of these things to monitor them. Their funds are going down. And I am not sure the local communities are going to be able to do this. If we expect the local communities and the States to implement it, in effect this falls as an un-

funded mandate on them, if we want to bring it back to those terms. But have you made any estimates at all on how much this would cost at the local level, or at the community or the State level? I think Senator Stevens mentioned this a moment ago. Is there any way to estimate these things? We have got to have some resources to make the whole thing work if it is going to mean anything.

Mr. POSNER. If I can give some perspective based on history, we track very closely the block grants of the 1980's, which are somewhat similar in some ways to what we are doing here. We spent a lot of time trying to decide to measure whether administrative costs were really saved there, and we really could not, when all was said and done, get a handle on that. The records are not set up consistently to track across the board according to the categories we think of here at the Federal level. But what we deduced was a more qualitative assessment, which might be relevant here, which is that you had some reduction, just by consolidating all of those programs and reducing the separate application reporting requirements. You had some burden reduction and some efficiencies achieved.

Senator GLENN. That is at the local level?

Mr. POSNER. At the local level or at the State level, as the case may be.

On the other hand, you have an increased responsibility on the part of a government to superintend a total program that is being contemplated under some of these plans.

Senator GLENN. You are saying, then, that you think it might be a possibility that they could do these things just by the new efficiencies of being able to combine the programs?

Mr. POSNER. I think there could be—and again, this is just history, and I would defer to these folks about the enterprise zones—but the block grants illustrated that there were some additional resources freed up at the State and local level, not dollars, but people who were deployed in other ways, so to speak.

Senator GLENN. I am always very dubious of these things where new efficiencies are going to bring us a balanced budget and so on; I think that is wishful thinking 9 times out of 10.

Does anybody else have a comment on this area?

Ms. ENGLAND-JOSEPH. The only thing I can speak to is that for the four communities that we looked at in addressing the comprehensive approach to revitalizing those communities, evaluation was low in terms of priority. Their intent was to serve their clients and their neighborhoods and to provide services very immediately. That is why it was very difficult for us to get data on effectiveness or to be able to evaluate, other than on a very general level, exactly what was achieved over a period of time.

Several of these communities had been around as a part of this endeavor, comprehensive approach, 6, 8, 10 years. So it is very difficult to measure some of the things that we are talking about and why I think it is critical to pay some attention to exactly what type of performance measurement do we really want to have the local communities develop, and then how much do we really want them to document that or to collect data in order to prove that they have achieved what they have said they have achieved.

Senator GLENN. It has been said that in both the waivers and the block grants, we should turn more authority over to the States to investigate the use of those funds for fraud, waste and abuse, and depend more on the States. I am not a big proponent of that myself, but do you see any potential conflicts of interest here? What is the State and local incentive to root out fraud in the programs they administer with Federal dollars, especially if, as many of these new block grant programs provide, their next year's funding would be reduced accordingly? They sort of have mixed emotions when they get into looking at fraud, waste and abuse?

Any comments on these areas, or do you think we still need a good, solid Federal follow-up to make sure the funds are used properly?

Ms. ENGLAND-JOSEPH. I think a lot depends on the extent to which Congress wants to impose real Federal oversight over their use of those funds.

Senator GLENN. Well, that is an obvious answer, but do you—

Ms. ENGLAND-JOSEPH. But it is a policy call as to how much do you really want to depend on the States to really drive the machine at the State and local level and to be able to assure that the funds are being spent as intended, and how much do you need assurance at this level that when you at least are appropriate those funds, that you have some degree of confidence that those funds are being used the way you intended them.

Striking a balance between those two—it is very difficult from our perspective to actually call where that balance ought to occur.

Senator GLENN. Well, it is difficult, I agree with you, but I think where there are Federal funds going out, and we are responsible for auditing those funds, I think we have to have a strong Federal follow-up, and they have to know that at the State and local levels and know they are going to be audited occasionally, and a tough audit at that, and that is the way it should be. I think once you get off into all the vagaries of whether States have adequate IGs and follow-up systems within their auditors' office, that varies; we may have 50 different systems across this country. So I think we have to have a strong Federal follow-up in this area myself.

I understand that you have performed some analysis of the JTPC, the Job Training Partnership Corps, program, and that you had an in-depth look at 13 States and how well they measured their performance to meet Federal standards to qualify for funds. Can you comment on your findings in that, and how accurate were their own performance measurements, as you saw it?

Ms. ENGLAND-JOSEPH. I am sorry, Senator, but I am not prepared to respond to that. I can get that information for you. Another group within GAO that deals with education issues worked on that.

INSERT FOR THE RECORD

RESPONSE FOR THE RECORD TO SENATOR GLENN'S QUESTION ON A GAO ANALYSIS OF THE JTPA PROGRAM

A. No such study has been performed by GAO on JTPA. Perhaps the reference was to our April 1995 report on the use of outcome measurement in determining whether JOBS program participants are finding employment and leaving AFDC (*Welfare to Work: Measuring Outcomes for JOBS Participants*, GAO/HEHS-95-86, April 17, 1995). JOBS and JTPA title II-A are the two largest federal employment

and training programs that target services to the economically disadvantaged and share a common goal of enhancing clients' participation in the workforce. JOBS is administered by the Department of Health and Human Services and is limited to recipients of AFDC while JTPA is overseen by the Department of Labor and serves AFDC recipients and other economically disadvantaged individuals. In our review of the JOBS program we found that:

- HHS does not know whether JOBS is reducing welfare dependency because it does not gather enough information on critical program outcomes, such as the number of participants entering employment and leaving AFDC annually. In addition, states are held accountable for the number and type of participants enrolled in education and training, but not for outcomes, such as the number of participants finding employment.
- Nearly all states use some information on participant outcomes to manage their individual programs, although the extent to which states monitor outcomes varies widely. At least in part to demonstrate to their state legislatures that program objectives are being achieved, a majority of states monitor the number of JOBS participants entering employment and hourly wages at hire. In addition, over one-half of the states have established annual outcome goals.
- The current national interest in making welfare more employment focused, as well as requirements in the Government Performance and Results Act that performance monitoring become more outcome oriented governmentwide, indicate a need for HHS to move decisively to ensure that it meets its current schedule for developing outcomes measures and goals for JOBS. HHS has reported to the Congress that it plans to finalize JOBS outcome measures by October 1996 and outcome goals by October 1998.

Attached please find copies of our reports on employment training programs.¹

Senator GLENN. OK. Can anybody else comment on JTPC?

[No response.]

Senator GLENN. OK. Well, I hope the accountability issue is something we can work with you on. I think it is key to making this whole bill work. Otherwise, we are just setting up a morass. If we are just sending out Federal dollars—it is a big pocketbook, and we just send them out and say, OK, States, you run this thing—I think that is a recipe for disaster in the long haul, myself—not that I do not trust the States, but let us verify at the same time we trust the States.

I think we have to have a good follow-up system of evaluation on this bill. Otherwise, let the States raise their own money, and let them administer their own money. If we are sending Federal dollars out, I think we have to have a good follow-up system.

Thank you, Mr. Chairman.

Chairman STEVENS. Thank you. I understand what you are saying, Senator, but it seems to me that if we combine State and Federal accounts and have one audit instead of 17, we ought to be able to get some efficiency out of it somehow.

Senator GLENN. I agree, but I want to see a Federal entity in there so that we are not just turning bags of money over to State or local communities for their administration without any Federal follow-up.

Chairman STEVENS. Well, thank you very much. We appreciate your courtesy, and I think we will be getting back to you before we are through with this subject.

Ms. ENGLAND-JOSEPH. Thank you very much.

Chairman STEVENS. Next, we have the Deputy Director for Management at the Office of Management and Budget, Mr. Koskinen. Are you accompanied by anyone, sir?

¹ See pages 101, 145, 179 and 198.

Mr. KOSKINEN. No; I am soloing it.

Chairman STEVENS. We will print your statement in full in the record, too, Mr. Koskinen. Please proceed.

**TESTIMONY OF JOHN A. KOSKINEN, DEPUTY DIRECTOR FOR
MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET**

Mr. KOSKINEN. Thank you. I will summarize briefly, Mr. Chairman.

Mr. Chairman, I am pleased to have the opportunity today to testify before the Committee on Governmental Affairs on S. 88, the Local Empowerment and Flexibility Act of 1995.

This Committee's leadership in the efforts to encourage innovation and entrepreneurship at the State and local levels has been exemplary.

The administration believes S. 88 is focused on an important issue of how to assist our distressed rural and urban communities to empower themselves, and we appreciate the chance to express our views and concerns about this legislation.

The President has consistently supported efforts to empower communities to take charge of their own destinies and to remove Federal impediments that constrain innovation, experimentation and entrepreneurship at the local level. In a time of declining Federal resources, the granting of waivers and the providing of flexible funding streams are two ways to increase the impact of Federal programs.

The President and his administration have supported greater waiver authority and flexibility in a number of ways. In September 1993, the National Performance Review recommended a bold, bottom-up grant consolidation to encourage innovation and create flexibility in the face of grant proliferation. Then, in the 103rd Congress, the President proposed legislation as part of the Empowerment Zones/Enterprise Communities initiative that would have given the Federal Government broad authority to provide waivers in a one-step process to local governments that develop a comprehensive strategic plan. As you all are aware, the Senate adopted similar legislation as an amendment offered by Senator Hatfield to S. 4, the Competitiveness Act, but the bill was not enacted.

A few existing Federal programs are authorized to provide waivers to States in administering programs within statutory and regulatory guidelines. The best-known are the demonstration authorities in AFDC and Medicaid. Those particular authorities were designed to allow State experimentation with new ideas for research and evaluation purposes, not as a vehicle for regulated State flexibility.

This administration has increased the use of the existing system of granting waivers, and we are proud of the fact that we have been able to reduce the time it takes to review waiver requests. However, no matter how much we continue to streamline the existing waiver process, there are statutory limits to our waiver authority.

In his 1996 budget, therefore, President Clinton proposed that 271 separate programs be consolidated into 27 performance partnerships. Each of these partnerships would consolidate funding streams and eliminate overlapping authorities, create financial in-

centives, and reward results consistent with broad national purposes, and reduce micro-management and wasteful paperwork.

The distinctive feature of the performance partnership model, in contrast to the traditional block grant approach to consolidation, is the combination of greatly increased flexibility with accountability and rewards for performance.

While the administration's efforts to promote flexibility have proven to be a strong beginning to devolving power to the local level, they are not complete answers to the problem. For Federal grant programs to work, we believe strongly that the executive branch agencies must have the flexibility to waive statutes and remove barriers that interfere with communities trying to improve their economic and social conditions.

The administration would like to support legislation such as S. 88 introduced by Senator Hatfield if we can reach agreement on the issues that we believe are critical to the effectiveness of this legislation. These include improving the review of applications for waivers by changes such as establishing an appropriate time frame for reviewing them and ensuring that legislation does not make the process so complex and difficult to administer that it unnecessarily delays community efforts. And approval of plans should be contingent upon the submission of a strategic plan containing specific goals and measurable performance criteria.

As both Senators Glenn and Hatfield have suggested this morning, it is important, as we talk about waivers and flexibility, that we make certain we are not waiving accountability. In fact, well-designed accountability provisions help clarify the financial and programmatic relationship between the Federal Government and States and localities. Thus, we strongly believe the bill should clearly maintain the financial accountability provided through single audits as a foundation for ensuring appropriate financial management and internal controls.

States as well as local governments should be eligible for waivers. The involvement of States in the review of proposed waivers should be expanded, and State and local governments should be encouraged to eliminate barriers to innovation at the State and local level.

We support providing additional exclusions for certain important areas such as tax policy, worker safety, environmental protection, labor standards and relations, financial management, and public health.

We should also provide appropriate authority for Federal agency heads to approve waiver requests and sufficient administrative support for the interagency mechanism to respond efficiently and effectively to the local strategic plans and waiver requests.

We recommend replacing the Flexibility Council provided in the Act with the Community Empowerment Board, removing the assistants to the President for domestic and economic policy, and maintaining the President's discretion in choosing the CEB's members.

The continuation of waivers should be tied to the performance measures provided under a related strategic plan. Our goal is to have States and cities begin to consider how they deploy all Federal resources available to them, whether block grants or other-

wise. We would, for example, be looking to see how they answer such questions as "What are we trying to accomplish?" and "Who will be held accountable?"

We would like to narrow the criteria of those who may apply, or provide some priority consideration to communities of greater need or distress, so that agencies can process requests in reasonable time frames. The questions from the Senators this morning about the efficiency of the process, it seems to us are appropriate, and we should address those concerns.

We look forward to working with you to address these and other concerns, and we thank you for your leadership in this area.

I would be happy to answer any questions you and the members of the Committee may have.

Chairman STEVENS. Well, have you considered any type of arrangement that would give the local or statewide or even regional existing Federal authorities the power to move in and adopt a flexible plan without all the delay of coming to Washington, to a 21-member council?

Mr. KOSKINEN. We have not considered that at the start. We think it is important, though, as you raised earlier, as a corollary, to stress more than the statute does that we should not have a wide range of governmental entities just showing up on their own, independently, in Washington. We should encourage through the statute States and localities to cooperate together in the development of plans. They could then come as a united group to Washington, having already dealt with State and local problems and waivers before they come to Washington for other waivers. We think that through that process, you can get an efficient review of the programs at an effective level at the Federal Government.

As we go through time, I think what will happen to make the process more efficient, as we have begun to see in the enterprise zones' experience, is that we will find consistent patterns of regulations and consolidations that communities across the country are seeking waivers for. We could then begin to respond automatically, again as a way of treating these as less of a series of individual responses and beginning to see them as clusters of responses.

Chairman STEVENS. Well, most of the regulations that local governments seek to have waived are the product of the administration, not of the statute. They are implementing regulations—I would hope, as a consequence of the thinking of Senator Hatfield, that we would have some thinking in your agency to try to find out if there isn't some way to hotwire some of those regulations and make them work quicker.

One of the difficulties we have—and we are going to hear from our speaker of the State House of Representatives in Alaska—but one of the difficulties we have in our area is that some of these local governments do not have enough money to keep up with these regulations. They do not have all those sets of regulations, and they do not have enough people to understand them. And when they run into them, the first thing they want us to do is find some way to alleviate the burden of those regulations on them.

I wonder if this isn't something—and I am not being political, and I am not being abusive, I hope—that ought to just come right back to your doorstep and say why is it we cannot find some way

to reduce or find some way to define how these regulations apply to the smaller entities of government that have the greatest burden under our system.

Mr. KOSKINEN. That is a good point. The Vice President, from the start of this administration, has been pushing very hard to simplify the regulatory process, to eliminate unneeded regulations, and to rewrite those that we have to make them more user-friendly. We have issued this year a set of challenges to the agencies to come up with a certain number of regulations that are abolished and another set of regulations that are revised to be more understandable and user-friendly. We can continue to do that, but what this legislation addresses, is that there is a limit to what you can do within the administrative regulations. As noted earlier, some regulations are required—a significant number of them are required by statute.

Beyond that, many statutes have regulations built into them about eligibility standards or applicability of the programs, that hamstring State and local governments. What this Act begins to address is the ability of States and local governments to look at their own circumstances within a programmatic area and come to the Federal Government with a program that has a broader perspective than any particular individual categorical grant may.

Secretary Reich has spoken at some length about the problem of having over 100 different job training programs. As you note, a local community wanting to take advantage of job training opportunities has a wide range not only of regulations, but a wide range of categorical programs to deal with. What this statute would allow that community to do is to say we have an employment problem in this community that has certain characteristics. This is our strategic plan for dealing with the situation. These are our goals for this program. If we are allowed to consolidate this funding and revise the regulations, these are the outcomes that we will produce that we can be measured against. What we would like to do is encourage more of that thinking.

As Senator Hatfield said, what we would like to do is move away from measuring and keeping accountability only on the inputs into the program and start looking at the outcomes. It really is consistent with the work this Committee has done over the years, leading to the passage of the Government Performance and Results Act. This Committee has taken the leadership position of saying we should begin to ask more regularly what do we get for the money we pay. I think this legislation, properly drafted, can lead us in that direction.

Chairman STEVENS. Well, I do not know. I hope so. I remember the experience with the OEO. We finally found out up in Fairbanks, Alaska that it was costing about 80 cents out of every dollar to administer the program, and 20 cents was going to the beneficiary.

That is the problem we have in these smaller areas, where complying with regulations is so much more costly on a per capita basis than it might be in a downtown urban area of one of our major cities.

The cost of regulation increases as the population base decreases. I think that is a given. Yet we do not have any system to recognize the inapplicability of some of these regulations that are designed

nationally, or even for major city areas like the big megalopolises of the South 48; we do not have any way to just say these do not apply to a city of less than 20,000 people, or 10,000, or even down to the area of a city of less than 500. They have to comply with the same regulations.

I would like to take you sometime out on the Kuskaguema on the Yukon and let you see some of those villages of 1,500, 2,000, and see how they try to comply with the Federal regulations—and every time they comply with one, they find out there is another department that has a contrary regulation.

Mr. KOSKINEN. That is one of the things we would hope this statute would lead us to address. We will be able to get smaller communities, rural communities and States to come together and say, in this particular area of the country, these are our problems, this is how we are trying to address them, and what we would like to do is waive unnecessary or nonproductive regulations and be subjected to accountability for what we are actually accomplishing here.

Going to your point about resources, I think that over time, while we may, as Senator Glenn noted, not necessarily have a dramatic decrease in the amount of overhead, what we ought to be doing is trying to shift the overhead in the right direction. That is, we should be measuring more of to what communities are actually accomplishing, rather than simply asking whether they are complying with this one-size-fits-all set of regulations that apply wherever you are, no matter your size or your problems.

Chairman STEVENS. Well, I am encouraged by your report that indicates that you could support this if we had some basic changes. I will see to it that Senator Hatfield gets a copy of your report, and see if we can start working toward the goal of getting us together.

Thank you.

Senator Glenn?

Senator GLENN. Thank you, Mr. Chairman.

The bill gives the Flexibility Council authority to grant statutory and/or regulatory waivers notwithstanding any other law. That is an enormous power. Could the council outvote the agency head responsible for programs in question that the agency head has responsibility for, as you see this?

Mr. KOSKINEN. Basically, the way it is operating now in terms of the enterprise zones is that an agency has the right to disagree with or veto a proposed change. It is an interesting question—Senator Stevens implied it as well—whether somebody who created the regulations may have a different perspective about the need for those regulations than others. One of the things we hope is that, through the operation of a council like this, if there is an attractive plan from a State and its localities seeking to waive a set of regulations, or even a set of statutory eligibility requirements, if the other agencies all agree that that looks good, that there would be a greater inclination on the part of an individual agency to reconsider its regulatory affairs.

The problem with going simply to the single agency by itself, although we have had very good luck with the Medicaid waivers at HHS, is that you do not get a dialogue. What this enterprise board will do is create a dialogue among the agencies about how to re-

spond to the needs of States and localities. The cities will in effect have a better forum in which to make their case.

Senator GLENN. We have some 630 plus different programs that we are talking about here, that involve some \$225 billion a year. One of the jobs you set out to do over there at OMB was to combine some of these programs and to streamline Government some under NPR. Are we making any progress in combining those programs? I spoke to one person over there who said that, at least in one area, you were trying to take about a 10-to-one ratio, that is, combine 10 of these programs into one. I do not know that that can be done across this whole 630, but that is sort of the nub of the problem here, that communities have so many programs that they cannot really use some of them properly.

Are we combining any of those? How are we doing on that?

Mr. KOSKINEN. Well, as I noted, we proposed in this year's budget that we take 271 programs and consolidate them into 27 performance partnerships. The goal is to take, in the health area, a range of individual, relatively small, categorical programs, put them into a performance partnership and go to communities and say: In the health area, instead of dealing with over 100 of these programs, come to us with a program, create a strategic plan and goals, and we will allow you to deploy those resources in your community as you see fit.

Thus far, we have not had those partnerships enacted into law, but we continue to support them, because I think your instinct and Senator Stevens' are right. What we have is a proliferation of categorical grant programs designed to deal with very important problems. However, we have designed them in a one-size-fits-all form, assuming that the problems in Alaska are the same as in Ohio and in Florida.

What we need to do is provide a policy at the Federal level that says these are the problems we are trying to deal with, and then build in the ability of the State and local governments to flexibly respond to that policy and the use of those funds. They would not only develop their own programs, but their own standards of accountability for what they are actually trying to accomplish and how they are going to measure those accomplishments. That is why we call them performance partnerships. We think—and this statute really contemplates this—that this is a much more attractive way to proceed than simply to provide a block grant that says, "Here is the money; let us know how you are doing."

Senator GLENN. The bill provides that in the local plans, they will ensure "fiscal control and related accountability procedures." That is the only place that financial accountability is mentioned per se, I believe. Is there going to have to be a big Federal follow-up on this, from the experience you have had over there? How are we going to implant this process?

Mr. KOSKINEN. I think what we need to do is to make sure that the existing accounting requirements and financial accountability requirements, such as the Single Audit Act, continue to apply. The agencies in the States and localities ought not to be less accountable as a result of this activity.

But—and I think Senator Hatfield said it well—we need to make sure that there is accountability for the discharge of the steward-

ship of the funds in terms of the inputs—is the money being spent—but beyond that, we need to ask for accountability for the effectiveness of the expenditure of those funds. Not only do we want to make sure there is not fraud, waste and abuse, but we want to make sure that something positive has actually happened as a result of the expenditure of those funds. Again, this is consistent with GPRA. We are trying to say here is a goal, here is what we are trying to accomplish in job training, here is what we are trying to accomplish in housing and in education. However, we ought to then begin to measure how effectively we are reaching those goals. What are we accomplishing with the expenditure of this money?

The fact that we do not have any fraud, waste and abuse is important, but it may not tell us anything about whether that program is being run effectively or whether in fact we should continue to fund that program.

Senator GLENN. Do you think the IG should be able to delve down and follow those Federal dollars down, and make investigations if they think there are indications that they should?

Mr. KOSKINEN. Yes. Actually, if we adopted a program like this and began to consolidate and make more rational the impact of these programs, it would be easier for the IGs to follow the dollars and to follow the accountability than it is now, when you have a wide range, and a proliferation of grant programs and volumes of regulations. Measuring compliance in our present system is resource-intensive. We could take those same resources and apply them more effectively if we had a better programmatic outline.

Senator GLENN. Yes. S. 88 emphasizes the use of performance measurement criteria, and that is all well and good—I think that is great. But I consider that to be a little bit different from financial management and accountability. It is one thing to have performance measurement out there. I do not know who is going to measure performance with no money provided to do it at the local level. Maybe we can get the funds from these new efficiencies that we discussed a little while ago.

I am concerned about that, anyway. I do not know whether you have any comment on that or not.

Mr. KOSKINEN. I think this is an important distinction. The goals are not mutually exclusive. We ought to make certain that we are confident that the money is being expended appropriately, but, at the same time, once it is expended appropriately, we need to ask what have we accomplished with that money.

Senator GLENN. Yes. I think the flexibility process—just to turn around and argue on each side here for a moment—I think it might be able to tell us a lot about what sorts of programs to keep. If people are asking for flexibility and combining programs in a certain area, and we see that pattern developing in a number of places, it might indicate what programs are worth keeping or what should be expanded and what should be done away with in the future.

Mr. KOSKINEN. I think that is right. To the extent you build in the flexibility, and you deal with some of the issues Senator Stevens has talked about, you ultimately will end up with a set of demonstration projects or experiments, or you will have an experienced response about what actually is going on in the commu-

nities—what do people find effective, what do they find is the most efficient way to administer these programs—and I think we will learn some lessons from those experiences.

Senator GLENN. Yes. Do you think we need this issue of letting agencies waive program requirements? Shouldn't we change the laws to consolidate programs or build in flexibility in specific areas?

Mr. KOSKINEN. We are in favor of grant consolidation in a number of areas, and we have proposed legislation in that regard. That would simplify life to some extent. But again, even with consolidated programs, we will still have the issue of trying to allow communities to adapt those programs to their own unique circumstances. If we consolidate many of the job training programs, to make those effective, we are still going to have the issue of are we going to tell communities how to act with a great set of regulations, or are we going to have flexibility built into that process so the communities can come to us and say, in the job training area, this is how we propose to approach the problem. Give us this flexibility, and we will give you these results.

Thus, it will be a simpler process if we have fewer categorical grant programs, which should be our goal, but even with fewer of them, we still have this issue of how are we going to tailor the applications of these programs to different communities in different circumstances.

Senator GLENN. Then, along with this, is there a possibility that we ought to consider, instead of setting up a new bureaucratic process with a Flexibility Council, and with review at the local level, at the State level, with a lot of people involved, and it is at the Federal level, and there is a lot of time involved in the plan development and review process, should we consider going back to block grants and revenue sharing that we had before?

Mr. KOSKINEN. The problem—if you move along the spectrum, with revenue sharing, you basically say we will collect the money and give it to you, and you do whatever you want with it. With block grants, we say we will collect the money and give it to you to spend in a general area, however you want.

We think that, moving slightly along the spectrum to something we call performance partnerships, what we ought to do is take areas like health, as we proposed in the budget, and consolidate the programs. Then we can say, here is the money, but you have to tell us what you are going to do with it, and you are going to be held accountable for the performance and how you spend the funds. It is your judgement as to how to apply the funds, but you cannot simply spend them and worry only about waste, fraud and abuse; you also have to spend them and worry about what are you accomplishing with these funds.

That is why this Flexibility Act moves in that same direction of saying State and local governments should come in with strategic plans describing how they are going to accomplish the goals that we have set at the Federal level, if we can provide them the appropriate flexibility.

Therefore, even in that area, even with anything like a block grant, I think you are going to find more and more regulations. What we ought to do if we are sending the money out there is to

hold people accountable not only for the integrity of the spending process, but for the results they achieve. We also ought to provide funds in a way that is flexible, to be tailored locality by locality.

Senator GLENN. Well, that is taking the existing system, but if we are starting over again, if we are going to change the system, would it be better to go to revenue sharing in certain block areas or certain purpose areas, as you mentioned?

Mr. KOSKINEN. Well, one of the things you noted—

Senator GLENN. Would that be better, and just cut out all the bureaucracy around this thing?

Mr. KOSKINEN. We have a great tendency in this country to always want to start with a clean slate. Whether it is new towns or something else, we say let us just get rid of the whole thing and start all over again. Then we notice 10 years later that we have replicated the same problems if we have not analyzed what the cause of the problem was.

I think your point is very well-taken that, if we started along this line and looked at what the communities tell us they need in terms of flexibility and in terms of consolidation, we will know better at the end of a period of time what needs to be consolidated than simply in abstraction ourselves saying, well, let's consolidate these and not those, at a national level.

We will learn a lot from this kind of enterprise and this kind of dialogue. As GAO noted, part of what has happened in the enterprise zone and community activity is that we have engaged in a lot more dialogue with States and localities about what their needs are. We have had much more of an interchange with them than simply issuing regulations and edicts and telling them to follow our rules.

Senator GLENN. Under this legislation the way it is now proposed, who would track and evaluate local programs? Will the Flexibility Council have resources to follow this up—in other words, do in effect a CFO job—which was passed by this Committee. We look at the CFO at the end of each year to monitor what is going on, do an audit and decide what worked, what did not work. Who is going to do that in this case, as you see it?

Mr. KOSKINEN. Once the waivers are granted, the agencies will still be responsible for their programs. They will now, as we have done under Medicaid, have established waivers and local flexibility. So the agency responsible that has been appropriated the funds would continue through its IGs and its financial accounting systems to be responsible for ensuring that the funds are appropriately spent.

Senator GLENN. Senator Hatfield testified just a few moments ago that he thinks the dollars could not get out of the budget functions, as I understand what he said—I think I am correct on that—that they would stay within their certain budget functions. In other words, health funds could not be taken to build a bridge or something like that.

Mr. KOSKINEN. That is an important principle to establish, and I think we need to make those exclusions clear.

Senator GLENN. I am not sure that is in the legislation now.

Mr. KOSKINEN. No; I think we have to make sure the legislation is clear. But the legislation should also be clear, within pro-

grammatic areas, if there are statutory as well as regulatory inhibitions to using funds, that the Flexibility Council would have the ability to grant requests if they seemed appropriate in response to a strategic plan from an area. For instance, in job training, a locality could say we are going to pull all of these programs together in a way that provides an eligibility standard and an application in our community that works for us, rather than having to follow all of these different, sawtooth eligibility standards. Or a community might say we want to provide health care, as the Medicaid waivers have, in a different way than the national requirements. They might have more home care rather than nursing home care, which has happened.

You might decide that you want to provide some job training and education funds in a public housing context as opposed to the normal institutional way. If there were a way to do that, we ought to be able to allow that flexibility within the programmatic area.

Therefore, we should not move money programmatically out of job training into bridge-building, but at the same time we have to have the flexibility within those programmatic areas to deal with both statutory as well as regulatory limitations.

Senator GLENN. As you see the legislation now, would the Flexibility Council be permitted only to judge yes or no on a particular flexibility plan that was submitted to the States and then up to the Flexibility Council, or would they be in a position to say, "We have met, and we think your submission looked pretty good, but it lacked so-and-so, and with proper changes we will approve this as a new proposal"? Will they be able to tell people how to do some of these things if they do not agree with the plan or part of the plan?

Mr. KOSKINEN. My hope would be that they would not only be able to do that, but that they would deal with Senator Stevens' problem and over time, be able to develop and be a clearinghouse for what we call "promising practices." If something worked very well in Iowa, in small communities, the board would be able to collect that information and provide it, not as a requirement, but as an option in Alaska or in California for small communities.

We need to have enough resources in the board to ensure that we can do just what you are talking about, that is, provide feedback to the communities. That has been our experience in the empowerment zones. We have had to spend as much time in dialogue and explanation with agencies at the State and local level as we have in reviewing their process.

Senator GLENN. Thank you.

Thank you, Mr. Chairman.

Chairman STEVENS. Thank you, Mr. Koskinen. We will get back to you, I am sure. We appreciate your testimony very much.

Mr. KOSKINEN. Thank you, Mr. Chairman.

Chairman STEVENS. Next, we have a panel consisting of Susan Cameron, who is the administrator of the Tillamook County Health Department in Tillamook, Oregon; the honorable Gail Phillips, who is our Speaker of the Alaska State House of Representatives; Scott Fosler, president of the National Academy of Public Administration; and Charles Griffiths, director of intergovernmental liaison, Advisory Commission on Intergovernmental Relations.

Ladies and gentlemen, please proceed in the order in which I introduced you. We will print in full the statements that you have prepared and then have questions after your oral testimony.

Ms. Cameron?

**TESTIMONY OF SUSAN A. CAMERON, ADMINISTRATOR,
TILLAMOOK COUNTY HEALTH DEPARTMENT, TILLAMOOK,
OREGON, ON BEHALF OF NATIONAL ASSOCIATION OF COUN-
TIES**

Ms. CAMERON. Mr. Chairman, members of the Committee, I appreciate the opportunity to come today to talk about our support of the Local Empowerment and Flexibility Act. I would like to also say that I am here on behalf of the National Association of Counties, which has passed a resolution endorsing this bill, and we have submitted some information on that.

I am the administrator for Tillamook County Health Department. Our county has about 20,000 people, and in reality we have more cows than we do people. We also have a lot of issues in our county that we deal with, and our most auspicious resident right now happens to be Senator Hatfield, so we are very pleased that if he has to leave, he will come to Tillamook County.

I would like to suggest that we have some challenges in Tillamook County. Right now, 42 percent of our population is below 200 percent of poverty. We are a medically underserved county. We also rank number 33 in per capita income in the State of Oregon, out of 36 counties. So we have some challenges.

But I would also like to say that we have some successes, and they are built around focusing on results, which is a major component of this particular Act. In the last year, we have been able to reduce our welfare case load by 30 percent. We have been able to drastically impact teen pregnancy over the last 5 years, taking it from 24 per thousand to 7 per thousand for teen pregnancy in Tillamook County. And the basis of this is focusing on the outcome, focusing on what the result is that we are trying to obtain.

In 1989, Oregon put together a strategic plan called the Oregon Benchmarks. It took 257 goals around Oregon for people, for economy, and for the environment, and listed what it is that we are trying to accomplish, what kinds of targets we are trying to meet with these benchmarks.

Through that process, we were able to sort out those benchmarks in a way that we put together a strategic plan, a citizen-based strategic plan, that will allow us to look at focusing on outcomes and hold our communities accountable for those results.

Exactly 1 year ago today, we signed an agreement with the Federal Government regarding the Oregon Option. That has allowed us over the last year to look at barriers that are imposed by Federal, State and local governments to moving toward an outcome-based process.

Through our Oregon Option, we have a pilot project that will allow us to focus on results. It gives us a different way of thinking. It talks about focusing on literacy rates rather than dollars spent on school expenditures. It allows us to focus on crime reduction rather than prison beds. And it allows us to focus on teen pregnancy reduction rather than the number of contraceptives issued.

It is a new way of thinking, and it helps us move toward an accountability approach to reaching the goals embodied in this Act. It allows us to start bringing up the barriers that we run into, such as the red tape and the micromanaging that we run into in trying to reach those goals.

What I would like to do is give you an example of what we have been able to do, for instance, in teen pregnancy. In 1989, we said this is unacceptable. We had the second highest rate of teen pregnancy in the State of Oregon. What could we do to change that? How can we change that focus to an outcome of something that is more acceptable to our community?

So we brought people together. We brought the schools together, the churches, the business community, and the services groups, and we focused on reducing teen pregnancy. Everybody went back to their own arena, and they approached it from their own direction. The churches provided family communication on values to their congregations. The schools increased their sexuality education as well as their self-esteem education. The county health department changed the way that we approach teen pregnancy. Teens who call for birth control are given first priority and seen within 48 hours.

We all focused on reaching that result in our new mechanism, without judging those strategies. So this Act will allow communities to take that flexibility, look at how they can focus on that outcome and change it.

We were successful. We were able to take teen pregnancy from 24 per thousand to 7 per thousand over 5 years. We cannot rest on our laurels. We will have to continue to look at what it is we are doing to keep that teen pregnancy rate down. But it is an effective way of mobilizing your community around an outcome where you can have a true effect on what happens.

I would like to give you another example, which is our Jobs in the Woods Program. Our Jobs in the Woods Program basically takes displaced timber workers and helps them get back in the forest, to restore trees to our land and fish to our streams. The appropriate way to do that is by taking our partners, Federal, State and local partners, and putting all of that energy and resources together—the U.S. Fish and Wildlife, U.S. Forestry, the Oregon Department of Forestry, Tillamook County, and numerous other partners—to help displaced workers work on those lands.

They ran into barriers. They ran into the barrier that you cannot take workers and have them work on State land with Federal dollars, or on Federal land with State dollars and equipment. Those are the kinds of barriers that get in the way of making a difference in our communities.

When we talk about the per capita income in Tillamook County and our ranking, it is being able to get people employed, getting those displaced timber workers back to earning family wage jobs, that will help us take our per capita ranking from 33 out of 36 to a much higher place in that process.

In the last year, we have been able to get workers back on line, but it takes focus on that outcome of what you are trying to accomplish to do that, and we need to help reduce those barriers and the red tape that gets in the way of achieving that result.

One other thing that I would like to say is that as we start to focus on the outcome, we have developed some tools. I have passed out those tools for you. We believe that accountability is important for reaching those goals. We have also found that the tools we have developed—you will see maps in here around a benchmark, a benchmark of teen pregnancy or infant mortality or per capita income, or whatever it might be. Picture yourself as a local county commissioner, sitting there and looking at where your county might be in the State of Oregon in terms of that benchmark. It is being able to watch the numbers flow and focus toward the outcome as you approach that.

So we have developed some tools that make it visible, that make it real, and then you can start to understand how focusing on the outcome can actually make a change. This Act will allow us to do that. It changes the way we do business. It is a paradigm shift, and it helps us focus more on what it is we are trying to accomplish rather than how we got there, and not judging.

In closing, I would like to thank you for the opportunity to come before you and support this bill and ask you to help us put it together in a way that is doable for our communities so that we can reduce the numbers of teens who are pregnant, reduce our welfare caseloads, and work and focus toward that long-term goal that will allow all American communities to have the opportunity that Oregon has had recently to try to pilot this project.

I would be more than happy to answer questions and talk about what we have done.

Chairman STEVENS. Thank you. And you do speak for the National Association of Counties; is that correct?

Ms. CAMERON. Yes, I do.

Chairman STEVENS. That is very interesting. Thank you.

Chairman STEVENS. Ms. Phillips?

TESTIMONY OF GAIL PHILLIPS, SPEAKER, ALASKA STATE HOUSE OF REPRESENTATIVES

Ms. PHILLIPS. Thank you, Mr. Chairman. It is nice to see you again.

I appreciate this opportunity to testify favorably on S. 88, the Local Empowerment and Flexibility Act. Also, I would like to express my appreciation to Senator Hatfield for introducing this legislation.

My name is Gail Phillips, and I am Speaker of the Alaska House of Representatives. Before my legislative service, I also served in local government, at the city council and burrough assembly levels. This background experience gives me the impetus for strongly supporting the concept of this legislation.

Communities around our country are different from one another in many ways. This Act provides a framework which recognizes the differences by providing greater flexibility to local governments to administer the funding.

Federal regulation as administered across the country in many instances is not as effective as it could be, simply because the communities and situations are so different.

Alaska communities in many cases are hit hardest by the unilateral regulation and Federal administration of funding because of

their differences from other localities across the country. Part of this difference is the size of Alaska, its distance from the Continental United States, differences in the size of our communities in the State, such small, small communities, and the lack of a cohesive transportation corridor or transportation network connecting every part of the State.

Many rural communities, as Senator Stevens has already mentioned, simply do not have the wherewithal for implementing any of these Federal regulations. When you have to haul in your drinking water and haul out your human waste, you approach life a lot differently than anybody living in an urban community does.

Rural roads are much, much different in Alaska than they are in other areas of the Continental United States. There are many differences in our health care facilities. Our rural health care provider programs are different than health care provider programs in the Continental United States. Regulations of the Clean Air and Water Acts affect us totally differently than in many other communities.

I was raised in the community of Nome, Alaska, located in the Northwestern Region of Alaska. The differences between Nome, a mining town of about 5,000 people now, and a community like Arlington, Virginia are staggering; yet the Federal regulations that apply to many of the funds that we receive in Alaska are the same for both communities.

Alaska will benefit greatly from this legislation, given the unique situations found in our State and the need to recognize the differences. My constituents are the people of Alaska, and they feel strongly about the need to decentralize Government. I believe the American people feel the same way.

This Act is a great beginning at truly reinventing Government to better serve the needs of its citizens while at the same time maximizing efficiency. Regulatory reform is one of the major goals of many State government entities, and I believe that this bill will help greatly in that respect.

This Act, though, does not give money freely away to local communities. It incorporates checks and balances into the granting of a flexibility plan. I think a strong process for accountability will guarantee its success. If there is not a process for accountability, I do not believe it will be a feasible program.

Local and State government entities need to work together to make certain the program works. If they cannot work together, then they cannot get the program support at the Federal level.

In reading through a transcript on the bill, I have several recommendations that I would like to offer for consideration. First, I would like to suggest that the bill writers consider funding for State government, also, especially in the area of the Federal Transportation Act, the Department of Transportation, in education and in health, and certainly in the Federal Transportation Act where, in Alaska—I will give you one example—we have a highway connecting the Kenai Peninsula to the center of Alaska at Anchorage. This is a greatly used highway in the summertime but not used very much at all in the wintertime. The highway cuts through a very, very small community of about 1,500 people. When the Federal highway requirements for improving and increasing this road

were put into effect, this area of highway that was built through about a 15-mile area had to have 140-some huge highway lights installed, it had to have 5 lanes of traffic. We are talking about a simple highway. It had to have sidewalks on both sides of the road, where there are no people living and no one walking. It had to have all of this money wasted to put in that 15-mile segment of road, and we could have taken that money had we had the flexibility to do something different and certainly paved many, many miles of the unpaved roads we have across Alaska, or even built roads in the villages connecting their dumps to the main part of their communities.

So I think the States need the flexibility in these funding programs just as much as the local governments do.

I also want to again stress that in order for this program to be successful, there does have to be accountability and results orientation.

Also, once the local governments have instituted a program and have a funding mechanism in hand, it is very important that the Federal Government does not try to change the rules later in the game, and change them so drastically that those local governments cannot provide the services again.

I think the Flexibility Council should have representation from the State or local government organizations, and certainly, through the organization of counties or National Council of State Legislators, there are plenty of organizations that should be represented on that council as well.

Then, after developing the list of regulations most frequently waived, I think the Flexibility Council should prepare justification for dismissing those regulations that are most frequently requested for waiving. If, time after time after time, regulations are requested to be waived and do not need to be there, then let us get rid of those regulations. That certainly makes sense to me.

As mentioned earlier, I think some sidebars need to be in place because we have so many communities and local government entities in the United States that could apply for this. So I think you have got to have some sidebars in place to be able to control the requests for flexibility and the idea of regional councils. That sounds like a good plan to me.

I strongly urge the concept for this legislation and again, Mr. Chairman, I appreciate the opportunity to testify.

Chairman STEVENS. Well, thank you very much for joining us today.

The next witness is Mr. Scott Fosler.

TESTIMONY OF R. SCOTT FOSLER, PRESIDENT, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION, WASHINGTON, DC.

Mr. FOSLER. Thank you, Mr. Chairman, and as you indicated, I would request that my written statement be made a part of the record. Today I will highlight several points.

Let me also note that I am basing my testimony on similar testimony that was provided by the Academy's standing panel on the Federal system before the House Subcommittee on Human Resources and Intergovernmental Affairs on H.R. 2086.

The Academy is an independent, nonpartisan, nonprofit organization chartered by Congress to identify emerging issues of governance and to provide practical assistance to Federal, State and local governments to improve their performance. In 1993, we created the Alliance for Redesigning Government to help generate a dramatically more effective system of governance and to look at the kinds of issues addressed in this bill.

Let me note five points that we consider to be especially important about the bill. First, authorizing local flexibility plans creates a powerful incentive for the most innovative local governments and nonprofit organizations to pioneer new approaches to meeting pressing social needs. It will help demonstrate the efficacy of placing greater emphasis on aligning public and nonprofit resources through a bottom-up process.

State governments are also important conduits for categorical programs and providers of services. We would urge you to consider expanding the bill to include State flexibility plans as well.

Second, the bill would require participants to specify goals and measurable performance criteria, manage and report performance against these goals, and provide for a comprehensive evaluation of the impacts and costs. All of these are important steps toward more results-oriented governance systems.

The proposal, however, may benefit from greater specificity on the procedures for ensuring accountability. Evaluation and termination provisions would require annual reports on activities under each approved local flexibility plan. Periodic reporting will be necessary. But it may be better to authorize the Flexibility Council to establish reporting periods appropriate for each individual case.

Further, rather than emphasizing termination of plans when goals and performance criteria have not been met, the proposal should stress prompt consultation between the Federal agencies and the local authorities and the opportunity to adjust both the flexibility plan and its goals based on experience and changing conditions. Ambitious goals may not be met by successful programs, just as modest goals can be met by failing programs.

Third, the bill recognizes the importance of developing databases, planning and evaluation in building more results-oriented governance systems. Policymakers too often assume data are available, reliable, current, and with appropriate geographical coverage to support effective benchmarking, performance monitoring and reporting. This is not generally the case, however. Data systems and collection efforts should be improved to meet the uses envisioned.

Fourth, the proposal creates a feedback system by requiring reports on the Federal regulations most frequently waived under this new authority. Congress should consider giving an "early out" to statutory and administrative restrictions that are identified as outmoded in the course of implementation and evaluation of local flexibility plans. The process used to review and recommend the closure of military bases is one model that may be worth considering for this purpose.

Fifth and finally, Section 10 of the proposal will help ensure that technical assistance will be available to local governments and others involved in designing flexibility plans. This is a desirable feature in view of the complexity and possible inadequate information

available about applying this new approach. While Federal agencies can be an effective provider of such assistance, you might want to consider broadening the range of options by authorizing or directing agencies to support technical assistance provided by others as well.

I would be happy to answer any questions that you may have.

Chairman STEVENS. Thank you, Mr. Fosler.

Mr. Griffiths?

TESTIMONY OF CHARLES GRIFFITHS, DIRECTOR, INTERGOVERNMENTAL LIAISON, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, WASHINGTON, DC.

Mr. GRIFFITHS. Thank you, Mr. Chairman. I appreciate the opportunity to testify on S. 88. Like Mr. Fosler, my comments will be similar to those I gave before the House Subcommittee on H.R. 2086.

I know time is of the essence, and I have a terrible head cold, so I really am going to be very brief.

I am speaking as a member of a staff of the Advisory Commission on Intergovernmental Relations. Our Commission has not taken a position on this bill, and therefore, the comments are those of a professional staff. However, I come from the State of Pennsylvania, where I had extensive State and local experience. I have done just about everything there is to do with grants and Federal programs, so I share much of the frustration that State and local officials will describe to you.

In my written testimony, I provide a number of suggestions for how I believe the bill might be improved, which I will not go into here in detail, but I talk about four criteria that I think are important. One is that whatever approach we use, it should be holistic and not a partial solution.

I have been apprised of Federal reforms over the last 20 years; I have seen them come and go. Some are good, some are bad. But if they had one common weakness, it was that they tried to solve a problem partially, not fully. And when you try to approach a problem in a partial fashion, you are likely to fail.

In this regard, for example, in S. 88, it talks about joining two or more Federal programs. I would add that in many cases, the problem is at the local level, with the need to combine one Federal program with a State program. They do not have that flexibility at this point. Therefore, I have suggested in my testimony that the bill include only one Federal program if it is joined with a State program at the local level.

In the same light, one of the biggest problems of smaller local governments, rural governments, is the streamlining of the Federal planning requirements. If they have more than a single Federal program, they have to go through great cost and time and effort in different planning streams to develop a program.

This bill, if it were to approach this and streamline Federal planning requirements, could allow local governments, for instance, to use one comprehensive plan which they mostly are required to do at the local level, to satisfy a number of Federal planning requirements. This would save cost, time, and everybody would be a lot happier.

Another example in the flexibility area, the bill talks about "eligible local governments." I would like to see that changed to "eligible local applicants," in which you could also include regional bodies, perhaps councils of governments. In the State of Pennsylvania, for example, 90 percent of our governments are under 10,000 in population. They have very few professional staff, they do not have a lot of staff capacity, and therefore they turn to counties or they turn to regional bodies to assist them. This is particularly true in the area of Federal programs. If those bodies were not enabled by this law to provide the flex plan that is required, you will not see those local governments preparing flex plans.

There is also the issue of waiver. The bill actually prohibits waiving Federal match. In fact, I think there is a rationale for doing that in some cases, and I would like to see the bill not be that restrictive.

And then, in the area of complexity, the bill does not address the ability of a single flex plan to satisfy all application requirements of all the programs that are involved. It does not talk to it. That does not necessarily mean that you cannot do it, but I think it needs to be specific that if you submit a flex plan, that satisfies the application requirements of all programs.

I was taking notes during the testimony, and being last, I have the opportunity to go through and answer some of the questions that were raised by the Committee, from my own experience and perspective.

I was a little bit surprised by Senator Hatfield's interpretation of the bill; I guess I had a different one, in some cases, and maybe some of the Committee did, too. But when I heard the figure that 80 percent of all requirements were statutorily generated, that is a problem for me. If that is the case, I believe the bill should be able to waive some statutory requirements in addition to discretionary requirements.

Some of the problems that they are having at the local level are driven by some of those statutory requirements. I gave the example in my last testimony before the House about the different poverty definitions by different Federal laws. If you are a local official who is trying to develop a low-income program utilizing funding from different Federal programs, you are immediately thwarted by the fact that each of those programs has a different definition of what a low-income person is, and therefore, some programs can help them, some programs cannot help them, even if they have common objectives. In this case, they may want to come to the Federal Government and ask if they can waive the statutory requirements in some programs to have one common definition of what a low-income person is. That is the type of waiver I am talking about, and I think they should have that flexibility.

I was also surprised to hear the Senator say the only programs that would be affected by this bill are the ones that recipients already have. I think it should be up-front as well. Most of the discretionary programs, you are going to have to apply for, and you are going to have to have a purpose and performance goals before you get those programs. I do not see why we would exclude the ability of a government to propose a flex plan before they actually get the money as part of the application process.

I do not believe there is going to be a great rush of 89,000 units of local government to do this. There was a concern that the Federal Government would be swamped. I have seen past reforms—some of them are very similar to the ones that this bill is trying to accomplish—and they had to pull teeth to get local governments to do it. There is a natural tendency to be suspicious of these kinds of things. You do not want to get involved in it and find out, all of a sudden, 2 years later, that the program is gone, or they have lost interest in it, and you are out there, hanging, with all this paperwork and consultants and committees and nowhere to go.

I do not believe there is going to be a great rush for this. In fact, I think it is going to take a selling job to get some local governments to do this. So I guess my point here is do not worry about the great wave and tide of local governments rushing in to do this.

On the fraud and abuse issue that Senator Glenn was concerned about, frankly, I have been in the grant business for over 20 years, and I do not believe there will be any more fraud and abuse with this law than there is now, under current law. And I do not think everyone out there is dishonest. Frankly, I do not find as many dishonest people as I find honest people, which is a happy thing.

I believe that the current Federal regulations for fiduciary and fiscal requirements will satisfy Senator Glenn's concerns about the fraud and abuse. All of the IG requirements now and abilities, and all of the things under the Single Audit Act, they all apply to this, so I do not think we are going to have any additional fraud and abuse under this law.

I would be careful about exclusions. I know there is a tendency to want to add exclusions, but again, this is a basic mistrust of human nature. The more exclusions you add to this bill, the less valuable this bill becomes. So I would be careful about the number of exclusions.

Frankly, my point is that if they develop a wonderful flex plan, and it passes muster at the local level, and it is reviewed at the State level, and they like it, and it comes to the Federal Government, and they like it—what is so bad about it? There are enough thresholds here where we can review this and weed out the bad things, and I do not think we have to add a lot of exclusions to it.

The issue about the cost of regulation, Senator Stevens mentioned. Regulations are very costly. That is a great part of State and local administration. When I complained to the Federal Government in my days when I was at the State level, I found that there are really four reasons why we are told for all of these regulations. One is that there is simply a mistrust—you are going to try to gyp me, you are going to try to cheat me, and therefore I am going tie your hands by dotting every "i" and crossing every "t." There is also just the old tradition that we have to have regulations; that is just the way it is.

Another is that Federal agencies will tell you that Congress is the biggest culprit, because they will call those agencies on the carpet and require an accounting, and that if they do not have all this information, and they do not hold your feet to the fire, Congress will get them. And then there are the lawsuits. Everyone is afraid of being sued, so the only way of not being sued is to have regulations in volumes and volumes and volumes, so you can tell the

judge and the court that, "By God, I required this of them, and they did not do it."

So the issue of the cost of regulations is more than just getting rid of them. There are other reasons which we have to look at, other problems.

And finally, on the Flexibility Council, there is a concern about excessive power for it. I suggest in my testimony that the Flexibility Council should have minimal responsibility. I agree with the lead agency concept. I think agencies should take care of these things. If HUD, for instance, is the lead agency, and another program happens to fall over in Commerce, those two should get together to decide on the waiver and whatever is in the flex plan. I think the function of the council should be mainly oversight, information gathering, monitoring, trying to learn from the experiences of these agencies and disseminating that information to other agencies so they can do a better job.

I think the less that 21 agencies have to do with reviewing these things, the better it will be. In fact, I cannot imagine a program that requires 21 agencies to review it. So I really do not see that agency having a central role in the review process.

In my testimony, I also recommend that the States be given more of a role of coordination and review, which would be the first step to advising the Flexibility Council. If the States did more of this, the Flexibility Council would have less to do, it would be less costly, there would be more time for them to deal with the things that Congress asked them to deal with in the first place.

With that, I will stop and answer any questions.

Chairman STEVENS. Thank you very much. You do much better with a cold than I do, I will tell you.

Let me do this. I think it would be helpful if we print the record, which will include the bill, the statements that have been made and reports that have been received, and send them to each of you. You represent the counties, Ms. Cameron, and the National Association of States Legislators, Gail, and I think the National Academy of Public Administration could be very helpful, and I do believe that we would like to see the Advisory Commission on Intergovernmental Relations take a position.

I would like to request that we get this to you—I do not know how long it will take, but let us assume we can get it to you in a week or 10 days or so—and ask you to review this subject and send us, say by the third week of January, suggestions for amendments. Actually get your people to look at it and give us some language as to how you would like to see this bill changed.

We will submit those and discuss them with Senator Hatfield, and hopefully with the House committee also, and see if we can have another hearing, or at least a consensus meeting, you might say, sometime in late January or early February, with the hope that we can get this bill on the calendar sometime in the early part of next year and get it out and get it debated and see if we can get it passed.

I do think we are going to need some specific suggestions for amendments. You have each made some very valid suggestions, and the Deputy Director for Management at the Office of Management and Budget did, also, but I think we would like to see those

suggestions in legislative form, in the form of suggested amendments or deletions to the bill, additions to the bill. We will turn that over to our staff and then have, as I said, either a hearing or a consensus meeting in late January or early February.

I do appreciate all of your suggestions. I do not know how well we are going to be able to print your very interesting series of charts, Ms. Cameron, but we will do our best. I think they make a good point as to how you are proceeding with your situation.

I would like to see more capability for portions of States or States as a whole to move in and get flexibility in certain areas that would cover a whole series of other governments—in other words, if our State did it, all the burroughs and cities of our State could take advantage of that, rather than have each one of them come up to this council and ask for flexibility on something that obviously, for the whole area, needs some flexibility.

So unless you disagree, that is the process I would like to follow. It is quite similar to the one we followed in another instance which worked several years ago. And we may have a couple other entities that we will want to submit this same request to, and I will just write them a letter and ask them if they will participate.

So I do appreciate your help today. I think it has been a good hearing, and I look forward to working with you.

Thank you very much.

[Whereupon, at 12 o'clock p.m., the Committee was adjourned.]

A P P E N D I X

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1ST SESSION

S. 88

To increase the overall economy and efficiency of Government operations and enable more efficient use of Federal funding, by enabling local governments and private, nonprofit organizations to use amounts available under certain Federal assistance programs in accordance with approved local flexibility plans.

IN THE SENATE OF THE UNITED STATES

JANUARY 4, 1995

Mr. HATFIELD introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

A BILL

To increase the overall economy and efficiency of Government operations and enable more efficient use of Federal funding, by enabling local governments and private, nonprofit organizations to use amounts available under certain Federal assistance programs in accordance with approved local flexibility plans.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Local Empowerment
5 and Flexibility Act of 1995".

1 **SEC. 2. FINDINGS.**

2 The Congress finds that—

3 (1) historically, Federal programs have ad-
4 dressed the Nation's problems by providing categor-
5 ical financial assistance with detailed requirements
6 relating to the use of funds;

7 (2) while the assistance described in paragraph
8 (1) has been directed at critical problems, some pro-
9 gram requirements may inadvertently impede the ef-
10 fective delivery of services;

11 (3) the Nation's local governments and private,
12 nonprofit organizations are dealing with increasingly
13 complex problems which require the delivery of many
14 kinds of services;

15 (4) the Nation's communities are diverse, and
16 different needs are present in different communities;

17 (5) it is more important than ever to provide
18 programs that—

19 (A) promote more effective and efficient
20 local delivery of services to meet the full range
21 of needs of individuals, families, and society;

22 (B) respond flexibly to the diverse needs of
23 the Nation's communities;

24 (C) reduce the barriers between programs
25 that impede local governments' ability to effec-
26 tively deliver services; and

1 (D) empower local governments and pri-
2 vate, nonprofit organizations to be innovative in
3 creating programs that meet the unique needs
4 of their communities while continuing to ad-
5 dress national policy goals; and

6 (6) many communities have innovative planning
7 and community involvement strategies for providing
8 services, but Federal, State, and local regulations
9 often hamper full implementation of local plans.

10 **SEC. 3. PURPOSES.**

11 The purposes of this Act are to—

12 (1) enable more efficient use of Federal, State,
13 and local resources;

14 (2) place less emphasis in Federal service pro-
15 grams on measuring resources and procedures and
16 more emphasis on achieving Federal, State, and
17 local policy goals;

18 (3) enable local governments and private, non-
19 profit organizations to adapt programs of Federal fi-
20 nancial assistance to the particular needs of their
21 communities, by—

22 (A) drawing upon appropriations available
23 from more than one Federal program; and

1 (B) integrating programs and program
2 funds across existing Federal financial assist-
3 ance categories; and

4 (4) enable local governments and private, non-
5 profit organizations to work together and build
6 stronger cooperative partnerships to address critical
7 service problems.

8 **SEC. 4. DEFINITIONS.**

9 For purposes of this Act—

10 (1) the term “approved local flexibility plan”
11 means a local flexibility plan that combines funds
12 from Federal, State, local government or private
13 sources to address the service needs of a community
14 (or any part of such a plan) that is approved by the
15 Flexibility Council under section 5;

16 (2) the term “community advisory committee”
17 means such a committee established by a local gov-
18 ernment under section 9;

19 (3) the term “Flexibility Council” means the
20 council composed of the—

21 (A) Assistant to the President for Domes-
22 tic Policy;

23 (B) Assistant to the President for Eco-
24 nomic Policy;

25 (C) Secretary of the Treasury;

- 1 (D) Attorney General;
- 2 (E) Secretary of the Interior;
- 3 (F) Secretary of Agriculture;
- 4 (G) Secretary of Commerce;
- 5 (H) Secretary of Labor;
- 6 (I) Secretary of Health and Human Serv-
- 7 ices;
- 8 (J) Secretary of Housing and Urban De-
- 9 velopment;
- 10 (K) Secretary of Transportation;
- 11 (L) Secretary of Education;
- 12 (M) Secretary of Energy;
- 13 (N) Secretary of Veterans Affairs;
- 14 (O) Secretary of Defense;
- 15 (P) Director of Federal Emergency Man-
- 16 agement Agency;
- 17 (Q) Administrator of the Environmental
- 18 Protection Agency;
- 19 (R) Director of National Drug Control
- 20 Policy;
- 21 (S) Administrator of the Small Business
- 22 Administration;
- 23 (T) Director of the Office of Management
- 24 and Budget; and

1 (U) Chair of the Council of Economic Ad-
2 visers.

3 (4) the term “covered Federal financial assist-
4 ance program” means an eligible Federal financial
5 assistance program that is included in a local flexi-
6 bility plan of a local government;

7 (5) the term “eligible Federal financial assist-
8 ance program”—

9 (A) means a Federal program under which
10 financial assistance is available, directly or indi-
11 rectly, to a local government or a qualified or-
12 ganization to carry out the specified program;
13 and

14 (B) does not include a Federal program
15 under which financial assistance is provided by
16 the Federal Government directly to a bene-
17 ficiary of that financial assistance or to a State
18 as a direct payment to an individual;

19 (6) the term “eligible local government” means
20 a local government that is eligible to receive finan-
21 cial assistance under 1 or more covered Federal pro-
22 grams;

23 (7) the term “local flexibility plan” means a
24 comprehensive plan for the integration and adminis-
25 tration by a local government of financial assistance

1 provided by the Federal Government under 2 or
2 more eligible Federal financial assistance programs;

3 (8) the term “local government” means a sub-
4 division of a State that is a unit of general local gov-
5 ernment (as defined under section 6501 of title 31,
6 United States Code);

7 (9) the term “priority funding” means giving
8 higher priority (including by the assignment of extra
9 points, if applicable) to applications for Federal fi-
10 nancial assistance submitted by a local government
11 having an approved local flexibility program, by—

12 (A) a person located in the jurisdiction of
13 such a government; or

14 (B) a qualified organization eligible for as-
15 sistance under a covered Federal financial as-
16 sistance program included in such a plan;

17 (10) the term “qualified organization” means a
18 private, nonprofit organization described in section
19 501(c)(3) of the Internal Revenue Code of 1986 that
20 is exempt from taxation under section 501(a) of the
21 Internal Revenue Code of 1986; and

22 (11) the term “State” means the 50 States, the
23 District of Columbia, Puerto Rico, American Samoa,
24 Guam, and the Virgin Islands.

1 **SEC. 5. PROVISION OF FEDERAL FINANCIAL ASSISTANCE IN**
2 **ACCORDANCE WITH APPROVED LOCAL**
3 **FLEXIBILITY PLAN.**

4 (a) **PAYMENTS TO LOCAL GOVERNMENTS.**—Notwith-
5 standing any other provision of law, amounts available to
6 a local government or a qualified organization under a cov-
7 ered Federal financial assistance program included in an
8 approved local flexibility plan shall be provided to and
9 used by the local government or organization in accord-
10 ance with the approved local flexibility plan.

11 (b) **ELIGIBILITY FOR BENEFITS.**—An individual or
12 family that is eligible for benefits or services under a cov-
13 ered Federal financial assistance program included in an
14 approved local flexibility plan may receive those benefits
15 only in accordance with the approved local flexibility plan.

16 **SEC. 6. APPLICATION FOR APPROVAL OF LOCAL FLEXIBIL-**
17 **ITY PLAN.**

18 (a) **IN GENERAL.**—A local government may submit
19 to the Flexibility Council in accordance with this section
20 an application for approval of a local flexibility plan.

21 (b) **CONTENTS OF APPLICATION.**—An application
22 submitted under this section shall include—

23 (1)(A) a proposed local flexibility plan that
24 complies with subsection (c); or

25 (B) a strategic plan submitted in application
26 for designation as an enterprise community or an

1 empowerment zone under section 1391 of the Inter-
2 nal Revenue Code of 1986;

3 (2) certification by the chief executive of the
4 local government, and such additional assurances as
5 may be required by the Flexibility Council, that—

6 (A) the local government has the ability
7 and authority to implement the proposed plan,
8 directly or through contractual or other ar-
9 rangements, throughout the geographic area in
10 which the proposed plan is intended to apply;
11 and

12 (B) amounts are available from non-Fed-
13 eral sources to pay the non-Federal share of all
14 covered Federal financial assistance programs
15 included in the proposed plan; and

16 (3) any comments on the proposed plan submit-
17 ted under subsection (d) by the Governor of the
18 State in which the local government is located;

19 (4) public comments on the plan including the
20 transcript of at least 1 public hearing and comments
21 of the appropriate community advisory committee
22 established under section 9; and

23 (5) other relevant information the Flexibility
24 Council may require to approve the proposed plan.

1 (c) CONTENTS OF PLAN.—A local flexibility plan sub-
2 mitted by a local government under this section shall
3 include—

4 (1) the geographic area to which the plan ap-
5 plies and the rationale for defining the area;

6 (2) the particular groups of individuals, by serv-
7 ice needs, economic circumstances, or other defining
8 factors, who shall receive services and benefits under
9 the plan;

10 (3)(A) specific goals and measurable perform-
11 ance criteria, a description of how the plan is ex-
12 pected to attain those goals and criteria;

13 (B) a description of how performance shall be
14 measured; and

15 (C) a system for the comprehensive evaluation
16 of the impact of the plan on participants, the com-
17 munity, and program costs;

18 (4) the eligible Federal financial assistance pro-
19 grams to be included in the plan as covered Federal
20 financial assistance programs and the specific bene-
21 fits that shall be provided under the plan under such
22 programs, including—

23 (A) criteria for determining eligibility for
24 benefits under the plan;

25 (B) the services available;

1 (C) the amounts and form (such as cash,
2 in-kind contributions, or financial instruments)
3 of nonservice benefits; and

4 (D) any other descriptive information the
5 Flexibility Council considers necessary to ap-
6 prove the plan;

7 (5) except for the requirements under section
8 8(b)(3), any Federal statutory or regulatory require-
9 ment applicable under a covered Federal financial
10 assistance program included in the plan, the waiver
11 of which is necessary to implement the plan;

12 (6) fiscal control and related accountability pro-
13 cedures applicable under the plan;

14 (7) a description of the sources of all non-Fed-
15 eral funds that are required to carry out covered
16 Federal financial assistance programs included in
17 the plan;

18 (8) written consent from each qualified organi-
19 zation for which consent is required under section
20 6(b)(2); and

21 (9) other relevant information the Flexibility
22 Council may require to approve the plan.

23 (d) PROCEDURE FOR APPLYING.—(1) To apply for
24 approval of a local flexibility plan, a local government shall
25 submit an application in accordance with this section to

1 the Governor of the State in which the local government
2 is located.

3 (2) A Governor who receives an application from a
4 local government under paragraph (1) may, by no later
5 than 30 days after the date of that receipt—

6 (A) prepare comments on the proposed local
7 flexibility plan included in the application;

8 (B) describe any State laws which are necessary
9 to waive for successful implementation of a local
10 plan; and

11 (C) submit the application and comments to the
12 Flexibility Council.

13 (3) If a Governor fails to act within 30 days after
14 receiving an application under paragraph (2), the applica-
15 ble local government may submit the application to the
16 Flexibility Council.

17 **SEC. 7. REVIEW AND APPROVAL OF LOCAL FLEXIBILITY**
18 **PLANS.**

19 (a) **REVIEW OF APPLICATIONS.**—Upon receipt of an
20 application for approval of a local flexibility plan under
21 this Act, the Flexibility Council shall—

22 (1) approve or disapprove all or part of the plan
23 within 45 days after receipt of the application;

1 (2) notify the applicant in writing of that ap-
2 proval or disapproval by not later than 15 days after
3 the date of that approval or disapproval; and

4 (3) in the case of any disapproval of a plan, in-
5 clude a written justification of the reasons for dis-
6 approval in the notice of disapproval sent to the
7 applicant.

8 (b) APPROVAL.—(1) The Flexibility Council may ap-
9 prove a local flexibility plan for which an application is
10 submitted under this Act, or any part of such a plan, if
11 a majority of members of the Council determines that—

12 (A) the plan or part shall improve the effective-
13 ness and efficiency of providing benefits under cov-
14 ered Federal programs included in the plan by re-
15 ducing administrative inflexibility, duplication, and
16 unnecessary expenditures;

17 (B) the applicant local government has ade-
18 quately considered, and the plan or part of the plan
19 appropriately addresses, any effect that administra-
20 tion of each covered Federal program under the plan
21 or part of the plan shall have on administration of
22 the other covered Federal programs under that plan
23 or part of the plan;

24 (C) the applicant local government has or is de-
25 veloping data bases, planning, and evaluation proc-

1 esses that are adequate for implementing the plan or
2 part of the plan;

3 (D) the plan shall more effectively achieve Fed-
4 eral financial assistance goals at the local level and
5 shall better meet the needs of local citizens;

6 (E) implementation of the plan or part of the
7 plan shall adequately achieve the purposes of this
8 Act and of each covered Federal financial assistance
9 program under the plan or part of the plan;

10 (F) the plan and the application for approval of
11 the plan comply with the requirements of this Act;

12 (G) the plan or part of the plan is adequate to
13 ensure that individuals and families that receive ben-
14 efits under covered Federal financial assistance pro-
15 grams included in the plan or part shall continue to
16 receive benefits that meet the needs intended to be
17 met under the program; and

18 (H) the local government has—

19 (i) waived the corresponding local laws nec-
20 essary for implementation of the plan; and

21 (ii) sought any necessary waivers from the
22 State.

23 (2) The Flexibility Council may not approve any part
24 of a local flexibility plan if—

1 (A) implementation of that part would result in
2 any increase in the total amount of obligations or
3 outlays of discretionary appropriations or direct
4 spending under covered Federal financial assistance
5 programs included in that part, over the amounts of
6 such obligations and outlays that would occur under
7 those programs without implementation of the part;
8 or

9 (B) in the case of a plan or part that applies
10 to assistance to a qualified organization under an el-
11 igible Federal financial assistance program, the
12 qualified organization does not consent in writing to
13 the receipt of that assistance in accordance with the
14 plan.

15 (3) The Flexibility Council shall disapprove a part of
16 a local flexibility plan if a majority of the Council dis-
17 approves that part of the plan based on a failure of the
18 part to comply with paragraph (1).

19 (4) In approving any part of a local flexibility plan,
20 the Flexibility Council shall specify the period during
21 which the part is effective. An approved local flexibility
22 plan shall not be effective after the date of the termination
23 of effectiveness of this Act under section 13.

24 (5) Disapproval by the Flexibility Council of any part
25 of a local flexibility plan submitted by a local government

1 under this Act shall not affect the eligibility of a local gov-
2 ernment, a qualified organization, or any individual for
3 benefits under any Federal program.

4 (c) MEMORANDA OF UNDERSTANDING.—(1) The
5 Flexibility Council may not approve a part of a local flexi-
6 bility plan unless each local government and each qualified
7 organization that would receive financial assistance under
8 the plan enters into a memorandum of understanding
9 under this subsection with the Flexibility Council.

10 (2) A memorandum of understanding under this sub-
11 section shall specify all understandings that have been
12 reached by the Flexibility Council, the local government,
13 and each qualified organization that is subject to a local
14 flexibility plan, regarding the approval and implementa-
15 tion of all parts of a local flexibility plan that are the sub-
16 ject of the memorandum, including understandings with
17 respect to—

18 (A) all requirements under covered Federal fi-
19 nancial assistance programs that are to be waived by
20 the Flexibility Council under section 8(b);

21 (B)(i) the total amount of Federal funds that
22 shall be provided as benefits under or used to ad-
23 minister covered Federal financial assistance pro-
24 grams included in those parts; or

1 (ii) a mechanism for determining that amount,
2 including specification of the total amount of Fed-
3 eral funds that shall be provided or used under each
4 covered Federal financial assistance program in-
5 cluded in those parts;

6 (C) the sources of all non-Federal funds that
7 shall be provided as benefits under or used to ad-
8 minister those parts;

9 (D) measurable performance criteria that shall
10 be used during the term of those parts to determine
11 the extent to which the goals and performance levels
12 of the parts are achieved; and

13 (E) the data to be collected to make that deter-
14 mination.

15 (d) LIMITATION ON CONFIDENTIALITY REQUIRE-
16 MENTS.—The Flexibility Council may not, as a condition
17 of approval of any part of a local flexibility plan or with
18 respect to the implementation of any part of an approved
19 local flexibility plan, establish any confidentiality require-
20 ment that would—

21 (1) impede the exchange of information needed
22 for the design or provision of benefits under the
23 parts; or

24 (2) conflict with law.

1 **SEC. 8. IMPLEMENTATION OF APPROVED LOCAL FLEXIBIL-**
2 **ITY PLANS; WAIVER OF REQUIREMENTS.**

3 (a) **PAYMENTS AND ADMINISTRATION IN ACCORD-**
4 **ANCE WITH PLAN.**—Notwithstanding any other law, any
5 benefit that is provided under a covered Federal financial
6 assistance program included in an approved local flexibil-
7 ity plan shall be paid and administered in the manner
8 specified in the approved local flexibility plan.

9 (b) **WAIVER OF REQUIREMENTS.**—(1) Notwithstand-
10 ing any other law and subject to paragraphs (2) and (3),
11 the Flexibility Council may waive any requirement applica-
12 ble under Federal law to the administration of, or provi-
13 sion of benefits under, any covered Federal assistance pro-
14 gram included in an approved local flexibility plan, if that
15 waiver is—

16 (A) reasonably necessary for the implementa-
17 tion of the plan; and

18 (B) approved by a majority of members of the
19 Flexibility Council.

20 (2) The Flexibility Council may not waive a require-
21 ment under this subsection unless the Council finds that
22 waiver of the requirement shall not result in a qualitative
23 reduction in services or benefits for any individual or fam-
24 ily that is eligible for benefits under a covered Federal fi-
25 nancial assistance program.

1 (3) The Flexibility Council may not waive any re-
2 quirement under this subsection—

3 (A) that enforces any constitutional or statu-
4 tory right of an individual, including any right
5 under—

6 (i) title VI of the Civil Rights Act of 1964
7 (42 U.S.C. 2000d et seq.);

8 (ii) section 504 of the Rehabilitation Act of
9 1973 (29 U.S.C. 701 et seq.);

10 (iii) title IX of the Education Amendments
11 of 1972 (86 Stat. 373 et seq.);

12 (iv) the Age Discrimination Act of 1975
13 (42 U.S.C. 6101 et seq.); or

14 (v) the Americans with Disabilities Act of
15 1990;

16 (B) for payment of a non-Federal share of
17 funding of an activity under a covered Federal fi-
18 nancial assistance program; or

19 (C) for grants received on a maintenance of ef-
20 fort basis.

21 (c) SPECIAL ASSISTANCE.—To the extent permitted
22 by law, the head of each Federal agency shall seek to pro-
23 vide special assistance to a local government or qualified
24 organization to support implementation of an approved

1 local flexibility plan, including expedited processing, prior-
2 ity funding, and technical assistance.

3 (d) EVALUATION AND TERMINATION.—(1) A local
4 government, in accordance with regulations issued by the
5 Flexibility Council, shall—

6 (A) submit such reports on and cooperate in
7 such audits of the implementation of its approved
8 local flexibility plan; and

9 (B) periodically evaluate the effect implementa-
10 tion of the plan has had on—

11 (i) individuals who receive benefits under
12 the plan;

13 (ii) communities in which those individuals
14 live; and

15 (iii) costs of administering covered Federal
16 financial assistance programs included in the
17 plan.

18 (2) No later than 90 days after the end of the 1-
19 year period beginning on the date of the approval by the
20 Flexibility Council of an approved local flexibility plan of
21 a local government, and annually thereafter, the local gov-
22 ernment shall submit to the Flexibility Council a report
23 on the principal activities and achievements under the plan
24 during the period covered by the report, comparing those

1 achievements to the goals and performance criteria in-
2 cluded in the plan under section 6(c)(3).

3 (3)(A) The Flexibility Council may terminate the ef-
4 fectiveness of an approved local flexibility plan, if the
5 Flexibility Council, after consultation with the head of
6 each Federal agency responsible for administering a cov-
7 ered Federal financial assistance program included in
8 such, determines—

9 (i) that the goals and performance criteria in-
10 cluded in the plan under section 6(c)(3) have not
11 been met; and

12 (ii) after considering any experiences gained in
13 implementation of the plan, that those goals and cri-
14 teria are sound.

15 (B) In terminating the effectiveness of an approved
16 local flexibility plan under this paragraph, the Flexibility
17 Council shall allow a reasonable period of time for appro-
18 priate Federal, State, and local agencies and qualified or-
19 ganizations to resume administration of Federal programs
20 that are covered Federal financial assistance programs in-
21 cluded in the plan.

22 (e) FINAL REPORT; EXTENSION OF PLANS.—(1) No
23 later than 45 days after the end of the effective period
24 of an approved local flexibility plan of a local government,
25 or at any time that the local government determines that

1 the plan has demonstrated its worth, the local government
 2 shall submit to the Flexibility Council a final report on
 3 its implementation of the plan, including a full evaluation
 4 of the successes and shortcomings of the plan and the ef-
 5 fects of that implementation on individuals who receive
 6 benefits under those programs.

7 (2) The Flexibility Council may extend the effective
 8 period of an approved local flexibility plan for such period
 9 as may be appropriate, based on the report of a local gov-
 10 ernment under paragraph (1).

11 **SEC. 9. COMMUNITY ADVISORY COMMITTEES.**

12 (a) ESTABLISHMENT.—A local government that ap-
 13 plies for approval of a local flexibility plan under this Act
 14 shall establish a community advisory committee in accord-
 15 ance with this section.

16 (b) FUNCTIONS.—A community advisory committee
 17 shall advise a local government in the development and
 18 implementation of its local flexibility plan, including advice
 19 with respect to—

20 (1) conducting public hearings; and

21 (2) reviewing and commenting on all commu-
 22 nity policies, programs, and actions under the plan
 23 which affect low income individuals and families,
 24 with the purpose of ensuring maximum coordination

1 and responsiveness of the plan in providing benefits
2 under the plan to those individuals and families.

3 (c) MEMBERSHIP.—The membership of a community
4 advisory committee shall—

5 (1) consist of—

6 (A) persons with leadership experience in
7 the private and voluntary sectors;

8 (B) local elected officials;

9 (C) representatives of participating quali-
10 fied organizations; and

11 (D) the general public; and

12 (2) include individuals and representatives of
13 community organizations who shall help to enhance
14 the leadership role of the local government in devel-
15 oping a local flexibility plan.

16 (d) OPPORTUNITY FOR REVIEW AND COMMENT BY
17 COMMITTEE.—Before submitting an application for ap-
18 proval of a final proposed local flexibility plan, a local gov-
19 ernment shall submit the final proposed plan for review
20 and comment by a community advisory committee estab-
21 lished by the local government.

22 (e) COMMITTEE REVIEW OF REPORTS.—Before sub-
23 mitting annual or final reports on an approved Federal
24 assistance plan, a local government or private nonprofit

1 organization shall submit the report for review and com-
2 ment to the community advisory committee.

3 **SEC. 10. TECHNICAL AND OTHER ASSISTANCE.**

4 (a) TECHNICAL ASSISTANCE.—(1) The Flexibility
5 Council may provide, or direct that the head of a Federal
6 agency provide, technical assistance to a local government
7 or qualified organization in developing information nec-
8 essary for the design or implementation of a local flexibil-
9 ity plan.

10 (2) Assistance may be provided under this subsection
11 if a local government makes a request that includes, in
12 accordance with requirements established by the Flexibil-
13 ity Council—

14 (A) a description of the local flexibility plan the
15 local government proposes to develop;

16 (B) a description of the groups of individuals to
17 whom benefits shall be provided under covered Fed-
18 eral assistance programs included in the plan; and

19 (C) such assurances as the Flexibility Council
20 may require that—

21 (i) in the development of the application to
22 be submitted under this title for approval of the
23 plan, the local government shall provide ade-
24 quate opportunities to participate to—

1 (I) individuals and families that shall
2 receive benefits under covered Federal fi-
3 nancial assistance programs included in
4 the plan; and

5 (II) governmental agencies that ad-
6 minister those programs; and

7 (ii) the plan shall be developed after con-
8 sidering fully—

9 (I) needs expressed by those individ-
10 uals and families;

11 (II) community priorities; and

12 (III) available governmental resources
13 in the geographic area to which the plan
14 shall apply.

15 (b) DETAILS TO COUNCIL.—At the request of the
16 Flexibility Council and with the approval of an agency
17 head who is a member of the Council, agency staff may
18 be detailed to the Flexibility Council on a nonreimbursable
19 basis.

20 **SEC. 11. FLEXIBILITY COUNCIL.**

21 (a) FUNCTIONS.—The Flexibility Council shall—

22 (1) receive, review, and approve or disapprove
23 local flexibility plans for which approval is sought
24 under this Act;

1 (2) upon request from an applicant for such ap-
2 proval, direct the head of an agency that administers
3 a covered Federal financial assistance program
4 under which substantial Federal financial assistance
5 would be provided under the plan to provide tech-
6 nical assistance to the applicant;

7 (3) monitor the progress of development and
8 implementation of local flexibility plans;

9 (4) perform such other functions as are as-
10 signed to the Flexibility Council by this Act; and

11 (5) issue regulations to implement this Act
12 within 180 days after the date of its enactment.

13 (b) **REPORTS.**—No less than 18 months after the
14 date of the enactment of this Act, and annually thereafter,
15 the Flexibility Council shall submit a report on the 5 Fed-
16 eral regulations that are most frequently waived by the
17 Flexibility Council for local governments with approved
18 local flexibility plans to the President and the Congress.
19 The President shall review the report and determine
20 whether to amend or terminate such Federal regulations.

21 **SEC. 12. REPORT.**

22 No later than 54 months after the date of the enact-
23 ment of this Act, the Comptroller General of the United
24 States shall submit to the Congress, a report that—

1 (1) describes the extent to which local govern-
2 ments have established and implemented approved
3 local flexibility plans;

4 (2) evaluates the effectiveness of covered Fed-
5 eral assistance programs included in approved local
6 flexibility plans; and

7 (3) includes recommendations with respect to
8 local flexibility.

9 **SEC. 13. CONDITIONAL TERMINATION.**

10 This Act is repealed on the date that is 5 years after
11 the date of the enactment of this Act unless extended by
12 the Congress through the enactment of the resolution de-
13 scribed under section 14.

14 **SEC. 14. JOINT RESOLUTION FOR THE CONTINUATION AND**
15 **EXPANSION OF LOCAL FLEXIBILITY PRO-**
16 **GRAMS.**

17 (a) DESCRIPTION OF RESOLUTION.—A resolution re-
18 ferred to under section 13 is a joint resolution the matter
19 after the resolving clause is as follows: “That Congress
20 approves the application of local flexibility plans to all
21 local governments in the United States in accordance with
22 the Local Empowerment and Flexibility Act of 1995, and
23 that—

1 “(1) if the provisions of such Act have not been
2 repealed under section 13 of such Act, such provi-
3 sions shall remain in effect; and

4 “(2) if the repeal under section 13 of such Act
5 has taken effect, the provisions of such Act shall be
6 effective as though such provisions had not been re-
7 pealed.”.

8 (b) INTRODUCTION.—No later than 30 days after the
9 transmittal by the Comptroller General of the United
10 States to the Congress of the report required in section
11 12, a resolution as described under subsection (a) shall
12 be introduced in the Senate by the chairman of the Com-
13 mittee on Governmental Affairs, or by a Member or Mem-
14 bers of the Senate designated by such chairman, and shall
15 be introduced in the House of Representatives by the
16 Chairman of the Committee on Government Operations,
17 or by a Member or Members of the House of Representa-
18 tives designated by such chairman.

19 (c) REFERRAL.—A resolution as described under sub-
20 section (a) shall be referred to the Committee on Govern-
21 mental Affairs of the Senate and the Committee on Gov-
22 ernment Operations of the House of Representatives. The
23 committee shall make its recommendations to the Senate
24 or House of Representatives within 30 calendar days of
25 the date of such resolution’s introduction.

1 (d) DISCHARGE FROM COMMITTEE.—If the commit-
2 tee to which a resolution is referred has not reported such
3 resolution at the end of 30 calendar days after its intro-
4 duction, that committee shall be deemed to be discharged
5 from further consideration of such resolution and such
6 resolution shall be placed on the appropriate calendar of
7 the House involved.

8 (e) VOTE ON FINAL PASSAGE.—When the committee
9 has reported or has been deemed to be discharged from
10 further consideration of a resolution described under sub-
11 section (a), it is at any time thereafter in order for any
12 Member of the respective House to move to proceed to
13 the consideration of the resolution.

14 (f) RULES OF THE SENATE AND HOUSE.—This sec-
15 tion is enacted by Congress—

16 (1) as an exercise of the rulemaking power of
17 the Senate and House of Representatives, respec-
18 tively, and as such it is deemed a part of the rules
19 of each House, respectively, but applicable only with
20 respect to the procedure to be followed in that
21 House in the case of a resolution described in sub-
22 section (a), and it supersedes other rules only to the
23 extent that it is inconsistent with such rules; and

24 (2) with full recognition of the constitutional
25 right of either House to change the rules (so far as

- 1 relating to the procedure of that House) at any time,
- 2 in the same manner, and to the same extent as in
- 3 the case of any other rule of that House.

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PREPARED STATEMENT OF SENATOR HATFIELD

I would first like to thank Chairman Stevens for scheduling this hearing today and for inviting me here to testify. As the Committee is aware, the House Subcommittee on Human Resources and Intergovernmental Relations has already conducted two hearings on companion legislation, H.R. 2086, introduced in the House by Chairman Clinger and Subcommittee Chairman Shays.

My motivation for introducing S. 88, The Local Empowerment and Flexibility Act of 1995, is two fold. First as a former governor of Oregon, I experienced the frustration expressed by many State and local authorities when federal policies do not make sense for their particular communities. Blanket standards from the Federal Government are incapable of taking into consideration the diversities of each locality. National policy objectives often stifle creativity at the State and local level because authorities are compelled to comply with rigid federal stipulations. Secondly, as an Appropriator, I have witnessed first hand the shrinking pool of federal resources for local and State governments. This decline is unavoidable and we must now concentrate our efforts to making the most of the scarce dollars that are available.

As the debate over how to balance the federal budget continues, it is important to remember that long-term fiscal responsibility should not only depend upon cuts in spending. It demands a radical transformation in the way we do business as a government. Business as usual is no longer sufficient. We have finally realized that we can no longer spend more than we have, and the next step is to look to the innovators at the State and local level to see how they are making limited resources go further. From my experience as governor I have discovered that it is on these levels that much of the innovation and creativity in government takes place.

The federal budget outlook is growing increasingly bleak. Nondefense discretionary spending will decline 12 percent from 1995 spending levels by the year 2002, shrinking from its current level of 18 percent of the total federal budget, to 13 percent in 2002. As the attached chart indicates, total outlays in discretionary spending as a percentage of GDP have declined from 13.5 in 1962 to a projected 6 percent in the year 2000. It is this block of shrinking dollars that fund the grant programs that benefit local governments. In our efforts to reduce the deficit, discretionary dollars are becoming scarce. Faced with declining resources, we must turn our attention to developing the most efficient allocation of these dollars.

Permit me to provide one example from my home State that demonstrates a poor allocation of federal dollars. As a result of the Crime bill passed last year, Marion County in Oregon was the recipient of additional federal funds. These funds were a welcome addition to the community but the money came with many strings attached that prohibited the county from spending it where it was needed. Instead of using the funds to hire additional corrections officers to deal with the growing number of prisoners, the county was directed by federal law to spend the money only for hiring additional police. This federal mandate did not serve the best interests of the community of Marion County in their effort to fight crime. This example highlights the need for providing increased flexibility for State and local governments. The Federal Government was willing to spend federal dollars to help, but without flexibility, the needs of the county could not be addressed.

The Federal Government should compliment not hinder the efforts of innovators on the local level. The need to provide flexibility to local and State governments is immense. These localities need to be able to use their acquired funds in a manner suitable to the needs of their communities. While I was pleased with the passing of the Unfunded Mandates Reform Act of 1995, Congress has failed to examine the existing regulations that continue to hamper the innovation of local authorities. We need to replace program compliance and regulatory rigidity with local flexibility.

There are four crucial aspects to The Local Empowerment and Flexibility Act. First, different governments of this Nation have different strengths. The Federal Government does two things well: effectively establishing broad goals that tie us together as a Nation and achieving certain economies of scale which cannot be attained at the local level. The Federal Government often forgets that local governments bring a great deal of resources to the table. Perhaps the greatest strength is that States and local governments are innovators. Local and State governments have demonstrated again and again that they find the most creative ways to tackle problems in solutions that fit the local context. Local governments are eligible for hundreds of separate federal categorical grants to provide services and implement federal programs. The number of these categorical grants has skyrocketed in the last decades. In 1972 there were 422 different types of categorical grants compared with 1993 in which there were a total 578. These grants often encumber local government with burdensome stipulations and requirements.

Secondly, the Local Empowerment and Flexibility Act will not only permit variation in how local governments meet national goals, but it will encourage solutions that best fit the local context. Federal laws and regulations have tended to treat every area of the county the same. Universal requirements force Congress to legislate to the lowest common denominator, and consequently, few governments perform to their full capability. We all strive to meet the average instead of to excel. Politically, socially, structurally, local and State governments are very different from one another. Adding flexibility to the Federal/State relationship will encourage local governments to find solutions that fit the local context. In addition, providing flexibility will eliminate regulations that force local governments to "solve" problems that they do not have. Many programs are narrowly designed which means dollars end up mired in audits and record-keeping rather than directed to meet community needs. While the well-intentioned programs of the New Deal and the Great Society put safety nets in place for those who are in greatest need, these nets now strangle local, State, and Federal Governments by tying up precious funding in a knot of regulations and poor management.

Thirdly, this legislation will create a new system of accountability. Currently, the Federal Government holds State and local governments accountable through regulation, procedures and paperwork. The existing accountability structure is very good at determining where federal money is spent, but it tells us very little about whether we are actually achieving results. Hundreds of hours and scarce dollars are invested in complying with these regulations, and the investment in bureaucratic processes does nothing to improve the quality of services that we deliver to citizens. Moreover, our current structure of accountability has made us very responsive to each other, rather than to the people we serve. We need to re-orient our system of government to view taxpayers as investors and our citizens as customers of the business of government.

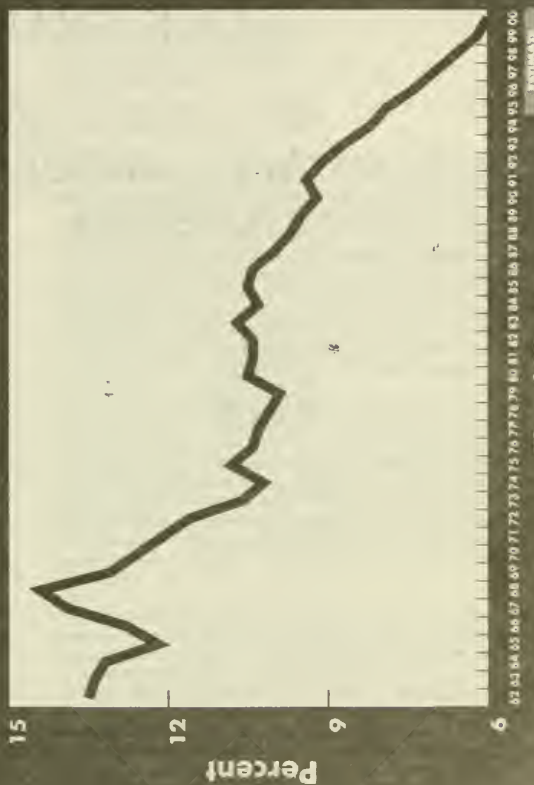
Finally, we must also help re-tool all governments for this new relationship. We need to re-equip our nation's governments to function in a new cooperative environment. The federal bureaucracies need to re-create the ability to listen to local governments. In the 1980s, we witnessed the destruction of the "intergovernmental" affairs offices at most federal agencies. The Federal Government must actively solicit and use the ideas and experience of State and local governments.

This legislation is designed to create a new spirit of cooperation among federal, State, and local governments. It will lead to strategic and realistic decentralization and deconcentration of power throughout the government. Governments will be allowed to combine their different strengths to achieve their objectives. It will also permit variation in how local governments meet national goals, encouraging solutions that best fit the local context.

The Republican-controlled Congress has committed itself to a more efficient, cost-effective approach to governing. This commitment is highlighted in a letter sent to the President in December of last year signed by Senate Majority Leader Bob Dole, and Speaker of the House, Newt Gingrich. The letter suggests that the President, "recommend actions to give State, local, or tribal governments more flexibility to meet federally-imposed responsibilities." Providing local flexibility has also enjoyed a wide array of bipartisan support. In February of 1994, the Senate voted 97-0 in favor of a demonstration project for education flexibility along the same lines as this legislation. While that project provided for 6 test sites throughout the country, due to its effectiveness, all 50 States have expressed interest in the program. I have also received a letter from Vice President Gore stating the administration's support of "efforts to empower communities to take charge of their own destinies and to remove Federal impediments that constrain innovation, experimentation, and entrepreneurship at the local level."

I would like to thank the Committee again for the opportunity to testify. I look forward to seeing the Local Empowerment and Flexibility of 1995 become the launching point for this country's greatest innovators, the State and local government of this nation.

Discretionary Outlays As a Percent of GDP



Fiscal Years

61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00

ESTIMATES

United States General Accounting Office

GAO

Report to the Chairman, Committee on
Finance, U.S. Senate

September 1995

BLOCK GRANTS

Issues in Designing Accountability Provisions



GAO/AIMD-95-226

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-265754

September 1, 1995

The Honorable Bob Packwood
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

The Congress has shown a strong interest in consolidating narrowly defined categorical grant programs for specific purposes into broader purpose block grants. The fiscal year 1996 budget resolution explicitly assumes enactment of a number of such consolidations. The Congress is also considering proposals to block grant Medicaid, Aid to Families with Dependent Children (AFDC), and other entitlement programs in order to both limit federal budgetary exposure and increase state flexibility. A total of 15 block grant programs with funding of \$35 billion were in effect in fiscal year 1994, constituting a small portion of the total federal aid to states, \$239 billion for about 593 programs. However, if Medicaid and AFDC are added, block grant spending could rise substantially—to as much as \$138 billion or about 58 percent of total federal aid to states.

As demonstrated in the past, such basic changes in the grant structure can significantly alter federal and state and local government relationships. In contrast to categorical programs that are consolidated, block grants provide significant additional discretion for states and localities to define and implement federal programs in light of local needs and conditions. However, unlike prior block grant initiatives, some of the health and welfare programs presently under consideration are entitlement programs with open-ended funding. Accordingly, they would pose much larger implementation challenges and implications for intergovernmental relations.

In response to your request that we synthesize our past work on block grant and accountability issues, this report summarizes information on how accountability for financial management and program performance can be designed to fit a block grant approach and the potential consequences flowing from such provisions. To provide an overview and summary of our evaluations of past block grant programs, we reviewed nearly two decades of reports, evaluations, testimony, and other GAO correspondence on accountability issues related to intergovernmental programs. In addition, we consulted with experts on block grants, performance budgeting, and financial accountability.

Results in Brief

Building accountability into the newly proposed block grants is an important, but difficult, task requiring trade-offs between federal and state control over program finances, activities, and administration. More prescriptive federal requirements can limit the states' ability to implement block grants in an integrated and efficient fashion. But fewer federal financial and programmatic accountability provisions can limit federal goals and lead to reduced funding and/or recategorization. Accountability provisions will need to strike a balance between the potentially conflicting objectives of increasing state and local flexibility while attaining certain national objectives—a balance that inevitably involves philosophical questions about the proper roles and relationships among the levels of government in our federal system.

Well designed accountability provisions help clarify the financial and programmatic relationship between the federal government and the states and could be important in sustaining the block grant approach as these programs mature. There is general agreement that financial accountability provisions implemented through single audits can provide a foundation for assuring that states apply appropriate financial management and internal controls. There is less consensus on whether and how to promote accountability for block grant implementation and results. For those national goals and standards that are established, however, policymakers have options for building in adequate, but less burdensome, provisions. These options include (1) relying on state processes both to manage block grant funds and to monitor and assess compliance, (2) assessing the nature of requirements imposed on states, including the applicability of cross-cutting requirements¹ for national policy for block-granted programs, and (3) emphasizing results-based evaluation rather than examining specific program or administrative activities.

Whatever approach to program accountability the Congress chooses, the need for comparable data across the states is a critical issue. Comparable data make it possible to assess progress in meeting national objectives. Also, the lessons learned from state experiences are transferable only when conclusions can be drawn about the relative efficiency and effectiveness of different state strategies. Developing and implementing guidelines for comparable data will not be easy, especially under a results-oriented approach where states have discretion about the means they will use to achieve program objectives. In particular, the broad range of objectives identified for some block grants—coupled with state

¹Cross-cutting requirements are grant conditions that generally apply to all or most federal assistance programs and recipients. Unless block grant statutes specify otherwise, these requirements and their regulatory prescriptions would apply.

discretion—will complicate the task of developing and implementing suitable performance measures and assessing state performance. Regarding the identification of suitable measures and data collection strategies, it will be important to have a partnership between the states and the federal government. Moreover, assessments of state progress will need to recognize that outcomes are often affected by factors beyond state administrators' control.

Federal policymakers will also need to be aware of existing state spending and programmatic commitments in areas that are block-granted. Evaluation studies have shown that the smaller the share of federal funds in block grant programs—and the broader the national objectives—the more difficult it is to assess performance and evaluate the impact of federal resources. Categorical and some block grants currently include maintenance-of-effort provisions requiring states to continue their spending for federally aided areas to prevent this kind of fiscal substitution. Although such requirements help to ensure that block grant funds are used in the program area intended, they can also encumber state resources in federally funded areas and reduce states' fiscal flexibility, particularly during times of fiscal stress. Similarly, they can reduce a state's programmatic flexibility to shift money among programs so that resources are used as effectively as possible. Maintenance of effort can also penalize states that take the initiative to start programs before the federal government—they essentially become locked into this spending even when federal funds become available. Carefully designed maintenance-of-effort provisions can help to overcome some of the technical difficulties. Yet, the decision to require maintenance of effort presents difficult trade-offs among competing concerns.

Background

Of the three kinds of grants-in-aid—categorical, block, and general-purpose fiscal assistance—block grants lie in the grey, middle area. Categorical programs feature narrowly prescribed, federally determined program objectives, processes, and administration. At the opposite end of the spectrum—general-purpose fiscal assistance—recipients are free to spend grant funds in the manner they choose with few, if any, federally imposed programmatic or administrative requirements. Although existing block grants differ with respect to

specificity of objectives and administrative requirements, most share the following characteristics:

- federal aid is authorized for a wide range of activities within a broadly defined functional area;
- recipients have substantial discretion to identify problems, design programs, and allocate resources;
- administrative, fiscal reporting, planning, and other federally imposed requirements are limited to those necessary to ensure that national goals are being accomplished; and
- federal aid is distributed on the basis of a statutory formula with few, if any, matching requirements and, historically, spending has been capped.

A decision on whether to block grant programs raises important questions involving the appropriate balance of power and responsibilities in our federal system. Thus, the question of whether and what kind of accountability to require is a policy decision for the Congress to make. In previous reports, we have stated that states have become more capable of responding to public service demands and initiating innovations in the past two decades. At the same time, we have also noted that the new block grant proposals include programs that are much broader than block grants of the past and would present a challenge for states to both implement and finance.²

Accountability is an important yet elusive concept whose meanings and characteristics differ depending upon the context. For categorical grant programs, accountability is promoted through rules and regulations that hold state and local officials responsible for federally established programmatic objectives, implementation strategies, and administrative processes that are largely prescribed by federal agencies.

Under block grants, the principal locus of accountability shifts from the federal government to the states, consistent with the fact that grant purposes are broadened and authority is delegated. Under block grants, state and local elected officials bear the primary responsibility for monitoring and overseeing the planning, management, and implementation of activities that formerly were the purview of federal agencies. Nonetheless, because federal funds are involved, some residual accountability for national objectives is invariably provided, albeit in different doses and through different means.

²Block Grant: Characteristics, Experience, and Lessons Learned, (GAO/HEHS-96-74, February 9, 1996).

Accountability Will Likely Play a Critical Role in Block Grant Implementation

For block grants, accountability plays a critical role in balancing the potentially conflicting objectives of increasing state and local flexibility while attaining certain national objectives. Accordingly, the resolution of these issues invariably reflects a political decision properly decided through the democratic process.

The recent history of block grants suggests that the balance struck between federal objectives and state discretion has often been unstable. The failure to reach an acceptable accommodation of these competing concerns can undermine continued support for block grant programs. As a result, the balance is often adjusted and reformulated as implementation proceeds.

In building accountability into block grant programs, problems can arise from either too many accountability provisions or too few. The presence of too many requirements and conditions can inhibit states from realizing the kinds of efficiencies and service delivery improvements promised by the block grant mechanism. Overly prescriptive federal requirements can limit states' abilities to integrate related federal and state programs in new and more efficient ways. Moreover, they may limit states' interest in taking ownership and responsibility for program management and results—a key attribute that the 1981 block grants initially succeeded in instilling at the state level. Prompted by their newly won flexibility, state legislators and governors exercised a level of involvement and oversight for block grant programs typically not found for categorical programs.

On the other hand, insufficient federal accountability provisions can create other problems for consolidated programs. Continued congressional support for block-granted programs has historically rested on sufficient information and assurances that the funds are being well managed and used to support national objectives. The recent history of block grants suggests that the absence of such provisions can either undermine continued congressional funding or prompt recategorization and prescriptive regulations to ensure that national objectives are achieved. For instance, the block grants enacted as part of the Omnibus Budget Reconciliation Act of 1981 (OBRA), which lacked consistent national program reporting on state implementation, were subject to more than 50 congressional actions to tighten program requirements and accountability provisions.³

³Block Grants: Increases in Set-Asides and Cost Ceilings Since 1982 (GAO/HRD-92-58FS, July 27, 1992).

A balance will need to be struck to respond to these two conflicting objectives. It should include safeguards to ensure that states are applying proper financial controls. Also, the Congress will not only have to determine the level and extent of national programmatic objectives for the individual block grants, but also decide the most appropriate means to monitor and oversee state progress toward these objectives.

In considering ways to build financial and program accountability that could be built into the new block grants, the following observations based on our work may be useful.

Accountability for Financial Management

The Single Audit Act of 1984 provides an important tool for ensuring that states are promoting financial accountability for block grant programs. The act expanded the focus of federal oversight from a grant-by-grant examination to an overall financial audit of the state or local government or agency receiving federal funds with a specific focus on federal programs.

A single audit is expected to address the states' or state agencies' overall financial statements and compliance with major federal assistance program requirements. Moreover, as we have said repeatedly over the years, the single audit is a more efficient and less burdensome way to use auditing resources in satisfying federal accountability interests than the prior grant-by-grant auditing approach.

The Single Audit Act of 1984 helps ensure that state agencies responsible for block grant funds have sound financial management systems and internal controls. The act promotes sound financial management by requiring each state or agency to arrange for an annual⁴ audit of its financial statements. This involves more than simply preparing schedules of financial data; it involves a disciplined process that promotes proper recording of financial transactions and maintaining accurate records of financial flows. The single audit also involves evaluating the adequacy of the internal financial and management controls used by the agency to prevent problems and ensure the integrity of public funds, including block grant funds.

Finally, the act, and its implementing guidance, requires that single audits test compliance with federal program requirements for "major federal

⁴In some circumstances, biennial audits are allowed, provided they cover both years of the biennial period.

assistance programs.⁵⁶ Auditors are required to test two types of grant requirements: (1) general requirements that are national policies prescribed by statute, executive order, or other authoritative sources that apply to federal assistance programs of two or more agencies and (2) specific requirements that apply only to individual programs.

The results of single audits can also contribute toward achievement of the objectives of the Chief Financial Officers (CFO) Act of 1990. The act, as amended, requires the 24 CFO executive branch agencies to prepare financial statements, beginning for fiscal year 1996, and to have those statements audited. It also requires GAO to conduct an audit of the annual consolidated financial statements for the entire executive branch beginning with fiscal year 1997. Since many federal funds often flow to their ultimate beneficiaries through multiple state and local entities, and because many of these amounts are subject to single audit, the results of these audits can provide information on the successful completion of the required federal agency and executive branch-wide consolidated financial statement audits.

The single audit process could be particularly advantageous for block grant programs. As the purposes of federal aid programs broaden and the federal financial role diminishes, federal funds become fungible.⁶ This is especially true for block grants because the programs anticipate the integration of federal and state funding streams. Accordingly, the management and outcomes of federal assistance programs depend heavily on the overall controls states use to manage the combined effort. Thus, the block grant approach coincides with the act's shift away from individual grant auditing.

It is also likely that most block grants under consideration would continue to be considered major programs for Single Audit Act purposes. Accordingly, they are likely to be reviewed for their compliance features under this process. A single audit is not and should not be viewed as sufficient for evaluating state performance relative to block grant programmatic goals and objectives. However, a single audit is an important oversight tool that can be used to provide insights into the entity operating federal programs.

⁵⁶A program is classified as a major program based upon the amount of expenditures. Presumably all the large block grants currently being proposed—notably, Medicaid and AFDC—would be classified as major.

⁶In the context of federal grants, the term fungibility refers to the tendency for federal funds to be commingled with state or local funds to the point where the use of federal funds is difficult to track.

Although we believe that the Single Audit Act of 1984 is a suitable means for promoting financial accountability for the block grants, several improvements are needed in the single audit process. First, criteria for determining which assistance programs will be subject to compliance checks are based solely on dollar amounts. While, this approach has the advantage of subjecting a high percentage of federal funds to audit, it does not necessarily focus audit resources on identified high-risk programs. We have made recommendations⁷ to enhance the single audit process and to make it more useful for program oversight, including oversight of the block grants.

Second, the single audit cannot be viewed as a substitute for management oversight and program reviews by federal agencies, should such activities be deemed appropriate for particular block grants. The single audit assesses the financial integrity and internal control of the entities receiving block grant funds and implementing programs. The audit may not select particular programs for compliance reviews if they are not defined as major programs. But even when programs are included for compliance checks, the single audit is not intended to provide in-depth analysis of state administrative practices or programmatic accomplishments.

Accountability for Program Goals and Objectives

As noted earlier, block grants present a dilemma to federal policymakers for they must balance the objectives of enhancing state and local flexibility, while also maintaining a degree of federal control, consistent with the fact that federal dollars as well as national objectives are involved. There is no easy way to resolve this tension; rather, a continuum of trade-offs between federal objectives and state flexibility will be required. First, the Congress will need to consider which national objectives remain appropriate for block grant programs. Then, it will need to determine how these objectives should be defined and implemented.

Among the various kinds of national objectives that could be applied to block grants are the following:

- **Program specific requirements:** These are standards or goals pertaining to program services or implementation processes funded by the grant. In terms of these grant conditions, prior block grants have included both federal rules involving program inputs—that is, what grantees do with their funds—and rules involving program results—that is, what is accomplished with the funds.

⁷Single Audit: Refinements Can Improve Usefulness (GAO/AIMD-94-133, June 21, 1994).

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- **Cross-cutting requirements:** These are grant conditions that generally apply to all or most federal assistance programs and recipients. OMB had identified nearly 60 such requirements ranging from the Davis-Bacon wage standards for federally-assisted construction projects to Hatch Act prohibitions on funded employees' political activities. Unless block grant statutes specify otherwise, these requirements and their regulatory prescriptions would be expected to apply.

Once the new block grant requirements and programmatic concerns are defined and specified, the Congress may wish to design approaches that satisfy federal interests in less burdensome ways, in keeping with the block grant philosophy of enhanced flexibility and reduced regulation. Our work and other examinations of past block grant efforts suggest the following two approaches the Congress could consider.

Reliance on State Processes

Relying on state processes and procedures to govern the administration and management of block grant funds, as was done under the OBRA 1981 block grants, is one approach available to the Congress. For categorical programs, OMB circulars and federal agency regulations and guidance prescribe procedures governing such issues as state procurement, recordkeeping, cost allocations, and other business-type functions. However, this kind of national administrative prescription is contrary to the block grant premise of instilling responsibility in the states. In addition, as we found in the 1980s, moving away from such prescriptions opens up opportunities for states to more fully integrate the management of the block grants with broader state administrative practices and procedures.

In 1981, state authority was also promoted by shifting the responsibility for monitoring and assessing compliance with federal requirements away from the federal government toward states and localities. Reviews of state plans and applications were significantly limited. States, moreover, were principally responsible for interpreting the block grant statutory prohibitions and requirements; federal regulations and guidance were kept to a minimum. Federal agencies were actually prohibited from imposing "burdensome" reporting requirements, allowing the states to interpret the compliance provisions in the statute.

In seeking to minimize block grant program requirements, the Congress will need to decide whether the broad scale delegation to the states that occurred under the 1981 block grants is appropriate for the block grants

currently being proposed. The federal dollars involved are far larger than under past block grants; during fiscal year 1993, approximately 18 percent of total state spending was for Medicaid, with 11 percent from state-only sources. Moreover, the stakes involved stand to significantly affect vulnerable populations and involve a number of entitlement programs that comprise the "social safety net."

Reexamining some of the more burdensome cross-cutting requirements also would provide states with additional flexibility. Cross-cutting requirements—also known as generally applicable requirements—could become some of the more burdensome federal mandates for new block grants because administrative guidance and regulations that have built up over the years to implement them do not discriminate between categorical and block grant programs. Our work has specifically identified one such cross-cutting requirement for potential elimination. We have stated that the Congress could repeal the Davis-Bacon Act cross-cutting requirement because of the act's administrative problems and associated increases in federal construction costs.⁸

Emphasis on Results

Another approach for balancing competing state and federal interests would be to promote accountability for results rather than accountability for implementation and administrative processes. Applying a results focus to the block grants would free state officials and program administrators to determine the most appropriate means for achieving federal block grant program goals and objectives, while also vesting them with responsibility for their choices. This approach presumes, of course, that the Congress has decided that imposing national block grant outcomes on the states is appropriate. Furthermore, this approach is fraught with technical problems and could engender conflict between the federal government and the states.

Under a results-oriented approach, states would be responsible for reporting on program outputs, outcomes, or other types of performance oriented measures. While outputs and outcomes are often correlated, they are not the same. Program output indicators generally involve measures of activities or services supported by the funds, such as the number of participants in job training programs or the number of children vaccinated. In contrast, program outcome indicators measure progress in terms of the end result intended by the program, such as increases in employment from

⁸Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 (GAO/OCG-96-2, March 15, 1996).

job training or reductions in the incidence of communicable childhood diseases.

The Government Performance and Results Act of 1993 (GPRA) could be used as a guide for a results-based approach. GPRA seeks to fundamentally change the focus of federal management and accountability from a preoccupation with inputs—what grantees do—to a greater focus on the outcomes—what has been achieved. GPRA requires federal agencies to develop outcome-oriented goals, systematically measure their performance, and report on their progress toward achieving goals.⁹ While GPRA's implementation time frames do not match those for congressional consideration of the block grants, GPRA principles provide a logical starting point.

Under a results-oriented approach, federal policymakers would specify national goals and objectives in block grant statutes, enact a process for establishing them, or adopt some combination of the two. Ultimately, the decision whether to impose or call for such national objectives is a political decision that the Congress must make. The Congress may, in fact, decide to allow states to establish their own program objectives, thus limiting the federal role in monitoring block grants to collecting information on state program efforts and accomplishments as well as, perhaps, evaluating and disseminating information on "best state practices."

Outcome-Based Approach

An outcome-based approach to accountability has some advantages for block grants. Notably, unlike categorical grants, block grants provide states a broader scope of allowable activities to select from in attaining national outcomes. For example, if the desired outcome is to move welfare recipients into work, a categorical program providing resources for a single strategy forces grantees to select that nationally determined strategy—irrespective of local conditions and circumstances. This approach, in effect, suggests that "one size fits all." In contrast, a block grant gives states flexibility to mix services and activities best suited to achieving this outcome goal and to better integrate federal, state, and local efforts.

However, caution will be needed as well. While state efforts will certainly be closely tied to block grant results, outcomes will just as certainly be affected by factors outside the control of state administrators. Because of

⁹For a fuller description of the requirements of GPRA and the progress agencies are making in implementing the act, see *Managing for Results: Status of the Government Performance and Results Act* (GAO/T-GGD-96-193, June 27, 1996).

the role that these variables may play, evaluation will need to isolate the effect of outside factors on state programs. For example, the incidence of low birth weight infants depends not only on the efforts of a particular state and local agency to fill the gaps in prenatal care, but also on many other demographic and situational factors, such as regional employment trends and demographic patterns, that could easily confound an accurate assessment of state performance.

Just as some features of block grants facilitate a results-oriented approach, other features add complications. The broad range of objectives often identified for particular block grants coupled with broad state discretion in program implementation may make it difficult for the federal government to specify and select suitable results-oriented measures. For example, in areas such as community development that encompass a broad range of activities, it may be difficult to select a single, or even a small set of, preferred indicators against which to gauge performance. Alternatively, broader outcomes covering an entire function could be chosen, such as education achievement levels as measured through standardized testing. In either case, the states' flexibility to determine how best to use block grant funds can be compromised.

Performance Incentives

Some have suggested that the federal government incorporate monetary incentives to the states into the new block grants to achieve nationally desired results. Under such an approach, the incentives and penalties states face would act as a lever because they would be tied to progress on standards set for all states or standards predicated on individual states' past performance.

This kind of incentive structure is incorporated in the administration's "performance partnerships" and it is also central to Oregon's welfare proposal to pilot a reinvented form of intergovernmental relationships (known as the "Oregon Option"). The President's fiscal year 1996 budget introduced performance partnerships for a number of areas. Like block grants, performance partnerships would consolidate funding streams. However, the partnerships would provide for specific federal standards and goals expressed in output or outcome terms, and states or localities would be given incentives if they met or exceeded some of these federal objectives. For instance, the President's budget reported that under the performance partnership concept, the Environmental Protection Agency proposed to consolidate 12 media-specific grants (including, air, water, and hazardous waste), enabling states to target resources toward their most pressing priorities. Performance-based funding would be included in

this program. Similarly, the Department of Housing and Urban Development's (HUD) proposed grant consolidations would distribute 10 percent of formula allocations based on performance.

Although offering the potential to improve states' performance for federally assisted programs, funding incentives warrant caution in their design and implementation. Given the difficulties performance measurement faces in the near term, significant intergovernmental conflict could arise from the application of outcome-based measures, particularly if, in evaluating progress, states were inadvertently held accountable for the impact of factors beyond their control. If performance-based measures were also tied to future federal funding in some way, such conflicts could be exacerbated. For example, it would make little sense to penalize a state that did not meet an immunization target if the major reason the state did not meet this target was a significant influx of unimmunized immigrants. Moreover, linking performance measures to funding could cause states to present only the most favorable performance information.

Data Collection and Capacity Issues

Whatever emphasis is selected, the Congress should consider carefully its current and future needs for uniform data and data collection procedures across the states. The 1981 block grants carried no uniform federal information and reporting requirements. After the block grants were enacted, states collected a wide range of program information, but the collection efforts were designed to meet the needs of the individual states. The Congress had limited information on program activities, services delivered, and clients served. As a result, it was difficult, in many cases, to aggregate state experiences and speak from a national perspective on the block grant activities or their effects. Similarly, without uniform information definitions and collection methodologies, it was difficult to compare state efforts or draw meaningful conclusions about the relative effectiveness of different strategies. In our recent report, Block Grants: Characteristics, Experience, and Lessons Learned (GAO/HEHS-96-74, February 9, 1996), we noted that problems in information and reporting under many block grants—including the Education block grant, the Community Services Block Grant (CSBG), and the Alcohol, Drug Abuse, and Mental Health Services Block Grant (ADMS)—have hampered Congress' ability to evaluate block grants.

Some have expressed concern that uniform national data might encourage the Congress to recentralize or recategorize block grants. This certainly could be one outcome, particularly if uniform data showed that states

were falling short of national expectations in critical areas. However, the absence of uniform national data for the 1981 block grants did not prevent the Congress from adding new requirements and funding constraints to the block grant programs of the 1980s. In the absence of uniform information, policymakers are pressed to change to block grant programs based on examples and reports that may or may not represent broad-scale problems with program implementation. In 9 of the 11 block grants in existence from fiscal year 1983 through fiscal year 1991, the Congress added new cost ceilings and set-asides or changed existing ones 58 times as a result of congressional concern that states were not adequately meeting national needs. Reliable information that is comparable across states could enable federal policymakers to identify systemic problems.

Performance measures for block grants will need to be developed in partnership with the states. This will not be easy. Not only do federal and state interests differ, but it will take time to develop data collection systems and reporting capacities once the initial decisions are made. Even in the case of employment training programs, for example, in which there has been a congressional focus on program outcomes, we have found that most state agencies do not collect information on participant outcomes, nor do they conduct studies of program effectiveness.¹⁰

Federal agencies will need time to work with the states to establish reporting requirements, including the types and measurement methodologies for needed program information, and how and by whom such information will be collected and analyzed. For example, we recently testified¹¹ that HUD may face difficulties implementing its plans for consolidating housing and community development funds into larger programs that rely on performance measures to evaluate state and local efforts. Localities will need time to establish performance measures and work out program details. Community development researchers have had difficulty developing suitable performance measures because communities' needs differ and the results of some activities may not be quantifiable.

According to work on the early implementation of GPRA, many federal agencies currently lack the ability to track progress, evaluate results, and

¹⁰Multiple Employment Training Programs: Most Federal Agencies Do Not Know If Their Programs Are Working Effectively (GAO/HEHS-94-88, March 2, 1994).

¹¹Housing and Urban Development: HUD's Reinvention Blueprint Raises Budget Issues and Opportunities (GAO/HCED-96-196, July 13, 1996).

use performance data to improve their agencies' effectiveness.¹² Like executive branch agencies, states, will need to make significant investments in people, skills, and systems to effectively gather and use performance information.

In designing performance measurement systems for block grants, it will be important to take into account certain lessons from evaluation research. Most notably, performance measurement efforts and evaluation studies both involve cause and effect relationships. In the case of performance measurement, there is an assumption—perhaps implicit—that any results observed are a consequence of the programs and activities under scrutiny. However, as we have reported,¹³ good evaluative information about these kinds of program effects is difficult to obtain. Each of the tasks involved—measuring outcomes, ensuring the consistency and quality of data collected, establishing the causal connection between outcomes and program activities, and separating out the influence of extraneous factors—raises formidable technical or logistical problems that are not easily resolved.

Implications of State Involvement and Spending on Block Grant Accountability

Federal officials need to be aware of existing fiscal and programmatic state and local commitments when designing federal block grant accountability provisions. Overall, evaluations and studies suggest that the broader the objectives and range of authorized activities and the fewer the requirements on grants, the greater the fungibility of funds. All grant programs potentially are susceptible to the problems of fungibility, but these issues loom larger in a block grant context for two reasons. First, under block grants the commingling of federal and state funds is allowed to help realize administrative cost savings, promote innovation, and improve service delivery.¹⁴ Second, the federal government often assumes the role of a fiscal junior partner under block grants as state and local expenditures can easily overshadow the federal contribution within broadened categories of state and local spending.

¹²Managing For Results: Steps for Strengthening Federal Management (GAO/T-GGD/AIMD-95-168, May 9, 1995).

¹³Program Evaluation: Improving the Flow of Information to the Congress (GAO/PEMD-95-1, January 30, 1995).

¹⁴While there is agreement that administrative cost savings can follow from consolidations of federal grant programs—including those involved in block grants—measuring these savings is fraught with technical difficulties. We have reported on these problems in numerous reports and testimonies, many of which are summarized in Program Consolidation: Budgetary Implications and Other Issues (GAO/T-AIMD-95-45, May 23, 1995).

The fungibility of federal funds will vary by type of block grant. It is far easier to isolate the impact of federal funds for block grants where federal funding will comprise a major share of state spending or where the activities funded are relatively limited in purpose. The AFDC block grant, for example, may be more easily accounted for because federal block grant funds will continue to be a major, if not larger, share of total spending and because funding is provided for cash payments to eligible low income individuals. Proposed block grants for education or community and economic development, on the other hand, would be more difficult to track due to their broad, diffuse purposes and the relatively minor role played by federal funds.

Implications for Data Reporting

Fungibility clearly has implications for the kinds of information that can be expected on block grant results. Imposing data reporting requirements for the federal funds alone would force states to separately track and report on expenditures and accomplishments achieved with federal block grant funds. But this could provide only a bookkeeping perspective, having little or no relation to the actual impact of the funds.

We found this to be the case for reporting in the General Revenue Sharing (GRS) program. When we examined how GRS funds were used, we found that reports filed by grantees did not necessarily provide accurate information on how funds might have been used. This was because the flexibility inherent in revenue sharing permitted states and localities to use the federal funds to finance other programs, reduce taxes, or a combination. For reporting purposes, it became somewhat meaningless to earmark one revenue source for a specific set of expenditures and a second source for another where both revenues can be used interchangeably because funds can easily be displaced or substituted.

The problem with interchangeable resources led us to conclude that, to be meaningful, data in broadly defined grant programs should be integrated and related to total expenditures for state and/or local activities by purpose or function. This logic applies to block grants. Assume, for example, that a community strongly supports the development of a recreation project and community officials elect to use block grant funds for this purpose. The community's accounting records and financial reports would reflect that the funds were used for the new project. However, the key question in this situation is what would have happened in the absence of the federal funds. If the funds for the new project would have been provided in the absence of the block grant, by reducing funding

for other programs, increasing taxes, or using available surplus, then the net effects of the grant are not in the area of the project. In this case, the effect of the block grant would have been to negate the need to reduce other programs, halt a tax increase, or maintain the existing level of surpluses. Thus, instead of tracking the accomplishments of federal funds alone, it might be more realistic to assess the extent to which the entire federal-state effort promotes accountability for national goals of interest to the Congress.

Implications for Federally Imposed Prohibitions and Restrictions

The inherent difficulty of tracking the use of federal funds in a fungible fiscal environment, raises some basic questions about the enforceability of federal prohibitions or restrictions that might be applied to block grants. If state funds significantly outweigh federal funds, states can simply shift their own money to support a federally-eligible activity previously financed with state funds. This shift enables states to conform to the letter of the requirement, without fulfilling its spirit.

Implications for Maintenance-of-Effort Requirements

Maintenance-of-effort requirements are often found in categorical programs and some block grants to prevent states from substituting federal for state dollars. Maintenance of effort is potentially more sweeping than a matching requirement. For most close-ended grant programs, matching is minimal and can be met with existing state or local resources dedicated to the program. States and localities frequently provide far more funding to broad-based programs than federal matching provisions require. Maintenance of effort, on the other hand, requires states or localities to maintain their own previous or current level of nonfederal funding for the program.

Deciding whether to include a maintenance-of-effort requirement will be controversial. The benefits to the federal interest must be weighed against the encumbrance such requirements place on states' fiscal flexibility. Because the stakes are significant in either case, the Congress needs to carefully consider both sides of the equation.

Maintenance of effort can help ensure that federal block grant dollars are used for the broad program area intended by the Congress, whether it be spending on special education or spending for day care. Without such provisions, federal funds ostensibly provided for these broad areas could, in effect, be transformed into general fiscal relief for the states. States could use some or all of their federal block grants to replace their own

money invested in the program area. To the extent that this occurs, the ultimate impact of these federal dollars would be to either increase state spending in other programs or reduce taxes.

Maintenance of effort does not overcome the fungibility dilemmas discussed above. These provisions would not permit easy tracking of the contributions of federal versus state dollars in a flexible block grant funding environment. Yet, they could ensure that federal block grant funds contribute to the broad program area addressed by the block grant.

Maintenance-of-effort requirements also have potentially significant effects on states' fiscal policy-making. They can encumber state resources in federally funded areas, even though state funds may far exceed federal block grants in magnitude. States, thus, are limited in their ability to shift their own funds across programs without risking the loss of federal dollars. This is particularly problematic for states facing cuts, as maintenance of effort has reportedly caused some to make disproportionate cuts in areas not receiving federal funds. Maintenance of effort can also penalize states that take the initiative to start programs before the federal government; they essentially become locked into this spending even when federal funds become available. States whose programs do not precede the federal government with their own programs implicitly get rewarded for their lack of initiative. As a result, the prospect of such requirements could defer program innovation until federal funds become available.

We have previously reported that most maintenance-of-effort requirements have not avoided widespread fiscal substitution by states or localities.¹⁶ Typically, states were required to maintain their spending levels from several years before. Inflation alone gives states sufficient leeway to use federal funds to replace a significant amount of state funds.

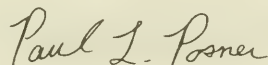
Should the Congress wish to provide for a maintenance of effort, requiring states to do so based on a rolling average of the past 2 years of spending, for example, would help better protect against fiscal substitution. Permitting waivers for states experiencing fiscal stress or for those having innovative programs would be one way to at least partially address the states' concerns.

¹⁶Proposed Changes in Federal Matching and Maintenance of Effort Requirements (GAO/GGD-81-7, December 23, 1980).

B-266764

We hope this information meets your needs. If you have any questions, please call me at (202) 512-9573 or Margaret T. Wrightson, Assistant Director, at (202) 512-3516.

Sincerely yours,



Paul L. Posner
Director, Budget Issues

Major Contributors to This Report

Accounting and
Information
Management Division,
Washington, D.C.

Margaret T. Wrightson, Assistant Director
Jerry C. Skelly, Assistant Director
Bill J. Keller, Evaluator-in-Charge

General Government
Division

J. Christopher Mihm, Assistant Director

GAO

United States General Accounting Office

Report to the Ranking Minority Member,
Committee on Finance, U.S. Senate

April 1995

WELFARE TO WORK

Measuring Outcomes for JOBS Participants



GAO/HEHS-95-86



United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-256125

April 17, 1995

The Honorable Daniel P. Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

Dear Senator Moynihan:

Between 1989 and 1994, federal and state governments spent about 8 billion dollars on the Job Opportunities and Basic Skills Training (JOBS) program. The program helps recipients of Aid to Families with Dependent Children (AFDC) obtain the education, training, and services necessary for employment. For program managers and policymakers to determine whether this investment has helped achieve the objective of reducing welfare dependency requires information on JOBS participants' outcomes, such as whether they are becoming employed and leaving AFDC. In working toward welfare reform, information on the extent to which JOBS is achieving its objectives is more important than ever for the Congress.

This report responds to your request that we study the use of outcome measurement by the Department of Health and Human Services (HHS) and states in determining whether JOBS participants are finding employment and leaving AFDC. Specifically, we addressed the following questions:

- (1) What progress has HHS made in measuring the employment and AFDC status of JOBS participants at the national level and setting national goals against which program performance will be measured?
- (2) To what extent are states measuring participant outcomes and setting performance goals?
- (3) What major issues should be considered in establishing a national approach to measuring JOBS participant outcomes and setting performance goals?

To assess the progress that HHS has made in establishing outcome indicators and goals, we interviewed officials from HHS and various welfare research and interest groups. We also reviewed JOBS regulations and reports. Using a mail questionnaire, we surveyed JOBS administrators in the 50 states and the District of Columbia to determine state performance monitoring practices. To determine the issues that should be considered in developing indicators and goals, we reviewed HHS' proposed approach to developing outcome indicators, examined the literature on the development of performance monitoring systems, and interviewed experts

in the field. See appendix I for further details on our scope and methodology.

Results in Brief

HHS does not know whether JOBS is reducing welfare dependency because it does not gather enough information on critical program outcomes, such as the number of participants entering employment and leaving AFDC annually. In addition, states are held accountable for the number and type of participants enrolled in education and training but not for outcomes, such as the number of participants finding employment. While the current approach to monitoring performance provides important information on the activities of JOBS participants, state JOBS directors are concerned that the approach provides little incentive for states to focus on moving participants off AFDC and into jobs.

While little progress has been made in monitoring JOBS outcomes at the federal level, the picture is better at the state level. Nearly all states use some information on participant outcomes to manage their individual programs, although the extent to which states monitor outcomes varies widely. At least in part to demonstrate to their state legislatures that program objectives are being achieved, a majority of states monitor the number of JOBS participants entering employment and hourly wages at hire. In addition, over one-half of the states have established annual outcome goals. Although many states gather some JOBS outcome data, without a standard federal approach, few states could provide us with comparable data. However, our survey of JOBS directors found that 27 states could provide annual data on individuals entering employment. In these states, about 21 percent of JOBS participants found jobs in 1993.

The current national interest in making welfare more employment focused, as well as requirements in the Government Performance and Results Act (GPRA) that performance monitoring become more outcome oriented governmentwide, indicate a need for HHS to move decisively to ensure that it meets its current schedule for developing outcome measures and goals for JOBS. HHS has reported to the Congress that it plans to finalize JOBS outcome measures by October 1996 and outcome goals by October 1998. A critical first step in developing performance goals will be working with the states and other concerned parties to resolve differences regarding whether the primary objective of JOBS is to help participants (1) obtain employment quickly or (2) get the education and training needed for better-paying jobs. Congress is considering whether AFDC and JOBS should be replaced with a welfare-to-work block grant program that

includes some JOBS' objectives and activities. However this issue is resolved, the need for federal accountability would be well served by clearly defined program objectives and outcome goals.

Background

JOBS, created by the Family Support Act (FSA) of 1988, is designed to help families avoid long-term welfare dependency. The act requires all states to establish JOBS programs that make available to AFDC recipients the education, training, and support services they need to prepare for, accept, and retain employment. States can provide these services either directly or through local service providers. Both the states and the federal government share in the costs of the program. States were required to begin their JOBS programs by October 1, 1990, and be in full statewide operation by October 1, 1992. HHS' Administration for Children and Families (ACF) is responsible for managing JOBS at the federal level.

To understand whether a human services program, such as JOBS, is achieving its objectives or in need of improvement requires a system for gathering information about program performance. Evaluating a program by regularly collecting and analyzing performance information is known as performance monitoring. Performance monitoring systems include two key elements: (1) indicators—which define what performance information will be gathered and (2) goals—a target level of performance against which actual program performance will be gauged.

There are two basic types of indicators: process and outcome. Process indicators for JOBS would provide information about program activities, such as the number of AFDC recipients participating in JOBS, the number of JOBS participants receiving training, and the amount of money being spent on teenage participants. Outcome indicators for JOBS, on the other hand, would capture what happens to people after participating in program activities, such as the number of people who begin working, the number who leave AFDC, and the number still employed after 6 months.

Goals establish the levels of performance that programs are expected to achieve. For example, the goal for participants starting work could be "25 percent of those participating in JOBS each year will enter full-time employment." Goals can be established for outcomes, such as the percentage of participants finding employment, and processes, such as the percentage of participants involved in jobs skills training, for example. Goals are often accompanied by financial incentives for meeting or

penalties for not meeting goals whether they are related to outcomes or processes.

Because the overall goal of JOBS was defined very broadly, states have had the flexibility to focus on a variety of different objectives in an effort to achieve the broader purpose. These varying objectives can result in different approaches for providing JOBS services and different program results. For example, programs with the objective of quickly increasing welfare recipients' earnings may emphasize helping participants find any job; whereas, pursuing the objective of long-term self-sufficiency may lead to more of an emphasis on education and training activities with the hope of placing participants in employment that allows them to move off and stay off AFDC. If there is no agreement on program objectives, reaching agreement on the outcome indicators and goals needed to monitor achievement of the objectives will be very difficult.

FSA mandated that HHS develop outcome goals (known as standards in the act) for JOBS outcomes over time and established goals for certain processes. It initially required HHS by October 1993 to recommend JOBS goals based on specific outcome indicators, such as the number of participants who obtained jobs and moved off welfare. This requirement was later amended to allow HHS until October 1994 to develop criteria for outcome goals for JOBS. Through its funding formula, FSA, in effect, set minimum goals for two JOBS process indicators: rate of program participation and target group¹ expenditures. FSA specified that (1) at a minimum, 20 percent of nonexempt² adult AFDC recipients participate in JOBS in fiscal year (FY) 1995 and (2) 55 percent of JOBS program funds be spent in each FY on specified target groups. States are held accountable for meeting both of these process goals and can lose a portion of their federal funding if they fail.

Recent legislation reinforces the expectation, originally articulated in FSA, that HHS develop outcome indicators and goals for JOBS. GPRA seeks, among other objectives, to transform the focus of federal agencies from what they are doing to what results they are accomplishing. To accomplish this

¹JOBS target group members include AFDC recipients or applicants who have received AFDC for at least 36 months out of the past 5 years; are under 24 years old and have not completed nor are enrolled in high school or have little or no work experience for the preceding year; or are a member of a family in which the youngest child is within 2 years of being ineligible for AFDC because of age.

²Subject to the availability of state resources, AFDC recipients 16 through 32 years old must participate in JOBS unless they are exempt. Reasons for exemption include illness or incapacity, working 30 hours or more per week, attending high school, or caring for children under 3 years old. However, teenage parents who have not completed high school and have children under 3 years old are not exempt.

purpose, the act requires agencies to develop 5 year strategic plans beginning in FY 1998 and annual performance plans beginning in FY 1999. The strategic plans need to include comprehensive mission statements and general goals and objectives for the agencies' major functions. The annual performance plans, which are based on the strategic plans, should set specific performance goals for the year. Performance indicators will then be used to monitor progress toward meeting the goals. By adopting a focus on outcomes, agency effectiveness and congressional decision-making are expected to improve.

Outcome indicators are useful to program managers and policymakers in assessing the status of program operations, identifying areas needing improvement, and ensuring accountability for end results. Indicators alone, however, do not show the extent to which the program accounts for an observed outcome. For example, suppose 25 percent of JOBS participants become employed in a certain time period. JOBS activities as well as events outside the program, such as participants' independent efforts to find work or an upsurge in the economy, could account for participants finding employment. Determining the extent to which the program contributed to the observed outcome involves studies that use experimental designs to estimate what would have happened without the program. In this example, to estimate the program's impact, such studies might compare the percentage of JOBS participants becoming employed with the percentage of comparable AFDC recipients becoming employed without the program. To measure the impact of JOBS, FSA authorized studies using experimental designs to isolate the actual impact of the program. Because such evaluations are usually costly, they are done infrequently and often involve only select locations.

HHS Has Made Little Progress in Establishing an Outcome-Focused JOBS Performance Monitoring System

Six years after passage of FSA, HHS only holds state JOBS programs accountable for participation, not employment. As a result, very limited national data are available regarding the outcomes of JOBS participants. In addition, the current approach to performance monitoring does not assist states in determining whether they are meeting program goals related to employment and independence from welfare. According to HHS, a combination of technical and environmental factors has impeded the development of outcome indicators for JOBS.

HHS Data Gathering for JOBS Focuses on Participation, Not Outcomes

HHS focuses its JOBS data collection primarily on indicators of participation. It collects information from all states on the numbers of program participants, expenditures on target group members, and the activities individuals are participating in on a monthly basis. States are accountable for meeting process goals; if they fail to meet these goals the rates at which state expenditures are matched by federal dollars may be reduced.³

Although HHS has established some outcome indicators, data on these indicators present a very incomplete picture of JOBS outcomes. HHS data on job entry show that on an average monthly basis in FY 1993, 8 percent of JOBS participants entered employment.⁴ In addition to job entry, HHS gathers data on hourly wages and whether an individual stopped receiving AFDC due to increased income from working. An ACF official told us that because states are not held accountable for outcomes, neither the states nor HHS pays much attention to the monthly outcome data submitted.

The usefulness of HHS' outcome indicators as tools to help manage the program is limited for a number of reasons. Because of this approach to gathering information, HHS cannot answer important questions regarding whether participants are becoming self-sufficient. To measure participants' activities, including education, training, job search, and employment, HHS gathers data each month on a sample of JOBS participants who (1) took part in any JOBS-sponsored activity in that month or (2) became employed in the sample or preceding month. The sample, therefore, excludes anyone who has been employed for more than 2 months or did not participate in a JOBS activity in the sample month. This approach to sampling is designed to measure participants' current employment-related activities, not outcomes related to whether participants remain employed and move off AFDC as a result of their earnings. To measure such outcomes, HHS would need to track individual participants across time. In addition, current measurement approaches do not yield annual statistics—a common indicator of program performance—on the percentage of JOBS participants who became employed. HHS also believes that the quality of some of the data is poor. For example, an ACF official told us that the data on hourly wages are unreliable because they are missing in many cases and often entered incorrectly.

³For example, if a state failed to meet the JOBS participation goal of 15 percent of adult nonexempt AFDC recipients in FY 1994, the federal matching rate in FY 1995 could be reduced from 90 percent to 50 percent (for expenditures up to an amount equal to the state's Work Incentive (WIN) program allotment for FY 1987).

⁴HHS began collecting data on job entry in FY 1992. The most recent year for which data are available is FY 1993.

Current Monitoring Approach for JOBS Does Not Support an Emphasis on Employment and Reducing Welfare Dependence

Our 1994 survey found that state JOBS directors believe that little progress has been made in establishing a performance monitoring system that supports achieving program goals related to employment and independence from welfare. Eighty-two percent of JOBS directors we surveyed believe that HHS has not sufficiently moved to focus JOBS on outcome measurement. Our survey also found that over one-half of state JOBS directors believe that the data gathered on participation rates and target group expenditures are of little or no use in helping states achieve their employment and training program goals. Over one-half of the states believed that the nature of federal reporting requirements actually hindered their abilities to collect data on outcome indicators. In addition, ACF reported in May 1994 that while it spends a significant amount of time and resources on monitoring for JOBS and other programs, performance monitoring at ACF is in a "state of crisis," in part because the system does not provide a means for determining if programs are producing the desired outcomes.⁵

These beliefs echo concerns about the absence of outcome data voiced in 1989 in response to HHS' notice of proposed rule making (NPRM) for JOBS. In its NPRM for JOBS, HHS originally included no outcome indicators. Numerous commenters on the NPRM, however, favored the addition of outcome data. Some of them believed that an excessive emphasis on participation would drive program operations toward meeting goals not necessarily related to achieving independence from welfare through employment. In response to the NPRM comments, HHS amended its proposed regulations to include some outcome data related to job entry stating that these data should be included

"since employment as a means to self-sufficiency and independence from welfare is the objective of the JOBS program."

However, HHS chose not to include additional outcome measures at that time, in part, because it agreed with one commenter's concern that outcome data do not show the extent to which the program accounts for the observed outcomes.

HHS' lack of an outcome-focused performance monitoring system also limits the possibilities for information sharing and coordination with other employment and training programs, such as the Job Training Partnership Act (JTPA). At the local level, JOBS' and JTPA's services are often combined

⁵Report of the Administration for Children and Families' Monitoring Team, Administration for Children and Families, Department of Health and Human Services (May 1994).

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HHS Has Encountered Barriers to Developing an Outcome-Focused Performance Monitoring System

to meet the education, training, and support service needs of AFDC recipients. Close coordination is necessary between the programs to facilitate effective service delivery. In 1992, the National Governors' Association reported that a majority of the JTPA administrators they surveyed believed that one barrier to effective coordination was the lack of consistency between JTPA's outcome goals and JOBS' process reporting requirements.⁶

While FSA set process goals, it also required HHS to develop and submit recommendations for outcome goals to the Congress by October 1993. These recommendations were to include goals for increased earnings and reduced welfare dependency. HHS missed the October 1993 deadline, but submitted its report on September 30, 1994.⁷ This report identified problems in developing an outcome-focused performance monitoring system and provided a detailed plan and schedule for developing outcome indicators and goals.

In its report to the Congress, HHS identified several technical and environmental factors that contributed to delays in the issuance of recommendations for outcome goals by the October 1993 deadline. HHS reported that appropriate outcome indicators had proven difficult to define in part due to disagreements among key stakeholders, such as researchers; congressional staff; and federal, state, and local officials, regarding the primary objectives of the JOBS program. In addition, setting goals was complicated by possible unintended program effects, such as programs focusing on the most employment-ready individuals in order to meet goals. HHS also reported that turbulence in the welfare system—for example, funding shortfalls and caseload growth—made it difficult to focus the necessary attention and resources on developing outcome goals. HHS also wanted to ensure that proposed goals were compatible with welfare reform plans being developed by the new administration.

⁶JTPA and JOBS: Coordination and Other Issues, National Governors' Association (Washington, D.C. October 1992)

⁷In legislation passed in late October 1994, the reporting requirement was amended to allow HHS to submit a report to the Congress by October 1, 1994, on criteria for the development of outcome goals for JOBS.

B-256125

Many States Active in Monitoring JOBS Program Outcomes, but Have Mixed Views About Setting Nationwide Goals

In contrast to the relatively slow progress at the federal level, many states have been active in developing outcome indicators to monitor JOBS participant outcomes. To a large extent, this activity has grown out of each state program's efforts to demonstrate its effectiveness and garner support for additional state funding. According to our survey results, states use a variety of outcome indicators, relying most often on the number of JOBS participants entering employment and less frequently on job retention rate and reductions in AFDC payments. Over one-half of the states have also established goals for their outcome indicators. Appendix II contains a copy of our survey questionnaire and results for selected questions.

Although many states use their own outcome goals and support establishing national goals, they have concerns about how these goals will be set and used. They maintain that HHS may not be able to adequately control for differences across states in local economic conditions and client characteristics that can affect how successful programs are in placing participants in jobs. They are also concerned that certain outcome indicators will automatically favor certain state programs and unduly influence program design decisions, which they believe should be maintained at the state level.

States Use Various Indicators to Monitor JOBS Outcomes

Despite the absence of a federal approach to collecting JOBS outcome data, many state programs have been active in tracking JOBS outcomes at the state level. Our survey of state JOBS directors showed that states use a variety of indicators to measure outcomes. The two indicators that states use most often are the number of JOBS participants entering employment and their hourly wages at hire (see table 1).

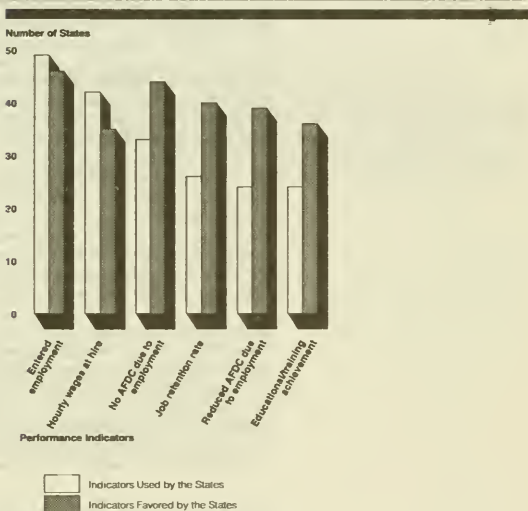
Table 1: Outcome Indicators Used by States

Indicator	Number of states using indicator*
Participants entering employment	49
Hourly wages at hire	42
Participants no longer receiving AFDC due to employment	33
Job retention rate	26
Participants with reductions in AFDC due to employment	24
Educational/training achievement	24

*Base is 50 and includes 49 states who responded to our survey and the District of Columbia

As shown in figure 1, almost all states reported that they collected data on the number of participants entering employment during FY 1993 and responded that this is one of the most important indicators to use to monitor JOBS outcomes. A relatively large number of states also collected data on hourly wages at hire. However, slightly fewer states favored using hourly wages at hire as an outcome indicator. Several states expressed concerns that hourly wages at hire were more a reflection of local economic conditions than an outcome of the JOBS program. One state official also noted that measuring hourly wages at hire could discourage programs from placing participants in low-wage entry-level positions, which often serve as stepping stones to higher paying positions.

Figure 1: Percent of States Using and Favoring Various Outcome Indicators



In comparison to employment entry and wages, only two-thirds of states collect data on the number of participants no longer receiving AFDC due to employment. However, as shown in figure 1, a relatively large number of states reported that they believe this indicator should be used to monitor program outcomes but do not collect the information because of the difficulty and resources required to obtain it.

Three other outcome indicators—job retention rate, the number of participants with reductions in AFDC due to employment, and educational achievement—are used by almost one-half of the states. Many more states, however, favored using these three indicators. While the survey results show that state officials believe that job retention rate and changes in AFDC benefits are particularly useful outcomes to monitor, tracking AFDC recipients after case closure is difficult, time-consuming, and expensive, according to several state officials. Staffing limitations and the inability to locate ex-AFDC clients were two reasons they cited for not pursuing these indicators more aggressively. Several states also explained that resources allocated to data collection are limited and that they are bound to first comply with federal reporting requirements. One state official doubted the program would be given the authority or resources to gather additional data without a federal mandate to do so.

States also have relied on different approaches to measure outcomes. For example, to measure the employment rate of JOBS participants, some states tracked JOBS participants over time and maintained a count of individual JOBS participants obtaining or retaining employment over a year. Other states performed periodic studies to determine how many JOBS participants were working and for how long. Other states did no more than collect the monthly caseload data required by HHS.

Given the variation in how states measure employment rates, determining the rate at which JOBS participants are finding employment on a national basis is difficult. However, as part of our survey of state JOBS program directors, we asked states to provide the number of JOBS participants who had obtained employment during FY 1993. Based on the responses from the 27 states able to provide data in the format requested, approximately 21 percent of JOBS participants entered employment during FY 1993.⁸ We also asked states to provide data on the number of JOBS participants

⁸Of the 50 states, 27 provided us with total number of JOBS participants and the number who had entered employment during the year. These 27 states represent 54 percent of the average monthly participants in the JOBS program. Because we do not have a national count of the total number of JOBS participants during the year, we could not determine the percent of the total number of participants in a year represented by these states.

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retaining their jobs for 3 months. For the nine states reporting this information, 33 percent of JOBS participants who entered employment retained their jobs for at least 3 months.⁹

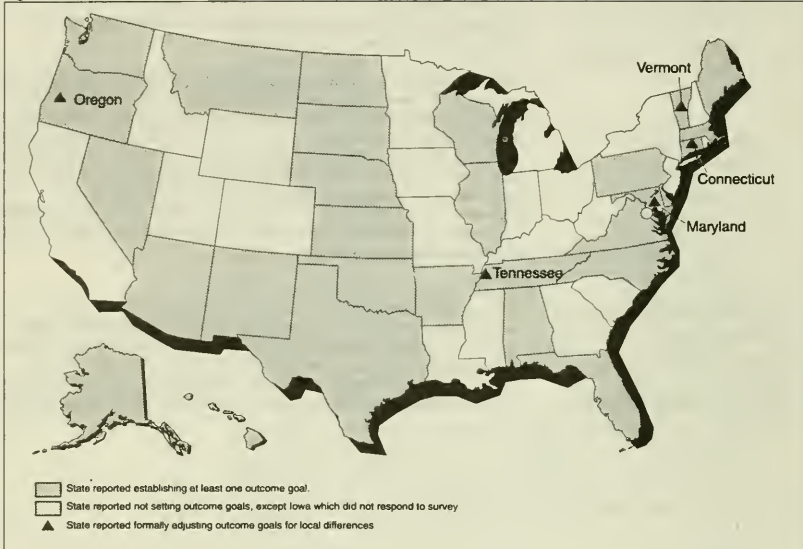
While states have taken different approaches to measuring outcomes, their interest in outcome measurement appears high. As mentioned earlier, according to our survey, 82 percent of states indicated HHS has not done enough to establish outcome indicators for JOBS. Officials in several states emphasized that they need to establish outcome indicators to provide their state legislatures with information about JOBS participants outcomes. Some states were also disappointed that HHS had not introduced outcome indicators earlier when states were implementing their JOBS data collection systems so that they would not have to modify their systems later to meet federal reporting requirements.

**Majority of States Support
Establishing Outcome
Goals, but Want
Substantial Control Over
Their Development and
Use**

While states recognize the need and value of outcome indicators in managing the JOBS program, their views on establishing outcome goals are mixed. According to our survey, 29 states had established at least one goal at the state level for fiscal year 1993 (see fig. 2). Of these, five states reported that they formally adjusted the performance goals to account for local differences in client characteristics or the availability of employment.

⁹These nine states represent 16 percent of the average monthly number of JOBS participants.

Figure 2: States With Outcome Goals



As shown in table 2, of the 29 states with established goals, 27 reported that they did so for the number of participants entering employment. A substantial number of these states also had established goals for hourly wages earned at the time of hire, job retention rate, and educational/training achievement.

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Table 2: Outcome Goals Used by States

Outcome indicator	Number of states with goals*
Participants entering employment	27
Hourly wages at hire	16
Educational/training achievement	14
Job retention rate	12
Participants no longer receiving AFDC due to employment	9

*Base is 29 states that reported establishing at least one goal

Several states have been particularly active in developing and using state-level outcome goals. For example, North Carolina has established goals for several outcome indicators, including (1) the percentage of JOBS participants obtaining employment, (2) AFDC closures or reductions due to earnings, and (3) the percentage of JOBS participants returning to the AFDC rolls. New Mexico has recently started funding programs based on performance; its JOBS program will receive state funding based on how well it does in meeting established goals. Similarly, California has recently undertaken an initiative to allocate to counties a portion of state funding based on performance against designated outcome goals. A recent study by the American Public Welfare Association's (APWA) Institute for Family Self-Sufficiency also confirmed that more states are establishing outcome goals as mechanisms for managing and improving their programs.¹⁰

A majority of states also support the establishment of nationwide outcome goals, although many states are concerned about how goals will be set and used at the federal level. Over 90 percent of the states responding to our survey indicated that they would like the flexibility to establish their own goals or to choose their goals from a menu established by the federal government. During follow-up interviews, state officials emphasized that they believed certain outcome indicators would favor particular state approaches to implementing the JOBS program. For example, programs that invest more in education and training would benefit from being judged on education and training achievement or hourly wages at hire, while programs focusing on early initial job search would probably fare

¹⁰APWA's report, *Measuring Client Success: Six States Report on Efforts to Assess What Happens to Clients After They Receive JOBS Services* is based on case studies of Kansas, Maryland, North Carolina, Oregon, Pennsylvania, and Wisconsin. APWA's results were similar to GAO's. APWA found that each of the six states used job placement as well as a variety of other performance goals to manage its programs. In all six states, performance goals were used to publicize the achievements of the JOBS program, hold contractors accountable to specific goals, and facilitate improvements in service delivery. Three states also used goals to determine funding for local programs.

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better being judged on job entry rate. In either case, states agreed that they wanted to retain the flexibility to design their own JOBS programs.

State views were mixed on whether federal funds should be linked to meeting national outcome goals. Over 40 percent of the states were against linking outcome goals to federal funding, while nearly 30 percent were in favor of doing so. Several state officials did not believe that federal funding should be tied to national goals because they doubted that HHS could sufficiently control for differences in economic conditions and client characteristics across various geographical regions.

Establishing Outcome Indicators and Goals Is Critical to Making JOBS More Employment-Focused

Establishing effective outcome indicators and goals is critical to sharpening JOBS' focus on the ultimate goals of employment and independence from welfare, whether JOBS remains the same or is replaced with a welfare-to-work block grant program that includes some JOBS' objectives and activities, as has been proposed. Current congressional and public interest in welfare reform as well as GPRA requirements indicate a need for HHS to move decisively to establish national leadership regarding outcome measurement for JOBS. Before effective outcome indicators and goals can be established, important differences among stakeholders regarding the objectives of JOBS will have to be resolved.

HHS Plans to Add Outcome Indicators to the JOBS Performance Monitoring System and Modify the System's Process Indicators

In its September 1994 report to the Congress, HHS acknowledged the value of and affirmed its commitment to using outcome measurement in its performance monitoring system for JOBS. Specifically, HHS plans to develop outcome indicators and goals and refine existing process indicators and goals. In addition, HHS plans to modify the AFDC Quality Control system¹¹ by adding key process indicators, such as participation rates.

In developing outcome indicators and goals, HHS faces a complex and difficult task. HHS recognizes that it must ensure that indicators and goals help the program achieve its objectives and meet the needs of numerous stakeholders, including local service providers, state and federal managers, and policymakers. In its 1994 report to the Congress, HHS identified and laid the groundwork for addressing a number of critical design and implementation issues that must be addressed to ensure that indicators and goals support program objectives, are fair to all states, and avoid unintended program consequences. These issues include

¹¹The states and HHS use the Quality Control system to evaluate whether AFDC payments are made accurately and to determine how well states comply with regulations to prevent waste, fraud, and abuse.

(1) developing a process to ensure states are given an equal opportunity to meet standards by adjusting for differences among states (that is, levelling the playing field), (2) designing strategies to discourage states from serving only the easiest-to-serve clients, and (3) selecting data collection approaches that are feasible and cost-effective.

To develop outcome indicators, HHS plans to convene a working group composed of representatives from the Congress, HHS, the Department of Labor, the states, AFDC recipients, community-based organizations, and others. This group will convene by April 1995 and make recommendations to HHS on specific outcome indicators and methods for data collection by January 1, 1996. Proposed indicators are to be published in the Federal Register no later than April 1996 and finalized by October 1, 1996. Using a similar process, current plans call for outcome goals to be developed and finalized by October 1, 1998.

HHS supports continued use of existing JOBS process indicators but believes that changes are needed to process goals to make them more effective. In addition, in its September 1994 report to the Congress, HHS proposed changing the process goal from the current 20 percent rate to a rate between 45 and 55 percent. HHS also suggested changing target-group goals to achieve higher levels of participation among the youngest AFDC parents.

Congressional and National Interest and GPRA Add Urgency to the Need for HHS to Establish Outcome Indicators

Recently, there has been strong congressional and national interest in AFDC becoming more focused on helping recipients become employed and leave AFDC in a limited time period. Numerous bills to reform AFDC and JOBS were introduced in the 103rd Congress and more are likely to be introduced in the 104th. Several recent welfare reform bills would replace AFDC and JOBS with a welfare-to-work block grant program. To the extent that JOBS objectives and activities are retained in the block grant, outcome indicators and goals for JOBS would be useful in ensuring accountability and improving congressional oversight.

While FSA, which originally required HHS to develop outcome goals only for JOBS, was limited to one program, GPRA requires all federal agencies to develop strategic plans, annual performance plans, and annual performance reports. Strategic plans articulate the agency's essential mission, long-term general goals and objectives, and a plan of action for achieving the objectives. The annual performance plans, by establishing a set of performance indicators and goals, provide a link between the agency's longer-term objectives and what managers and staff must

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accomplish on a daily basis to achieve those objectives. GPRA requires that agencies must submit to Congress 5-year strategic plans beginning in FY 1998 and annual performance plans beginning in FY 1999. The performance plans are expected to cover each program activity set forth in the agency's budget.

Currently, over 70 agencies and programs are involved in pilot projects for GPRA. The National Academy of Public Administration (NAPA) recently reviewed these pilots and found that some agencies had made limited progress in developing their plans due to insufficient preparation time. NAPA recommended that all programs in an agency, not only those currently operating as pilots, begin as soon as possible to develop strategic and performance plans so that the FY 1998 and FY 1999 deadlines could be met.

If JOBS activities are retained within an AFDC block grant, a system of accountability for the end results of these activities would still be needed. GPRA and the administration's National Performance Review (NPR) promote the use of outcome indicators for all programs, including those funded through block grants. To date, however, data collected by states under most block grants have focused on process indicators such as the number of clients served. In addition, past block grant programs have not often gathered consistent information on program activities and outcomes to support congressional oversight. In reviewing data collection under block grants, we found that, among other things, national leadership in directing the development of model data-gathering criteria could increase data comparability and, as a result, oversight.

Clarifying Program Objectives Is First Step in Establishing Indicators and Goals

HHS and performance monitoring system experts agree that the first critical step in developing outcome indicators and performance goals is to reach agreement among stakeholders, such as the Congress; researchers; and federal, state, and local officials, regarding the objectives of the program. According to HHS, disagreements among stakeholders about the objectives of the JOBS program have been a major obstacle to developing JOBS outcome indicators. Difficulty clarifying JOBS objectives may again prove to be one of the biggest obstacles in the effort to establish outcome indicators and goals.

In our survey of state JOBS directors, we found some disagreement regarding the programs' overriding objectives. Eighty percent of the directors responded that the overriding objective was to prepare and place

participants in employment that allows them to move off and stay off AFDC. The other 20 percent stated that their objective was to get participants employed in any job, part- or full-time, even if the job might not allow them to move off AFDC. These two objectives, although consistent with the overall objectives of FSA, would likely produce differently designed JOBS programs and different short-term results, thus making the establishment of appropriate outcome goals difficult.

Conclusion

Program managers, policymakers and other stakeholders need to know whether JOBS participants are finding employment and leaving AFDC. Very little is known nationally about the outcomes of JOBS participants because HHS has not moved aggressively on developing an outcome monitoring system. Many believe that establishing effective outcome indicators and goals is critical to refocusing JOBS on the ultimate goals of employment and independence from welfare. Effective indicators and goals would also help ensure accountability for achieving these critical outcomes should AFDC and JOBS be replaced with a welfare-to-work block grant program that includes some JOBS' objectives and activities. The states have a strong interest in outcome measurement and are aggressively pursuing a variety of approaches in this area. State efforts provide a rich well of experience that can be drawn on in developing a national approach to measuring JOBS outcomes. To meet the requirements of FSA and GPRA, HHS must move decisively to establish national leadership regarding outcome measurement for JOBS.

Agency Comments

In its March 28, 1995, comments on our draft report, HHS generally agreed with our conclusion that its data are incomplete and focused on process-oriented goals. However, HHS believes that we did not (1) adequately portray the difficulty of developing an outcome-focused performance measurement system or (2) give adequate weight to the importance of certain technical issues or the progress that HHS has made in addressing those issues (see app. III). We added language in the report to more explicitly recognize the difficulty of the task and HHS' progress in identifying important technical issues (see p. 15). HHS also suggested minor technical revisions to the draft, which we incorporated as appropriate.

Our work was performed between January 1994 and February 1995, in accordance with generally accepted government auditing standards, with the exception that we did not check the accuracy of outcome data reported by HHS and the states.

We are providing copies of this report to the Secretary of Health and Human Services, other HHS officials, and state JOBS program administrators. We will also make copies available to other interested parties upon request. Major contributors to this report are listed in appendix IV. If you have questions about this report, please call Robert MacLafferty on (415) 904-2000.

Sincerely yours,



Jane L. Ross
Director, Income Security Issues

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Abbreviations

ACF	Administration for Children and Families
AFDC	Aid to Families With Dependent Children
APWA	American Public Welfare Association
FSA	Family Support Act
FY	fiscal year
GPRA	Government Performance and Results Act
HHS	Department of Health and Human Services
JOBS	Job Opportunities and Basic Skills Training
JTPA	Job Training Partnership Act
NAPA	National Academy of Public Administration
NPR	National Performance Review
NPRM	notice of proposed rule making
WIN	Work Incentive program

Scope and Methodology

To determine the progress HHS had made in establishing outcome indicators and goals and the issues relevant to their development, we interviewed officials from HHS' Administration for Children and Families, which is responsible for the JOBS program at the federal level. We also reviewed (1) the data-reporting procedures for the JOBS program, (2) HHS reports that summarize the outcome data collected at the federal level, and (3) various reports on the status within ACF of monitoring and developing outcome measures. We did not verify the accuracy of federal data, but were told by HHS officials that the data were not complete or accurate. In addition, we reviewed the welfare-to-work and performance measurement literature and spoke with officials from various welfare research and interest groups, including APWA, the National Governors' Association, and the Manpower Demonstration Research Corporation.

To determine state performance measurement practices, in May 1994, we surveyed JOBS program administrators in the 50 states and the District of Columbia. We also examined 1993 and 1994 reviews of state JOBS programs conducted by ACF's regional offices and obtained available reports on outcome data produced by the states.

In our survey, we used a mail questionnaire to collect information on FY 1993 general program characteristics, the use of performance indicators and goals at the state level, and state preferences regarding the development of nationwide indicators and goals. We also requested information for selected outcome data elements for FY 1993. We received survey responses from the District of Columbia and all 50 states except Iowa. However, no respondents could provide complete responses to our request for annual, unduplicated outcome data for FY 1993, even though many states reported that they monitor some outcome measures.

To obtain additional information and determine why states did not provide requested outcome data, we conducted follow-up telephone interviews with officials in 10 states: Alaska, Arkansas, California, Idaho, Louisiana, New Jersey, New Mexico, Nevada, New York, and Washington. We first identified states that reported that they monitor participants entering employment but were unable to provide an annual, unduplicated count of JOBS participants entering employment for FY 1993 (as we had requested in our survey). Among these states, we then selected 10 to contact, which included states with large, medium, and small caseloads. Based on our follow-up work, we determined that six states could not provide annual, unduplicated data because the data were not available. In the other four

Appendix I
Scope and Methodology

states, the data were available but reporting them would have required significant time or resources.

GAO Questionnaire Regarding JOBS Program Characteristics

Our survey, sent to state JOBS administrators, contained questions on general program characteristics, outcome indicators, outcome goals, and participant outcome data. This appendix includes the full text of the survey and the aggregate responses for the first three sections of the survey. The number cited next to each response category is the number of states that responded.

The appendix does not include the responses regarding participant outcome data. Many states were not able to provide the total number of individuals served by their programs in fiscal year 1993 and even fewer states could answer questions about participant outcomes in the format that we requested. As a result, we have not annotated the participant outcome data section of the survey with the incomplete data reported to us.

Appendix II
 GAO Questionnaire Regarding JOBS
 Program Characteristics

U.S. GENERAL ACCOUNTING OFFICE
 Survey of JOBS Program Directors Regarding
 Performance Standards and Participant Outcomes

INTRODUCTION

The U. S. General Accounting Office is conducting a study of performance standards and participant outcomes related to the Family Support Act of 1988. Specifically, we are interested in JOBS performance monitoring practices in your state and participant outcome data from your JOBS program. We are asking you to complete this questionnaire as part of a survey of all 50 state JOBS programs. The survey data will be used to provide a national picture of outcomes for the JOBS program. We will not use the data to compare performance among states.

INSTRUCTIONS

This questionnaire should be completed by the person who is most knowledgeable about performance monitoring and participant outcomes in your JOBS Program.

Please respond to the following questions for federal fiscal year 1993 (October 1, 1992 through September 30, 1993), unless otherwise noted. If your records are not organized by federal fiscal year, please respond for your state's fiscal year 1993.

Because some terms and their usage may vary across institutions, we have provided a glossary of terms that we will be using in the questionnaire. For example, the glossary defines outcome data and performance indicators. For your convenience, the glossary, listing the terms in alphabetical order, is on the inside cover of this questionnaire.

If you have any questions about this questionnaire, please call Steve Secrist in our San Francisco office, at (415) 904-2236. He will be glad to help you.

Please return the questionnaire in the enclosed pre-addressed business reply envelope within 14 days of receipt. If the envelope is misplaced, please return your questionnaire to:

Steve Secrist
 U.S. General Accounting Office
 301 Howard St., Suite 1200
 San Francisco, CA 94105

Before mailing your completed questionnaire, please make a copy that you can refer to should we call to ask for additional information.

Thank you for your assistance.

Please provide the information below about the person whom we may contact regarding the completion of this questionnaire.

Name: _____

Title: _____

Agency: _____

Phone Number: _____

**Appendix II
GAO Questionnaire Regarding JOBS
Program Characteristics**

GENERAL PROGRAM CHARACTERISTICS

1 In FY 93, was your JOBS program state-administered or county (locally) administered? (CHECK ONE)

1. 39 | State-administered
2. 11 | County (locally) administered

2 In FY 93, at what point in your JOBS program were most participants required to engage in a job search? (CHECK ALL THAT APPLY)

By **participants** we mean individuals who participated in at least one hour of approved JOBS component activities. **Approved JOBS activities** are those which states can provide according to federal regulations

1. 5 | Upon first involvement with JOBS
2. 36 | After completion of formal assessment, if determined job ready
3. 18 | After completion of an education activity, but before completion of the participant's employability plan
4. 21 | After completion of a training activity, but before completion of the participant's employability plan
5. 19 | After completion of a work-related activity, but before completion of the participant's employability plan
6. 25 | After completion of all activities in the participant's employability plan
7. 11 | After a determination that an individual is not making satisfactory progress in an education/training component
8. 1 | Never required
9. 12 | Other (PLEASE SPECIFY)

10. 0 | Don't know

3 In FY 93, had most county (local) JOBS programs in your state established a minimum education level at which they considered participants ready for employment? (CHECK ONE)

1. 27 | Yes (CONTINUE)
2. 23 | No (GO TO QUESTION 5)
3. 0 | Don't know (GO TO QUESTION 5)

4 What is the minimum educational level at which the largest number of your county (local) JOBS programs considered participants ready for employment? (CHECK ONE)

1. 10 | Literacy level at grade 8-9
2. 13 | High school diploma or GED equivalent
3. 4 | Other (Please specify)

5 In general, when your state prepared JOBS participants for employment in FY 93, which of the following was more similar to your program's overriding goal? (CHECK ONE)

1. 10 | To get participants employed in any job, part- or full-time, even if the job might not allow them to move off AFDC
2. 40 | To prepare and place participants in employment that allows them to move off and stay off AFDC

Appendix II
 GAO Questionnaire Regarding JOBS
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6. In most of the county (local) JOBS programs in your state, what, if anything, happened to mandatory participants who refused to participate in a component activity in FY 93? (CHECK ONE)
- The initial refusal ..
1. [39] started the sanction and reconciliation process
 2. [6] had no immediate consequences, but subsequent refusals started the sanction and reconciliation process
 3. [2] had no consequences
 4. [3] Other (PLEASE SPECIFY)
-
7. Consider the services your state provided to JOBS participants in FY 93. During the course of providing these services, how often, if ever did your state communicate to its JOBS participants that the ultimate goal of the JOBS program is employment? (CHECK ONE)
1. [18] Very often
 2. [24] Often
 3. [3] Sometimes
 4. [1] Rarely, if ever
 5. [4] Don't know/No basis to judge
8. In FY 93, to what extent, if any, did the JOBS program in your state emphasize to JOBS workers that their role was to prepare JOBS participants for employment? (CHECK ONE)
1. [15] To a very great extent
 2. [23] To a great extent
 3. [8] To a moderate extent
 4. [4] To some extent
 5. [0] To little or no extent
 6. [0] Don't know
9. In FY 93, to what extent, if any, did the JOBS program in your state emphasize to JOBS participants that they were obliged to participate in JOBS program activities? (CHECK ONE)
1. [21] To a very great extent
 2. [22] To a great extent
 3. [5] To a moderate extent
 4. [1] To some extent
 5. [1] To little or no extent
 6. [0] Don't know
10. To what extent, if any, has the JOBS program in your state moved the welfare system from a focus on income maintenance to one promoting work and self-sufficiency? (CHECK ONE)
1. [11] To a very great extent
 2. [6] To a great extent
 3. [17] To a moderate extent
 4. [14] To some extent
 5. [2] To little or no extent
 6. [0] Don't know

**Appendix II
GAO Questionnaire Regarding JOBS
Program Characteristics**

PERFORMANCE INDICATORS

11. In FY 93, did your state collect data on each of the following performance indicators to monitor the outcomes of your state's JOBS program? (CHECK YES OR NO FOR EACH)

Performance indicators are tools to monitor client outcomes in the JOBS program. By monitoring, we mean that data are used by managers to assess program results.

PERFORMANCE INDICATORS	Yes	No
	(1)	(2)
1. Educational/training achievement, such as graduation rates	24	26
2. Number of participants with reductions in AFDC grants due to employment	24	26
3. Number of participants no longer receiving AFDC due to employment	33	17
4. Number of participants entering employment	49	1
5. Number of participants entering employment that provides health insurance coverage	16	34
6. Hourly wages earned at time of hire	42	8
7. Expected weekly earnings at time of hire	11	39
8. Hourly wages earned at a specified time period after initial hire	11	39
9. Job retention rate after a specified length of time	26	24
10. Rate of return to AFDC, after a specified length of time, for those who left AFDC due to employment	14	36
11. Other (PLEASE SPECIFY)	8	42

12. What are the most important performance indicators that should be used to monitor JOBS participant outcomes at the national level? (CHECK ALL THAT APPLY)

1. [36] Educational/training achievement, such as graduation rates
2. [39] Number of participants with reductions in AFDC grants due to employment
3. [44] Number of participants no longer receiving AFDC due to employment
4. [46] Number of participants entering employment
5. [29] Number of participants entering employment that provides health insurance coverage
6. [35] Hourly wages earned at time of hire
7. [13] Expected weekly earnings at time of hire
8. [20] Hourly wages earned at a specified time period after initial hire
9. [40] Job retention rate after a specified length of time
10. [41] Rate of return to AFDC, after a specified length of time, for those who left AFDC due to employment
11. [7] Other (PLEASE SPECIFY)

Appendix II
 GAO Questionnaire Regarding JOBS
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13. Which of the following performance indicators, if any, does your state believe should not be used to monitor JOBS participant outcomes at the national level? (CHECK ALL THAT APPLY.)
1. 5] Educational/training achievement, such as graduation rates
 2. 4] Number of participants with reductions in AFDC grants due to employment
 3. 2] Number of participants no longer receiving AFDC due to employment
 4. 1] Number of participants entering employment
 5. 9] Number of participants entering employment that provides health insurance coverage
 6. 9] Hourly wages earned at time of hire
 7. 18] Expected weekly earnings at time of hire
 8. 15] Hourly wages earned at a specified time period after initial hire
 9. 4] Job retention rate after a specified length of time
 10. 3] Rate of return to AFDC, after a specified length of time, for those who left AFDC due to employment
 11. 3] Other (PLEASE SPECIFY)

14. For each of the performance indicators that you checked in question 13, please briefly describe the reason why your state believes it should not be used to monitor JOBS participant outcomes at the national level.
15. Which one of the following methods for establishing nationwide JOBS performance indicators would your state prefer? (CHECK ONE)
1. 0] Federal government, in consultation with the states, establishes the indicators for all states
 2. 34] States have flexibility to choose indicators from a menu established by the federal government in consultation with the states
 3. 12] States have complete flexibility to establish their own indicators
 4. 4] Other (PLEASE SPECIFY)

Appendix II
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- 16 How much do you think HHS' Administration for Children and Families (ACF) has moved the JOBS program to focus on performance indicators related to participant outcomes-- more than enough, enough, or less than enough? (CHECK ONE)
- 1 [0] Much more than enough
 2 [1] More than enough
 3 [7] Enough
 4 [25] Less than enough
 5 [16] Much less than enough
 [1] No answer provided
- 17 During FY 93, how easy or difficult was it for your state to collect data on outcome-related performance indicators? (CHECK ONE)
- 1 [0] Very easy
 2 [5] Somewhat easy
 3 [5] Neither easy nor difficult
 4 [23] Somewhat difficult
 5 [17] Very difficult
 6 [0] No basis to judge

18 During FY 93, to what extent, if any, did each of the following factors hinder your program's ability to collect data on outcome-related performance indicators? (CHECK ONE FOR EACH REASON)

PERFORMANCE INDICATORS	Little or No Extent (1)	Some Extent (2)	Moderate Extent (3)	Great Extent (4)	Very Great Extent (5)
1. Availability of funds	6	16	10	13	5
2. Availability of staff	3	6	9	20	12
3. Level of automation and data systems	5	9	10	10	16
4. Nature of current federal data gathering requirements	5	3	15	12	15
5. Amount of guidance provided by ACF on JOBS performance indicators related to outcomes	18	6	12	7	7
6. Others (PLEASE SPECIFY)					

Appendix II
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PERFORMANCE STANDARDS

19. In FY 93, did your JOBS program have state-wide performance standards for any of the outcomes you monitor?

Performance standards are benchmarks for given performance indicators. For example, a program may collect data on the performance indicator "number of participants entering employment." Its performance standard may be "25 percent of participants will gain full-time employment each year." (CHECK ONE)

- 1 [29] Yes (CONTINUE)
- 2 [21] No (GO TO QUESTION 22)
20. For which JOBS participant outcomes did your state have state-wide performance standards in FY 93? (CHECK ALL THAT APPLY)
- 1 [14] Educational/training achievement, such as graduation rates
2. [3] Number of participants with reductions in AFDC grants due to employment
- 3 [9] Number of participants no longer receiving AFDC due to employment
4. [27] Number of participants entering employment
- 5 [3] Number of participants entering employment that provides health insurance coverage
6. [16] Hourly wages earned at time of hire
- 7 [2] Expected weekly earnings at time of hire
- 8 [1] Hourly wages earned at a specified time period after initial hire
9. [2] Job retention rate after a specified length of time
- 10 [3] Rate of return to AFDC, after a specified length of time, for those who left AFDC due to employment
- 11 [0] Other (PLEASE SPECIFY) _____

21. In FY 93, did your state make any formal adjustments to its performance standards to account for local differences in either client characteristics or the availability of jobs? (CHECK ONE)

1. [5] Yes

2 [24] No

22. In FY 93, how many county (local) JOBS programs in your state had established countywide performance standards related to participant outcomes? (CHECK ONE)

1 [16] All

2. [2] Most

3. [0] About half

4 [7] Some

5 [25] None

23. In FY 93, how many counties in your state had established performance standards related to participant outcomes for county (local) JOBS program managers or staff? (CHECK ONE)

1. [7] All

2. [3] Most

3. [0] About half

4. [3] Some

5. [30] None

[1] No answer provided

30

Appendix II
GAO Questionnaire Regarding JOBS
Program Characteristics

- 24 In your view, should nationwide performance standards related to participant outcomes be established for the JOBS program? (CHECK ONE)
- 1 | 9 | Definitely yes
- 2 | 17 | Probably yes
- 3 | 8 | As much yes as no (undecided)
- 4 | 10 | Probably no
- 5 | 6 | Definitely no
- 25 If the federal government established nationwide performance standards related to participant outcomes for JOBS, which one of the following methods for establishing standards would your state prefer? (CHECK ONE)
- 1 | 1 | Federal government, in consultation with the states, establishes the standards for all states
- 2 | 33 | States have flexibility to choose standards from a menu established by the federal government in consultation with the states
- 3 | 13 | States have complete flexibility to establish their own standards
- 4 | 3 | Other (PLEASE SPECIFY) _____
- 26 If the federal government established nationwide performance standards related to participant outcomes for JOBS, should amounts of federal funding to state JOBS programs be linked to meeting these standards? (CHECK ONE)
- 1 | 3 | Definitely yes
- 2 | 11 | Probably yes
- 3 | 15 | As much yes as no (undecided)
- 4 | 8 | Probably no
- 5 | 13 | Definitely no
- 6 | 0 | No opinion
- 27 Consider the data you were required to collect and report to meet federal reporting requirements on **JOBS participation rates** in FY 93. How easy or difficult was it for your state to gather the data required to meet these reporting requirements? (CHECK ONE)
- 1 | 0 | Very easy
- 2 | 3 | Somewhat easy
- 3 | 2 | Neither easy nor difficult
- 4 | 24 | Somewhat difficult
- 5 | 21 | Very difficult
- 6 | 0 | No opinion
- 28 When your state collects federally required **JOBS participation rate data**, how useful, if at all, are these data in helping your state achieve its JOBS employment and training goals? (CHECK ONE)
- 1 | 1 | Very useful
- 2 | 2 | Moderately useful
- 3 | 20 | Somewhat useful
- 4 | 26 | Of little or no use
- 5 | 1 | No Opinion
- 29 Consider the data you were required to collect and report to meet federal reporting requirements on **JOBS target groups** in FY 93. How easy or difficult was it for your state to gather the data required to meet these reporting requirements? (CHECK ONE)
- 1 | 3 | Very easy
- 2 | 9 | Somewhat easy
- 3 | 9 | Neither easy nor difficult
- 4 | 18 | Somewhat difficult
- 5 | 10 | Very difficult
- 6 | 1 | No opinion

Appendix II
GAO Questionnaire Regarding JOBS
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30. When your state collects federally required data on JOBS target groups, how useful, if at all, are these data to helping your state achieve its JOBS employment and training goals? (CHECK ONE)

1. 2] Very useful
2. 5] Moderately useful
3. 12] Somewhat useful
4. 30] Of little or no use
5. 1] No Opinion

JOBS PARTICIPANT OUTCOME DATA

In this section of the questionnaire we are interested in data that are representative of your entire state. If your state collects participant outcome data on a sample basis, please generalize to the entire JOBS caseload in answering the participant outcome questions. If you do not believe your sample data are representative of the entire state, please check the "data are not available" box.

31. Are you providing information in this section of the questionnaire by federal fiscal year or state fiscal year? (CHECK ONE)

1. Federal fiscal year (10/1/92 - 9/30/93)
2. State fiscal year -> What is the beginning and ending date for your state's fiscal year 1993?
_____ to _____
Month/Year Month/Year

32. Of your total AFDC and AFDC-UP recipients in FY 93, how many participated for at least one hour, at any one time during the year, in an approved JOBS activity? An approved JOBS activity is one which states can provide according to federal regulations. (ENTER UNDUPLICATED NUMBER)

_____ Number participating in an approved JOBS activity

- Data are not available-> (GO TO QUESTION 51 ON PAGE 12)

Employment Entry and Retention

33. Of those in an approved JOBS activity in your state in FY 93, how many entered subsidized or unsubsidized employment at some point during the year? (ENTER NUMBER; IF NONE, ENTER '0')

1. _____ Entered subsidized employment

Data are not available

2. _____ Entered unsubsidized employment

Data are not available-> (GO TO QUESTION 46 ON PAGE 11)

34. Of those who entered unsubsidized employment in FY 93, how many had high school diplomas or GEDs? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Had high school diplomas or GEDs

Data are not available

35. Of those who did not enter unsubsidized employment in FY 93, how many had high school diplomas or GEDs? (ENTER NUMBER; IF NONE, ENTER '0')

_____ Had high school diplomas or GEDs

Data are not available

36. Of those who entered unsubsidized employment in FY 93, how many had any work experience in the previous 12 months? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Had work experience in the previous 12 months

Data are not available

**Appendix II
GAO Questionnaire Regarding JOBS
Program Characteristics**

37. Of those who did not enter unsubsidized employment in FY 93, how many had any work experience in the previous 12 months? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Had work experience in the previous 12 months

Data are not available

38. Of those who entered unsubsidized employment in FY 93, how many, if any, took (1) full time jobs (working 30 hours or more per week) and (2) part-time jobs (working less than 30 hours per week)? (ENTER NUMBERS, IF NONE, ENTER '0')

1. _____ Took full-time jobs

Data are not available

2. _____ Took part-time jobs

Data are not available

39. Of those who entered unsubsidized employment in FY 93, how many took jobs which provided them with health insurance? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Took jobs with health insurance

Data are not available

40. For those who entered unsubsidized employment in FY 93, on average how many months were they in an approved JOBS activity prior to entering employment? (ENTER NUMBER, IF NONE ENTER '0')

_____ Months in an approved JOBS activity

Data are not available

41. Consider the individuals in an approved JOBS activity who entered unsubsidized employment in your state during FY 93. Were follow-up efforts made to determine if they are still employed? (CHECK ONE)

1. Yes (CONTINUE)

2. No (GO TO QUESTION 43)

42. Consider again individuals in an approved JOBS activity who entered unsubsidized employment during FY 93. Please indicate the time period(s) during which you followed-up on these individuals, and for each applicable time period, provide the number of individuals who remained employed. (CHECK YES OR NO FOR EACH, IF YES, ENTER NUMBER)

	YES (1)	NO (2)	NUMBER
			IF REMAINED EMPLOYED -->
1. After 3 months			_____
2. After 6 months			_____
3. After other time period (SPECIFY)			_____

Changes in AFDC Receipt for Those Who Entered Employment

43. For those in an approved JOBS activity who entered unsubsidized employment in FY 93, how many were in the following categories at time of job entry? (ENTER NUMBERS, IF NONE, ENTER '0')

1. Remained on AFDC with no grant reduction _____

Data are not available

2. Remained on AFDC with a reduced cash grant _____

Data are not available

3. Stopped receiving a cash grant _____

Data are not available --> (GO TO QUESTION 46)

Appendix II
GAO Questionnaire Regarding JOBS
Program Characteristics

44. Consider the individuals in an approved JOBS activity who stopped receiving AFDC due to employment in FY 93. Were follow-up efforts made to determine if they remained off AFDC? (CHECK ONE)

1. Yes (CONTINUE)
2. No (GO TO QUESTION 46)

45. Consider again the individuals in an approved JOBS activity who stopped receiving AFDC due to employment in FY 93. Please indicate the time period during which you followed-up on these individuals, and for each applicable time period, provide the number of individuals who remained off AFDC due to employment. (CHECK YES OR NO FOR EACH; IF YES, ENTER NUMBER)

	YES (1)	NO (2)	IF yes AFDC ->	NUMBER REMAINED OFF AFDC
1. After 3 months				_____
2. After 6 months				_____
3. After other time period (SPECIFY)				_____

Education Component

46. Of those in an approved JOBS activity in your state during FY 93, how many participated in an education component, that is adult basic education, English-as-a-Second Language, high school, GED, or post-secondary education? (ENTER UNDUPLICATED NUMBER; IF NONE, ENTER '0')

_____ Number in an education component

Data are not available-> (GO TO QUESTION 51)

47. Of those in your state's JOBS program who participated in an education component, how many successfully completed that component in FY 93? (ENTER NUMBER; IF NONE, ENTER '0')

_____ Successfully completed education component

Data are not available

48. Of those in your state's JOBS program who successfully completed an education component during FY 93, how many entered unsubsidized employment in FY 93? (ENTER NUMBER; IF NONE, ENTER '0')

_____ Entered unsubsidized employment

Data are not available

49. Of those in your state's JOBS program in FY 93 who successfully completed an education component, how many did each of the following. (ENTER NUMBERS; IF NONE, ENTER '0')

1. Obtained high school diploma or GED _____

Data are not available

2. Obtained post-secondary degree _____

Data are not available

3. Other (PLEASE SPECIFY) _____

50. Did your state test those who completed an educational component in FY 93 to determine whether they made any measurable educational gains as a result of their participation? (CHECK ONE)

1. Yes

2. No

Appendix II
GAO Questionnaire Regarding JOBS
Program Characteristics

Training Component

51. Of those in an approved JOBS activity in your state during FY 93, how many participated in a training component (program), that is, one which provides vocational training in technical job skills and/or helps develop knowledge and abilities in a specific occupational area? (ENTER UNDUPLICATED NUMBER, IF NONE, ENTER '0')

_____ Number in a training component

[] Data are not available --> (GO TO QUESTION 55)

52. Of those in your state's JOBS program who were in a training component during FY 93, how many successfully completed the training component in FY 93? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Successfully completed training component

[] Data are not available

53. Of those in your state's JOBS program who successfully completed a training component during FY 93, how many entered unsubsidized employment in FY 93? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Entered unsubsidized employment

[] Data are not available

54. Of those in your state's JOBS program who entered unsubsidized employment in FY 93 after completing a training component, how many, if any, entered an occupation for which they had been trained by the JOBS program? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Entered occupation for which they were trained

[] Data are not available

Teen Parents

55. How many teen parents participated in an approved activity in your state's JOBS program during FY 93? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Teen parents in approved JOBS activity

[] Data are not available --> (GO TO QUESTION 60)

56. Of the teen parents participating in an approved JOBS activity, during FY 93 how many were in a high school, GED, basic education, or similar education program? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Teen parents in education programs

[] Data are not available

57. Of the teen parents in an education program during FY 93, how many completed their high school degree or equivalent education program in FY 93? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Teen parents completed high school or equivalent

[] Data are not available

58. Of those teen parents who completed a high school degree or equivalent education program, how many entered employment in FY 93? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Teen parents who completed a high school degree or equivalent and entered employment

[] Data are not available

**Appendix II
GAO Questionnaire Regarding JOBS
Program Characteristics**

59. Of those teen parents without a high school degree or equivalent, how many entered employment in FY 93? (ENTER NUMBER, IF NONE, ENTER '0')

_____ Teen parents without a high school degree or GED and entered employment

Data are not available

PARTICIPATION, COST AND PROGRAM EVALUATIONS

60. Of your total AFDC and AFDC-UP recipients in January, 1994, how many participated in an approved JOBS activity during the month? (ENTER UNDUPLICATED NUMBER; IF NONE, ENTER '0')

_____ Number participating in an approved JOBS activity

61. Of those in an approved activity in your state's JOBS program in January, 1994, how many had participated in JOBS for a total of 2 years or more? (ENTER NUMBER; IF NONE, ENTER '0')

_____ Number participating in JOBS for 2 years or more

Data are not available

62. What is the average length of stay in months for a single spell on AFDC, for all AFDC recipients in your state and for those in an approved JOBS activity? (ENTER NUMBERS)

1. _____ Months for all AFDC recipients

Data are not available

2. _____ Months for those in an approved JOBS activity

Data are not available

63. What was the total annual cost (federal and state) of your JOBS program during FY 93? Please exclude child care costs and services obtained from other programs and not charged to the JOBS budget. (ENTER AMOUNT)

\$ _____

Data are not available

64. Have the statewide JOBS program, a component of the statewide program, or a county (local) program ever been the subject of a program evaluation which used an experimental design to compare the outcomes of those who participate in JOBS with the outcomes of those who do not participate in JOBS (CHECK ONE)

1. Yes -> Please provide the contact person, name and telephone number of the organization conducting the evaluation.

Contact person: _____

Name of Organization: _____

Telephone Number: _____

2. No

Appendix II
 GAO Questionnaire Regarding JOBS
 Program Characteristics

- 65 In your opinion, which county (or other local jurisdiction) within your state operates the most effective JOBS program? By effective we mean a program that achieves state program goals and can document its success with outcome based performance data or program evaluation results?

Name of local jurisdiction _____

Please provide the name and phone number of the county JOBS director for the county named above

Name _____

Phone Number () _____

- 66 In the space below, please briefly describe your reason(s) for selecting the above program

COMMENTS

- 67 In this questionnaire, we ask about statewide performance data related to employment, job retention, AFDC status, and education and training. Have you collected any other data on JOBS outcomes in your state— for example, from a special program, a pilot program, or a demonstration project? (CHECK ONE)

1. Yes --> PLEASE PROVIDE YOUR DATA

2. No

- 68 Please provide below any comments that you might have about this questionnaire, performance indicators and standards, or client outcomes in the JOBS program

Appendix II
 GAO Questionnaire Regarding JOBS
 Program Characteristics

GLOSSARY

AFDC Recipient - As used in this questionnaire, AFDC recipient refers to the parent or parents receiving AFDC benefits and does not include dependent children.

Approved JOBS Activity - A JOBS activity which can be provided by states according to federal regulations.

Education - Education includes programs, such as adult basic education, English as a Second Language, high school, GED, and post-secondary degrees.

Outcome Data - Information about the status of individuals enrolled in JOBS at a given point in time. Examples of outcome data include the number of individuals who find a job, the number of individuals who are still employed after 1 year, and the number of individuals who leave AFDC due to wages.

Participants - Individuals who participate in at least one hour of approved JOBS component activities.

Performance Indicator - A performance indicator is a tool to monitor client outcomes in the JOBS program. For example, one possible performance indicator for the JOBS program could be the percent of those enrolled in the program who find jobs annually.

Performance Standard - A performance standard is a benchmark or quantitative target for a given performance indicator. For example, 75 percent of teen parents enrolled in JOBS each year will complete their high school education.

Subsidized Employment - Subsidized employment requires full or partial payment of the wages from government funds. Examples of this include on the job training and work supplementation.

Training - Training programs provide vocational training in technical job skills and/or help develop knowledge and abilities in a specific occupational area.

Unsubsidized employment - In unsubsidized employment, the wages of the employee are paid solely by the employer. For the purposes of this questionnaire, this includes employment for which an employer receives the Targeted Jobs Tax Credit.

Comments From the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAR 28 1995

Ms. Jane L. Ross
Director, Income
Security Issues
United States General
Accounting Office
Washington, D.C. 20548

Dear Ms. Ross:

Enclosed are the Department's comments on your draft report, "Welfare to Work: HHS Does Not Know if JOBS Participants Are Becoming Self-Sufficient." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely yours,

A handwritten signature in cursive script that reads "June Gibbs Brown".

June Gibbs Brown
Inspector General

Enclosure

Appendix III
 Comments From the Department of Health
 and Human Services

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE
 GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT: "WELFARE TO WORK:
 HHS DOES NOT KNOW IF JOBS PARTICIPANTS ARE BECOMING SELF-
 SUFFICIENT" (GAO/HEHS-95-86)

Thank you for the opportunity to comment on the draft report.

General Comments

The report identified many of the problems with data collection, the lack of consensus by Job Opportunities and Basic Skills Training (JOBS) directors on outcome goals and measures, and whether such goals and measures should be mandatory and/or subject to penalty. We agree that our data is incomplete and that our data collection has been largely focused on process-oriented goals.

We believe the report minimizes both the legislation's role in establishing the process measures and the States' inability to accurately report even the current required data elements. As the Department's Report to Congress indicated, there is general agreement that there should be outcome measures. Deciding on effective, equitable outcome goals and measures which allow State flexibility and account for variations across States is not easy. The only outcome measure that 49 of the 50 States presently collect is one that is currently required by the Department (i.e., JOBS participants entering employment).

Outcome goals drive program operations. With the interdependence of welfare-related programs like Aid to Families with Dependent Children (AFDC), Food Stamps and the Job Training Partnership Act, outcomes need to be consistent among related programs.

We have identified several issues that need to be addressed and dealt with prior to using outcomes as the basis for performance measurement and standards. These issues include:

- an inconsistent relationship between outcomes and program effectiveness;
- the establishment of a "level playing field" across and within States, and over time;
- the determination of who is "counted" in measuring performance; and
- the recognition that different State JOBS programs may have different objectives.

While these issues are briefly discussed by GAO, we do not believe that their importance nor the progress the Department has made in addressing these issues is given adequate weight. In particular, the Department has worked closely with researchers,

Appendix III
Comments From the Department of Health
and Human Services

Page 2

academics, and Federal, State, and local officials to identify and develop methods to resolve these issues. This work has been critical in working towards the development of a performance-based system which will be effective in promoting both high performance programs and accountability. The Report to Congress prepared by the Department and submitted in September 1994, provides more detail on these issues and activities. The GAO report would be more balanced, accurate, and useful if it reflected both the issues faced in developing a responsible performance measurement system and the strides the Department has made in overcoming them.

Additionally, we believe that the title on your draft report does not accurately portray its content. We suggest that you change the title of your report to: "JOBS Outcome Indicators and Performance Goals."

Major Contributors to This Report

Robert L. MacLafferty, Assistant Director, (415) 904-2000
Stephen D. Secrist, Evaluator-in-Charge, (415) 904-2000
Susan E. Arnold
Kay E. Brown
LuAnn M. Moy
Ann T. Walker
Christina L. Warren
Karen D. Wright

United States General Accounting Office

GAO

Report to the Chairman, Subcommittee
on Employment and Productivity,
Committee on Labor and Human
Resources, U.S. Senate

January 1994

MULTIPLE EMPLOYMENT TRAINING PROGRAMS

Conflicting Requirements Hamper Delivery of Services



GAO/HEHS-94-78



United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-253138

January 28, 1994

The Honorable Paul Simon, Chairman
Subcommittee on Employment and Productivity
Committee on Labor and Human Resources
United States Senate

Dear Mr. Chairman:

For many years, administrators and clients have struggled to navigate through the increasing multitude of federal employment training programs. Our analysis of the President's proposed fiscal year 1994 budget identified at least 154 programs¹ that provide about \$25 billion in funding for employment training assistance for adults and out-of-school youth.² Many of the 154 programs provide similar or complementary services to the same target populations. To promote coordination among these programs, the Congress has required some agencies to jointly plan their activities, and, in some instances, has provided funding to facilitate coordination efforts. In addition, several states have taken steps to better coordinate service delivery at the local level. However, differences in program requirements often hamper efforts to coordinate the delivery of services to help people find jobs.

This report responds to your request that we identify how programs serving the same target populations differ concerning (1) eligibility requirements and (2) annual operating cycles.³ Our review focused on 38 programs providing employment training assistance to four target groups—economically disadvantaged, older, younger, and dislocated workers—at a cost of \$8.1 billion.⁴ In our analysis of each program, we reviewed the statutes, regulations, and agency documents. We also held discussions with state and local administrators regarding program requirements.

¹As used in this report, "employment training program" refers to those programs and related funding streams that provide assistance to adults and out-of-school youth that enhances individual skills or employment opportunities. Appendix I lists each of the 154 programs and their proposed funding for fiscal year 1994.

²Multiple Employment Programs: National Employment Training Strategy Needed (GAO/HRD-93-27, June 18, 1993).

³The original request asked that we also look at differences in performance measures; however, because of the limited number of programs with specific performance measure definitions, it was agreed that we would drop this issue from our analysis.

⁴Appendix II shows the 38 programs by target population and their proposed funding levels for fiscal year 1994.

In addition to this report, we are issuing another report concerning problems with the current fragmented "system" of multiple employment training programs. That report, Multiple Employment Training Programs: Overlapping Programs Can Add Unnecessary Administrative Costs (GAO/HEHS-94-80, Jan. 28, 1994), concerns the extent to which programs overlap in the populations they target, in the services they provide, and in the administrative structures they create to deliver those services. We also have other ongoing work that (1) concerns the extent to which federal agencies know whether their employment training programs are effective in helping participants compete in the workforce and (2) addresses the need for a major overhaul of the entire federal employment training system.

Background

In 1992, at least 9.4 million people of work age were unemployed during some part of the year. At the same time, others were trying to enter the workforce for the first time. While many of these people were successful at finding jobs, others had more difficulty. Among those groups with the highest unemployment were youth, with an unemployment rate almost three times the national average. On average, over 1.3 million youth between the ages of 16 and 19 were unemployed each month in 1992. Large numbers of economically disadvantaged workers also had difficulty finding jobs. Of the 4.8 million families on Aid to Families With Dependent Children (AFDC) each month, about 8 percent of the adults worked in 1992. Other groups, such as Native Americans, migrants, and older workers, also had a difficult time finding a job.

To help people from these groups find a place in the workforce, the federal government has created a variety of programs. Many of these programs target the same populations. Our work identified 10 groups that were the focus of most federal employment training programs—economically disadvantaged, older workers, youth, dislocated workers, Native Americans, refugees, migrants, the homeless, women and minorities, and veterans.

These programs often provide the same target population similar or complementary services in the same five basic areas: (1) counseling and assessment, (2) remedial education, (3) vocational skills training, (4) placement assistance, and (5) support services. To make the most of the limited resources available in each program, it is important that these programs work together as they deliver services at the local level.

Results in Brief

Conflicting eligibility requirements and differences in annual operating cycles are hampering the ability of programs to provide participants needed services. Despite decades of efforts to better coordinate employment training programs, conflicting requirements continue to make it difficult for program staff to coordinate activities and share resources. One state administrator stated the problem especially clearly: "The aim of case management is to access various programs in order to deliver the best services possible to clients. However, conflicting requirements turn coordination into a jigsaw puzzle...."

Differences in eligibility criteria make determining who is eligible for which program a complex process that confuses clients and frustrates administrators. For example, the nine programs targeting the economically disadvantaged use several different standards for measuring income level, for defining family or household, and for defining what is included in income. Programs targeting older workers create confusion because they use differing age requirements to define "older worker." Programs targeting youth differ in age criteria at both the lower age limit and the upper age limit. Dislocated worker programs differ in their criteria for what constitutes an eligible "job loss" such as in the recognition of pending layoff notices, definitions of dates of employment, voluntary separations, and reduced hours or wages.

Within each target group, differences in annual operating cycles also hamper the ability of program administrators to plan together to ensure that participants receive the services they need. For example, the 16 programs that target youth have four different operating cycles. Some programs serving the same target population will have completed their planning process and begun operation on January 1, while other programs will not complete their planning until the following July. As a result, administrators may not be able to coordinate their plans to ensure that the resources needed to serve their clients are available.

Differences in Eligibility Criteria Hamper Delivery of Services

Reconciling definitions for eligibility among programs attempting to serve the same target populations can help programs share resources and coordinate activities. However, we found significant differences in the eligibility criteria in each of the four target groups we analyzed. For example, not all programs targeting the economically disadvantaged used the same definition of "economically disadvantaged." We found that six different standards were used for defining income eligibility levels, five for defining family or household, and five for defining what is included in

income. As a result, a member of a family of four with an income of \$20,040 would be considered "disadvantaged" and eligible for services from one program, but the same \$20,040 income exceeds another program's definition of "disadvantaged," making the family member ineligible for services from that program. With the need for programs to be able to share resources to meet all their clients' needs, this could mean that some clients may not be able to obtain needed services. See appendix III for more information on the different standards used in each of the programs that targeted the economically disadvantaged.

Given the confusion created by the differing eligibility requirements, it is not surprising that a recent survey of state and local administrators showed that administrators frequently recommended standardizing the term "economically disadvantaged." Most of those surveyed wanted to standardize all terms related to income definitions, such as what constitutes family income or personal income, how to establish ownership of resources, and what is included in income disregards. One benefit that the administrators felt could be achieved by developing standard definitions and criteria was that the same intake form could be used across programs, which would facilitate coordination efforts and improve service delivery.⁶

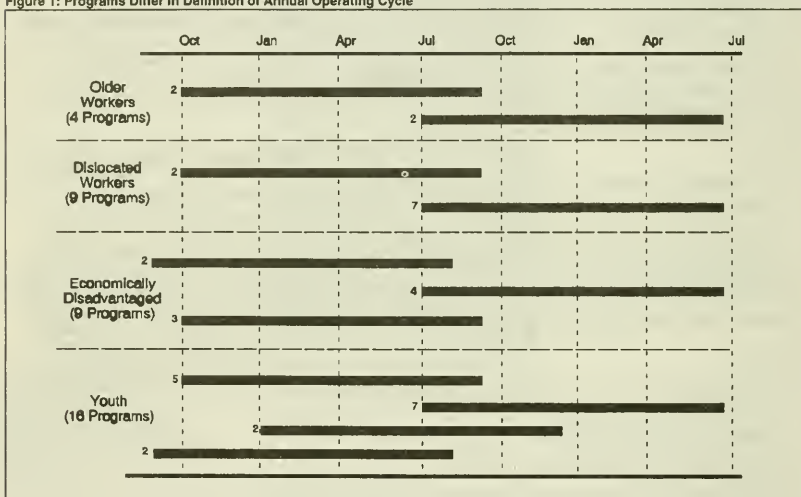
Income criteria are not the only eligibility concern. Programs targeting older workers differ in how they define "older worker." Some used a minimum age of 55 years, while others used a minimum of 60 years. Programs targeting youth also differ in their age limits. Lower age limits for youth programs ranged from 11 to 16 years of age, while upper age limits ranged from 19 to 27. See appendixes IV and V, respectively, for more information on the age criteria used by older worker programs and youth programs. As mentioned earlier, dislocated worker programs differ in their criteria for what constitutes an eligible "job loss." See appendix VI for more information on each program's definition of what constitutes a job loss. These differences, according to state and local administrators, not only make it difficult for case managers to determine eligibility of clients, but clients themselves feel confused and discriminated against.

⁶Streamlining and Integrating Human Resource Development Services for Adults, National Governors' Association, Training and Employment Program (Center for Policy Research, 1991).

Differences in Operating Cycles Also Hamper Coordination

Differences in program operating cycles also make it difficult for administrators attempting to coordinate their programs through joint planning. Matching available funding with estimates of the number of those seeking assistance is more complex, if not impossible, when operating cycles do not match. However, as shown in figure 1, we found that programs within each of the four target groups operate on different annual cycles. Most programs (20) operated on the basis of a program year (July 1-June 30); 12 programs operated on the federal fiscal year (October 1-September 30); 4 programs operated on an academic year (September 1-August 31); and 2 programs operated on a calendar year (January 1-December 31). See appendix VII for more information on the operating cycles for each program in our analysis.

Figure 1: Programs Differ in Definition of Annual Operating Cycle



This problem is compounded for program administrators who need to integrate program operating cycles into state and local operating time frames. One state administrator, for example, indicated that his state operates on a September to August time frame, while some federal programs operate on the federal fiscal year (October 1 to September 30), and others operate on a program year (July 1 to June 30).

To accomplish joint planning, agencies must resort to several circuitous strategies. According to local administrators, some officials set low estimates of the number of clients from other programs they can serve or others only commit resources they know will be available but contribute additional resources if they become available at a later time. Other agencies make such commitments contingent on expected funding so they are not held to prior commitments when their expected funding levels are not realized. Unfortunately, these methods can result in the underutilization of available resources or crisis planning when resources are available.

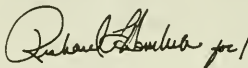
Conclusion

Programs are increasingly being directed to coordinate activities and share resources to ensure that anyone who needs help can get it. Nevertheless, program administrators, as well as those people needing employment training assistance, continue to face a fragmented "system" of categorical programs characterized by differences in eligibility requirements and annual operating cycles. Differences in eligibility criteria and operating cycles among programs serving the same target populations act as barriers to coordinating program services and impede the effective delivery of needed services and the efficient use of program resources. As a result, people in need of employment training assistance may not have access to the services they need to help them find jobs.

B-253138

Our work was conducted between April and September 1993 in accordance with generally accepted government auditing standards. As you requested, agency comments on this report were not obtained, but copies will be sent to those involved and other interested parties. Should you have any questions or wish to discuss the information provided, please call me at (202) 512-7014. Other major contributors are listed in appendix VIII.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Linda G. Morra for".

Linda G. Morra
Director, Education
and Employment Issues

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Contents

Abbreviations

AFDC	Aid to Families With Dependent Children
EDWAA	Economic Dislocation and Worker Adjustment Assistance
IRS	Internal Revenue Service
JOBS	Job Opportunities and Basic Skills Training
JTPA	Job Training Partnership Act
OPM	Office of Personnel Management
LLSIL	Lower Living Standard Income Level
SCSEP	Senior Community Service Employment Program
SSI	Supplemental Security Income
TAA	Trade Adjustment Assistance
UI	Unemployment Insurance

Appendix I

Federal Employment and Training Programs Proposed Funding Levels by Agency (Fiscal Year 1994)^a

Dollars in millions	
Agency and programs	Fiscal year 1994 ^b
All programs (154)	Total: \$24,837.7
Action - (3) programs	Total: 100.9
Literacy Corps	5.3
Foster Grandparent Program	66.4 ^c
Senior Companion Program	29.2 ^c
Department of Agriculture - (1) program	Total: 162.7
Food Stamp Employment & Training	162.7 ^c
Appalachian Regional Commission - (1) program	Total: 11.2
Appalachian Vocational and Other Education Facilities and Operations	11.2
Department of Commerce - (9) programs	Total: 220.5
Minority Business Development Centers	24.4
American Indian Program	1.9
Economic Development-Grants for Public Works and Development	135.4
Economic Development-Public Works Impact Program	d
Economic Development-Support for Planning Organizations	24.8
Economic Development-Technical Assistance	10.4
Economic Development-State and Local Economic Development Planning	4.5
Special Economic Development and Adjustment Assistance Program-Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration	19.1
Community Economic Adjustment	e
Department of Defense - (2) programs	Total: 72.8
Military Base Reuse Studies and Community Planning Assistance	6.0
Transition Assistance Program	66.8 ^c
Department of Education - (60) programs	Total: 13,031.4
Even Start-State Educational Agencies	88.8
Even Start-Migrant Education	2.7
Women's Educational Equity	2.0
Indian Education-Adult Education	4.9
Migrant Education-High School Equivalency Program	8.1
Migrant Education-Collage Assistance Migrant Program	2.3
School Dropout Demonstration Assistance	37.7 ^c
Adult Education-State Administered Basic Grant Program	261.5
Adult Education for the Homeless	10.0
National Adult Education Discretionary Program	9.3
Vocational Education-Demonstration Projects for the Integration of Vocational and Academic Learning	f
Vocational Education-Educational Programs for Federal Correctional Institutions	f
Vocational Education-Comprehensive Career Guidance and Counseling	f

(continued)

**Appendix I
Federal Employment and Training Programs
Proposed Funding Levels by Agency (Fiscal
Year 1994)^a**

Dollars in millions

Agency and programs	Fiscal year 1994^b
Vocational Education-Blue Ribbon Vocational Educational Programs	1
Vocational Education-Model Programs for Regional Training for Skilled Trades	1
Vocational Education-Business/Education/Labor Partnerships	1
Vocational Education-Tribally Controlled Postsecondary Vocational Institutions	2.9
Vocational Education-Tribal Economic Development	1
Vocational Education-Basic State Programs	717.5 ^c
Vocational Education-State Programs and Activities	81.3
Vocational Education-Single Parents, Displaced Homemakers, and Single Pregnant Women	69.4
Vocational Education for Sex Equity	31.1
Vocational Education-Programs for Criminal Offenders	9.6
Vocational Education-Cooperative Demonstration	1
Vocational Education-Indian and Hawaiian Natives	15.1
Vocational Education-Opportunities for Indians and Alaskan Natives	1
Vocational Education-Community Based Organizations	11.8 ^c
Vocational Education-Bilingual Vocational Training	0.0
Vocational Education-Demonstration Centers for the Training of Dislocated Workers	c ^d
Vocational Education-Consumer and Homemaking Education	0.0
Vocational Education-TechPrep Education	104.1
National Workplace Literacy Program	22.0
English Literacy Program	0.0
Literacy for Incarcerated Adults	5.1
National Center for Deaf-Blind Youth and Adults	6.7
State Literacy Resource Centers	7.9
Student Literacy Corps	6.1 ^c
Federal Pell Grant Program ^e	2,846.9
Guaranteed Student Loans ^e	5,889.0
Federal Supplemental Education Opportunity Grants ^e	125.0
Upward Bound	160.5 ^c
Talent Search	67.0 ^c
Federal Work Study Program ^e	89.6
Federal Perkins Loan Program-Federal Capital Contributions ^e	13.0
Grants to States for State Student Incentives	0.0
Educational Opportunity Centers	23.3 ^c
Higher Education-Veterans Education Outreach Program	3.1
Student Support Services	110.3
Postsecondary Education Programs for Persons with Disabilities	8.8
Rehabilitation Services Basic Support-Grants to States	1,933.4
Rehabilitation Services Basic Support-Grants for Indians	6.4

(continued)

**Appendix 1
Federal Employment and Training Programs
Proposed Funding Levels by Agency (Fiscal
Year 1994)^a**

Dollars in millions

Agency and programs	Fiscal year 1994^b
Rehabilitation Services Service Projects-Handicapped Migratory and Seasonal Farm Workers	1.2
Rehabilitation Services Service Projects-Special Projects and Demonstrations for Providing Vocational Rehabilitation Services to Individuals With Severe Disabilities	19.9
Rehabilitation Services Service Projects-Supported Employment Projects With Industry Programs	10.6
Supported Employment Services for Individuals with Severe Handicaps	21.6
Comprehensive Services for Independent Living	33.1
Library Literacy	15.8
School to Work ^b	0.0
Public Library Services	135.0 ^c
Department of Health and Human Services - (14) programs	Total: 2,203.5
Job Opportunities and Basic Skills Program	825.0 ^c
Community Services Block Grant	352.7
Community Services Block Grant- Discretionary Award	39.7
Community Services Block Grant Discretionary Awards-Demonstration Partnership	4.4
Refugee and Entrant Assistance-Discretionary Grants	12.6
Refugee and Entrant Assistance-State Administered Programs	84.4
Refugee and Entrant Assistance-Voluntary Agency Programs	39.9
Community Demonstration Grant Projects for Alcohol and Drug Abuse Treatment of Homeless Individuals	-
Family Support Centers Demonstration Program	6.9
State Legalization Impact Assistance Grants	809.9
Transitional Living for Runaway and Homeless Youth	11.8 ^c
Independent Living	16.2 ^c
Scholarships for Health Professions Students From Disadvantaged Backgrounds	-
Health Careers Opportunity Program	-
Department of Housing and Urban Development - (4) programs	Total: 303.4
Emergency Shelter Grants Program	51.4
Supportive Housing Demonstration Program	164.0
Youthbuild ^b	88.0 ^c
Family Self-Sufficiency Program	-
Department of the Interior - (2) programs	Total: 20.9
Indian Employment Assistance	16.9
Indian Grants-Economic Development	4.0
Department of Labor - (36) programs	Total: 7,141.5
JTPA IIA Training Services for the Disadvantaged-Adult	793.1 ^c
JTPA IIA State Education Programs	82.4 ^c
JTPA IIA Incentive Grants	51.5 ^c
JTPA IIA Training Programs for Older Individuals	51.5 ^c

(continued)

Appendix I
Federal Employment and Training Programs
Proposed Funding Levels by Agency (Fiscal
Year 1994)

Dollars in millions

Agency and programs	Fiscal year 1994^b
JTPA IIC Disadvantaged Youth	563.1 ^c
JTPA IIC Disadvantaged Youth-Incentive Grants	34.3 ^c
JTPA IIC Disadvantaged Youth-State Education Programs	54.9 ^c
JTPA IIB Training Services for the Disadvantaged-Summer Youth Employment and Training Program (Regular)	1,688.8 ^c
JTPA IIB Summer Youth Employment and Training Program (Native American)	^{b, k}
JTPA EDWAA-Dislocated Workers (Local SDA Allotment) ^h	229.5 ^c
JTPA EDWAA-Dislocated Workers (Governor's 50% Discretionary) ^h	229.5 ^c
JTPA EDWAA-Dislocated Workers (Secretary 20% Discretionary) ^h	114.7 ^c
JTPA Defense Conversion Adjustment Program	^{c, m}
JTPA Defense Diversification	^{c, n}
JTPA Clean Air Employment Transition Assistance	^{c, o}
JTPA-Migrant and Seasonal Farmworkers	78.3
JTPA-Employment and Training Research and Development Projects	11.2
JTPA Employment Services and Job Training-Pilot and Demonstration Programs	35.1
JTPA-Native American Employment and Training Programs	61.9
JTPA Job Corps	1,153.7 ^c
Federal Bonding Program	0.2
Senior Community Service Employment Program	421.1 ^c
Apprenticeship Training	17.2
Trade Adjustment Assistance-Workers	215.0 ^c
Targeted Jobs Tax Credit	19.2
Employment Service-Wagner Peyser State Grants (7a)	734.8
Employment Service-Wagner Peyser Governor's Discretionary Funds (7b)	81.6
Labor Certification for Alien Workers	58.6
Interstate Job Bank	1.9
Youth Fair Chance ^l	25.0 ^c
One-Stop Career Centers ^l	150.0
Veterans Employment Program	9.0
Disabled Veterans Outreach Program	84.0
Local Veterans Employment Representative Program	77.9
Homeless Veterans Reintegration Project	^l
Job Training for the Homeless Demonstration Project	12.5
Office of Personnel Management - (1) program	Total: ^q
Federal Employment for Disadvantaged Youth-Summer	^{c, c}
Small Business Administration - (8) programs	Total: 157.4
Management and Technical Assistance for Socially and Economically Disadvantaged Businesses	8.1
Small Business Development Center	67.0

(continued)

**Appendix I
Federal Employment and Training Programs
Proposed Funding Levels by Agency (Fiscal
Year 1994)***

Dollars in millions

Agency and programs	Fiscal year 1994^b
Women's Business Ownership Assistance	1.5
Veteran Entrepreneurial Training and Counseling	0.4
Service Corps of Retired Executives Association	3.1
Business Development Assistance to Small Business	20.9
Procurement Assistance to Small Business	33.7
Minority Business Development	22.7
Department of Transportation - (1) program	Total: 1.5
Human Resource Programs	1.5
Department of Veterans Affairs - (12) programs	Total: 1,410.0
All-Volunteer Force Educational Assistance	895.1
Selected Reserve Educational Assistance Program	†
Survivors and Dependents Educational Assistance	109.1
Vocational Rehabilitation for Disabled Veterans	245.1
Post-Vietnam Era Veterans Educational Assistance	42.4
Hostage Relief Act Program	‡
Vocational Training for Certain Veterans Receiving VA Pension	†
Vocational and Educational Counseling for Servicemembers and Veterans	†
Service Members Occupational Conversion and Training	64.5
Health Care for Homeless Veterans	28.3
Domiciliary Care for Homeless Veterans	23.4
Housing and Urban Development/Veterans Affairs-Supported Housing	2.1

*Programs identified are federally funded and designed to (1) assist the unemployed, (2) create employment, and (3) enhance employability. The programs provide assistance to adults and out-of-school youth not enrolled in advanced-degree programs.

^bThe proposed fiscal year 1994 funding amounts shown in appendix I are based primarily on the President's proposed budget dated April 8, 1993. In some instances, the amount shown may have been adjusted to reflect only that portion of the program that provided assistance to adults and out-of-school youth; however, in other instances the amount shown is for the entire program even though only a portion of the program funding may go to providing employment training assistance as defined in this report.

†Program included in analysis.

‡Economic Development-Public Works Impact: program funds included in Grants for Public Works and Development Facilities.

†Community Economic Adjustment: funds allocated in 1993 are used to support programs in out years until funding is depleted.

†Data not available at this time.

‡Education loan program: amounts shown are estimates of loans for associate and nondegree programs, when possible to differentiate.

Appendix I
Federal Employment and Training Programs
Proposed Funding Levels by Agency (Fiscal
Year 1994)^a

^bSchool to Work: program proposed for fiscal year 1994. Funded at \$270.0 million split evenly between the Departments of Education and Labor. Department of Education funding is from Carl Perkins Act; \$15 million from National Programs-Research and Development and \$120 million from Cooperative Demonstrations Program. Department of Labor funding is from the Job Training Partnership Act (JTPA).

^cYouthbuild, program proposed for fiscal year 1994.

^dFamily Self-Sufficiency Program: job training, education, and support services are paid for by other programs such as Job Opportunities and Basic Skills Training (JOBS) and JTPA. Federal funds may be used to cover local administrative costs. For fiscal year 1993, appropriations for operating subsidies permit the payment of \$25.9 million to cover the administrative costs of operating the Family Self-Sufficiency program.

^eThe actual funding for the JTPA Title III EDWAA program was increased significantly from the budget request dated April 8, 1993. The proposed funding for substate areas of \$229.5 million was increased to \$537 million. The proposed funding for the EDWAA Governor's Discretionary funds were also \$229.5 million, but was increased to \$357 million. Similarly, the Secretary's Discretionary funds were increased from \$114.7 million to \$223 million.

^fJTPA IIB Summer Youth Employment and Training Program (Native American): funding included in JTPA IIB (Regular) program total.

^gJTPA Defense Conversion Adjustment Program: funds allocated in 1991 used to support programs in out years until funding is depleted.

^hJTPA Defense Diversification: funds allocated in 1993 used to support programs in out years until funding is depleted.

ⁱJTPA Clean Air Employment Transition Assistance: no funds were appropriated for the Clean Air Act in fiscal year 1994.

^jNew program in 1994.

^kFederal Employment for Disadvantaged Youth-Summer: program coordinated by Office of Personnel Management (OPM), but carried out by numerous federal agencies. Obligations devoted to administration not separately identifiable.

^lSelected Reserve Educational Assistance Program: funding included in All-Volunteer Force Educational Assistance total.

^mHostage Relief Act Program: replaced by the Omnibus Diplomatic Security and Anti-Terrorist Act of 1986. No program funding used in any year, but available.

ⁿVocational and Educational Counseling for Servicemembers and Veterans: program funds included in other veterans programs, such as the All-Volunteer Force Educational Assistance Program.

Appendix II

Four Target Groups Included in Analysis

Target group	Program	Fiscal year 1994 proposed funding (In millions)
Economically Disadvantaged	JTPA IIA Training Services for the Disadvantaged-Adult	\$ 793.1
	JTPA IIA State Education Programs	82.4
	JTPA IIA Incentive Grants	51.5
	Job Opportunities and Basic Skills Training	825.0
	Food Stamp Employment and Training	162.7
	Family Self-Sufficiency Program	^a
	Vocational Education-Basic State Programs	717.5
	Educational Opportunity Centers	23.3
	Student Literacy Corps	6.1
	Subtotal	2,661.6
	Older Workers	Senior Community Service Employment Program
JTPA IIA Training Program for Older Individuals		51.5
Foster Grandparent Program		66.4
Senior Companion Program		29.2
Subtotal		568.2
Youth	JTPA IIC Disadvantaged Youth	563.1
	JTPA IIC Disadvantaged Youth - Incentive Grants	34.3
	JTPA IIC Disadvantaged Youth - State Education Programs	54.9
	JTPA IIB Training Services for the Disadvantaged-Summer Youth Employment and Training Program (Regular)	1,688.8
	JTPA IIB Summer Youth Employment and Training Program (Native American)	^b
	JTPA Job Corps	1,153.7
	Youth Fair Chance	25.0
	Transitional Living for Runaway and Homeless Youth	11.8
	Independent Living	16.2
	School Dropout Demonstration Assistance	37.7
	Vocational Education-Community Based Organizations	11.8
	Upward Bound	160.5
	Talent Search	67.0
	School to Work	135.0
	Federal Employment for Disadvantaged Youth-Summer	^c
	Youthbuild	88.0
Subtotal	4,047.8	
Dislocated Workers	JTPA EDWAA-Dislocated Workers (Local SDA Allotment)	229.5
	JTPA EDWAA-Dislocated Workers (Governor's 50% Discretionary)	229.5
	JTPA EDWAA-Dislocated Workers (Secretary's 20% Discretionary)	114.7

(continued)

Appendix II
Four Target Groups Included in Analysis

Target group	Program	Fiscal year 1994 proposed funding (in millions)
	JTPA Defense Conversion Adjustment Program	^a
	JTPA Clean Air Employment Transition Assistance	^b
	JTPA Defense Diversification	^c
	Trade Adjustment Assistance-Workers	215.0
	Vocational Education-Demonstration Centers for the Retraining of Dislocated Workers	^d
	Transition Assistance Program	66.8
	Subtotal	855.5
Total for Target Groups Analyzed		\$8,133.1

^aFamily Self-Sufficiency Program: job training, education, and support services are paid for by other programs such as JOBS and JTPA. Federal funds may be used to cover local administrative costs. For fiscal year 1993, appropriations for operating subsidies permit the payment of \$25.9 million to cover the administrative costs of operating the Family Self-Sufficiency program.

JTPA IIB Summer Youth Employment and Training Program (Native American): funding included in JTPA IIB (Regular) program total.

^bFederal Employment for Disadvantaged Youth-Summer, program coordinated by OPM, but carried out by numerous federal agencies. Obligations devoted to administration not separately identifiable.

^cJTPA Defense Conversion Adjustment Program: funds allocated in 1991 used to support programs in out years until funding is depleted.

^dJTPA Clean Air Employment Transition Assistance: funds allocated in 1993 used to support programs in out years until funding is depleted.

^eJTPA Defense Diversification: funds allocated in 1993 used to support programs in out years until funding is depleted.

^fData not available at this time.

Eligibility Standards for the Economically Disadvantaged

In reviewing the factors generally used to determine eligibility, we found that the nine programs that specifically target the economically disadvantaged used six different measures of income level, five definitions of family or household, and five definitions of income. The large array of eligibility criteria makes implementation difficult for state administrators as well as for those seeking assistance.

As shown in table III.1, the standards used to measure low income included the official poverty income guidelines, some multiple of those guidelines (such as 130 or 150 percent), and area median family income. Two programs illustrate the differences that can result from using a variety of measures. A member of a family of four with an income of up to \$20,040 would be considered "disadvantaged" and eligible for services from the Educational Opportunity Centers. This program uses the income measure of 150 percent of the Bureau of Census poverty level. However, for this same family member to be eligible for the Food Stamp Employment and Training Program, income could not exceed \$17,420 because this program uses the measure of 130 percent of the official poverty guidelines. Some programs use two measures. For example, JTPA programs use the higher of the official poverty measure or 70 percent of the regionally adjusted Lower Living Standard Income Level (LLSIL). In the above example, this would have been the LLSIL, which was higher in the metropolitan Northeast, \$16,360, compared with \$13,400 for the official poverty measure.

Appendix III
Eligibility Standards for the Economically
Disadvantaged

Table III.1: Different Standards for Measuring Income Used by Programs Targeting Economically Disadvantaged

Program	Income does not exceed...					
	HHS Official Poverty Guidelines		Lower Living Standard Income Level	Area Median Family Income	Bureau of Census Poverty Threshold	
	100%	130%	70%		100%	150%
JTPA IIA Disadvantaged Adults	X ^a		X			
JTPA IIA State Education Programs	X		X			
JTPA IIA Incentive Grants	X		X			
Job Opportunities and Basic Skills ^b						
Food Stamp Employment and Training	X ^c	X				
Family Self-Sufficiency Program				X ^d		
Educational Opportunity Centers						X
Vocational Education-Basic State Programs	X ^e				X	
Student Literacy Corps ^f						

^aJTPA programs base eligibility on whichever is higher, the official poverty guidelines or 70 percent of the regionally adjusted Lower Living Standard Income Level.

^bEligibility varies by state because of differences in state criteria for AFDC eligibility.

^cUses three measures: (1) household income after exclusions and deductions as defined by the Gross Income Standard for households that include an elderly or disabled member or (2) household income after exclusions but before deductions for households that do not include an elderly or disabled member or (3) gross income not to exceed 130 percent of the official poverty guidelines for households that do not include an elderly or disabled member.

^dUses two measures: "Low-income" does not exceed 80 percent of area's median income while "very low income" does not exceed 50 percent of the area's median income.

^eThis program allows educational institutions to use several low-income measures as well as "other indices of economic status" with the approval of the Department of Education.

^fWhile program is targeted to the economically disadvantaged, the program requirements do not include a specific definition of income or related financial eligibility information.

Program eligibility and coverage also depends on whose income is counted in the eligibility calculation. We found five different criteria for family or household. As shown in table III.2, for example, JTPA considers the income of the family—all persons related by blood, marriage, or court decree—in determining eligibility. In contrast, the Food Stamp Program considers the income of the household, all those who purchase and cook food together.

Appendix III
Eligibility Standards for the Economically
Disadvantaged

Table III.2: Different Standards for Defining a Family or Household Used by Programs Targeting Economically Disadvantaged

Program	Family or household assistance unit includes...				
	Persons related by blood, marriage, or court decree	Unrelated dependents of head of household	Other unrelated persons if needed by child	Those who purchase & cook food together	Unrelated if elderly also present
JTPA IIA Training Services for the Disadvantaged-Adult	X				
JTPA IIA State Education Programs	X				
JTPA IIA Incentive Grants	X				
Job Opportunities and Basic Skills Training			X		
Food Stamp Employment and Training				X	
Family Self-Sufficiency Program					X
Educational Opportunity Centers		X			
Vocational Education-Basic State Programs ^a					
Student Literacy Corps ^b					

^aComplex family or household assistance unit definitions, which can vary by state.

^bFamily or household not defined.

Programs also differ in their definition of what constitutes income. We identified five definitions of income, each with its own set of deductions and exclusions (see table III.3). For example, the JTPA programs include all earned income, but exclude unemployment insurance. The Food Stamp Employment and Training program includes unemployment insurance, but excludes 20 percent of all earned income. It is evident in some instances that exclusions are driven by the program's purpose, such as encouraging the participant to seek employment. While excluding some portion of earned income may provide an incentive to work, state and local administrators indicated that these differences not only confuse administrators and clients, but they can result in situations where economically disadvantaged workers may not receive needed services because the different eligibility criteria exclude them from the program that provides the services they need.

Appendix III
Eligibility Standards for the Economically
Disadvantaged

Table III.3: Income Definitions for Programs Targeting the Economically Disadvantaged

Program	Differences in Income criteria				
	Income excludes UI	Uses IRS taxable Income Including capital gains	Includes all earned Income	Excludes 20% of earned Income	Excludes \$30 + one-third of earned Income first 4 months
JTPA IIA Training Services for the Disadvantaged-Adult	X		X		
JTPA IIA State Education Programs	X		X		
JTPA IIA Incentive Grants	X		X		
Job Opportunities and Basic Skills Training					X
Food Stamp Employment and Training				X	
Family Self-Sufficiency Program			X		
Educational Opportunity Centers		X	X		
Vocational Education-Basic State Programs*					
Student Literacy Corps ^b					

*Excluded from analysis due to wide latitude that states can exercise in determining income.

^bProgram requirements do not include a technical definition of income.

Differences in income definitions are further magnified by income exclusions that can vary from state to state. These rules produce a range of state income eligibility limits. For example, in the Foster Grandparent Program and Senior Companion Program, income levels cannot exceed 125 percent of the poverty guidelines or 100 percent of the poverty guidelines plus any Supplemental Security Income (SSI) provided by the state. As a result, a senior in one state receiving an SSI state supplement may be eligible for the program with income that exceeds 125 percent of the poverty level, while a senior in another state that does not provide SSI would be excluded if income exceeds 125 percent of the poverty level.

Some programs allow automatic eligibility to participants enrolled in another program. This tends to soften the effect of some of the above differences. However, minor differences exist within cross-eligibility definitions that can also create coordination barriers. For example, a person receiving food stamps is automatically eligible for the JTPA program. However, some people may choose not to participate in the Food Stamp program. It has been reported that only 59 percent of persons eligible for food stamps actually received them in 1989.¹ A report by the

¹Time for a Change, Welfare Simplification and Coordination Advisory Committee Report (June 1993).

Appendix III
Eligibility Standards for the Economically
Disadvantaged

National Commission for Employment Policy² concluded that since many Hispanic families are clustered around JTPA's income cut-off point and choose not to participate in the Food Stamp program, many economically disadvantaged Hispanics are ineligible for needed JTPA training services. To resolve this problem, this report recommended that "receipt of Food Stamps," as an eligibility requirement, should be removed from the law and replaced with "eligible for Food Stamps."

²Training Hispanics: Implications for the JTPA System, National Commission for Employment Policy Report (Jan. 1990).

Age Requirements in Older Worker Programs

The four programs that target older workers vary in their minimum age requirements. As shown in table IV.1, two programs had a minimum age requirement of 55, although one program gave priority to those aged 60. The other two programs had a minimum age requirement of 60. These relatively minor age differences may result in some older workers under 60 years of age being excluded from needed program services.

Table IV.1: Older Worker Programs Differ in Age Requirements

Program name	Minimum age required for admission	
	Age 55	Age 60
JTPA Older Worker	X	
Senior Community Service Employment	X*	
Foster Grandparent		X
Senior Companion		X

*Priority is given to applicants 60 years of age.

Although the revised JTPA program amendments and the Older Americans Act, which authorizes the Senior Community Service Employment Program (SCSEP), call for increased coordination, these programs are prime examples of the difficulties that can arise when programs provide complementary services, but their eligibility requirements are not compatible. The SCSEP may be used to help older people, such as displaced homemakers,¹ gain work experience while JTPA finances skills training. Both the JTPA and the SCSEP define an "older worker" as one 55 years of age or older. However, SCSEP may exclude some older workers because it gives service priority to those applicants 60 years of age and older.

Even those seniors who meet the age criteria may sometimes be excluded because of additional differences in requirements related to economic status. Under JTPA, clients' incomes must be no more than 100 percent of the poverty guidelines or 70 percent of the lower living standard income level, but SCSEP allows participants to have incomes that are up to 125 percent of the poverty guidelines. Although JTPA does allow administrators to waive the income guidelines for 10 percent of participants, these workers must also face serious barriers to employment. According to a local program administrator, where these programs are located within the same building, clients are frequently referred from SCSEP to JTPA, but do not qualify under the latter program's more stringent

¹An individual who was a full-time homemaker for a substantial number of years and derived the substantial share of his or her support from a spouse and no longer receives such support.

Appendix IV
Age Requirements in Older Worker
Programs

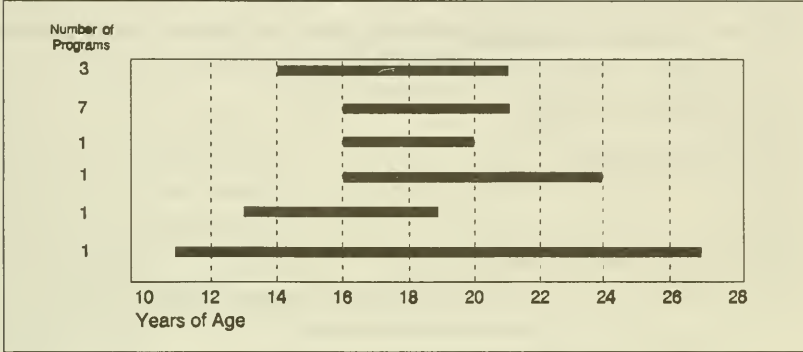
income criteria. In these instances, not only is it difficult for case managers to track client eligibility, but clients themselves feel confused and discriminated against.

In addition, program eligibility may vary from state to state. SCSEP includes Social Security as part of countable income, but for the JTPA Older Worker Program, each state has the choice of including or excluding Social Security income.

Lower and Upper Age Limits for Youth Programs

Programs targeting youth vary in eligibility requirements because of differences in their lower and upper age limits. As shown in figure V.1, lower age limits ranged from 11 to 16 years of age, while upper age limits ranged from 19 to 27.

Figure V.1: Lower end Upper Age Limits Differ Among Youth Programs



These differences in age criteria may result in youth being denied access to some programs. For example, as shown in table V.1, the JTPA Disadvantaged Summer Youth Program and the Federal Employment for Disadvantaged Youth both create summer employment for disadvantaged youth. Although both allow youth up to 21 years of age to participate, the programs had different requirements regarding lower age limits. Under the Federal Employment for Disadvantaged Youth, administered by the Office of Personnel Management (OPM), youth under the age of 16 are excluded from the program. However, the JTPA summer program, administered by the Department of Labor, permits youth to enroll in the program at 14 years of age.

Appendix V
Lower and Upper Age Limits for Youth
Programs

Table V.1: Lower and Upper Age Limits for Youth Programs

Program	Lower and upper age limits					
	11-27	13-19	14-21	16-20	16-21	16-24
JTPA IIC Disadvantaged Youth					X	
JTPA IIC Disadvantaged Youth-Incentive Grants					X	
JTPA IIC Disadvantaged Youth-State Education Programs					X	
JTPA IIB Summer Youth Employment and Training Program (Regular)			X			
JTPA IIB Summer Youth Employment and Training Program (Native American)			X			
JTPA Job Corps					X	
Youth Fair Chance			X			
Transitional Living for Runaway and Homeless Youth					X	
Independent Living				X		
School Dropout Demonstration Assistance ^a					X	
Vocational Education-Community Based Organizations					X	
Upward Bound		X				
Talent Search	X					
School to Work ^b						
Federal Employment for Disadvantaged Youth-Summer					X	
Youthbuild						X

^aProgram requirements include a minimum age of 16, but no upper age limit.

^bProgram is proposed in fiscal year 1994 budget.

Definitions of Job Loss Among Dislocated Worker Programs

Nine separate dislocated worker¹ programs have been established to ensure that workers adversely affected by special circumstances, such as increased imports or defense downsizing, have access to reemployment assistance. Although all programs commonly target those workers who are dislocated, as shown in table VI.1, programs vary in their definitions of what constitutes "job loss." These differences may result in workers being denied access to program services.

Table VI.1: Definitions of Job Loss Among Dislocated Worker Programs

Program	Notice of layoff accepted	Date of hire/layoff restricted	Reduced hours and wages accepted	Voluntary separation accepted
JTPA-EDWAA-Dislocated Workers (Local SDA Allotment)	X			
JTPA-EDWAA-Dislocated Workers (Governor's 50% Discretionary)	X			
JTPA-EDWAA-Dislocated Workers (Secretary's 20% Discretionary)	X			
JTPA Defense Conversion Adjustment Program	X			
JTPA Clean Air Employment Transition Assistance	X			
JTPA Defense Diversification	X	X		X
Trade Adjustment Assistance-Workers		X	X	
Vocational Education-Demonstration Centers for the Retraining of Dislocated Workers ^a				
Transition Assistance Program	X	X		

^aThis program does not have a specific definition for dislocated workers

Although most dislocated worker programs accepted a layoff or termination notice as proof of job loss and eligibility for services, three programs restricted access depending on hire and separation dates. The complexity of such requirements is evidenced by one program that targets four subgroups of workers adversely affected by military base closings. The JTPA Defense Diversification Program excludes members of the Armed Forces if they were hired or were not on active duty on or before September 30, 1990; other targeted groups are excluded if they received layoff notices or were terminated before October 1, 1992, or after September 30, 1997. Members of the Armed Forces and Defense employees are excluded for eligibility until they are within 180 days of the separation; civilian employees working at military installations are

¹Workers with an established work history who have lost their jobs as a result of structural changes in the economy and who are not likely to find new jobs in their former industries or occupations.

Appendix VI
Definitions of Job Loss Among Dislocated
Worker Programs

excluded from eligibility until they are within 24 months of separation. A second and similar program, the Transition Assistance Program, also restricts access unless the member of the Armed Forces is within 180 days of separation. Until these arbitrary time periods have expired, some workers may be denied access to services needed to provide the necessary training and skills in order to make the transition to new industries and occupations.

A third program, Trade Adjustment Assistance (TAA), focuses on trade-impacted workers and has complex job loss requirements related to the date of separation as well as the level of employment activity during that time. For example, the worker's first qualifying separation must occur after the "impact date" (the date on which layoffs began or threatened to begin), within 2 years of the worker's being certified as adversely affected by imports, and before the termination date of the certification. Further, the worker must have (1) been employed at least 26 of the 52 weeks preceding the last layoff in this trade-affected employment and (2) received wages of \$30 or more per week. In our prior report that compared TAA with the Economic Dislocation and Worker Adjustment Assistance (EDWAA) program, state officials said that such complex regulations contribute to the lack of coordination between the two programs. An important indicator of this lack of coordination is that only 10 percent of all TAA participants received EDWAA services during fiscal year 1990.²

²Dislocated Workers: Comparison of Assistance Programs (GAO/HRD-92-153BR, Sept. 1992).

Program Annual Operating Cycles

Coordination of services is also hampered by differences in program operating cycles within each of the four target groups. According to one administrator, these barriers result in "program coordination becoming...an art," particularly in view of additional state and local operating time frames superimposed on the differing program operating cycles. For these reasons, state officials contacted were in agreement that a standard operating year would greatly facilitate program coordination.

As shown in table VII.1, the 38 programs we reviewed operated on four different annual cycles. Some programs completed their planning process and began operation on January 1, while others did not complete planning and begin operation until October 1. Most programs (20) operated on the basis of a program year (July 1-June 30); 12 programs operated on the federal fiscal year (October 1-September 30); 4 programs operated on an academic year (September 1-August 31); and 2 programs operated on a calendar year (January 1-December 31). These operating cycles varied within each target group regardless of administering agency. For example, two programs previously discussed that target dislocated workers are both administered by the Department of Labor (see appendix VI). However, the TAA program operates on a fiscal-year basis while the EDWAA program operates on a program-year basis.

Administrators attempting to coordinate programs through joint planning have difficulty when operating cycles do not match. One administrator told us that his state operates on a September-to-August time frame, while the JOBS program operates on the federal fiscal year (October 1 to September 30) and JPA operates on a program year (July 1 to June 30). Although administrators strive to coordinate the programs through joint planning, it is difficult, without parallel operating cycles, to match up available funding with estimates of clients that may need assistance. To accomplish joint planning, the state must resort to several circuitous strategies. Among other things, some agencies involved "lowball," that is, only commit resources they know will be available, and contribute additional resources, as available, at a later time. Other agencies make commitments contingent on expected funding so they are not held to prior commitments when their funding "falls through."

Another state administrator commented that although coordination is hampered by many service delivery barriers, such as conflicting eligibility requirements, other barriers, such as differing operating cycles, pertain to the process or "mechanics" of administering programs. Accordingly, in his view, establishing a standard operating year would be "the key to start the

Appendix VII
Program Annual Operating Cycles

car"—the impetus needed to begin collaborative planning leading to successful coordination.

Table VII.1: Programs Within Four Target Groups Differ in Definition of Annual Operating Cycle

Target group/program	Annual operating cycles			
	Jan. 1-Dec. 31	July 1-June 30	Sept. 1-Aug. 31	Oct. 1-Sept. 30
Older Workers				
Senior Community Service Employment Program		X		
JTPA IIA Training Programs for Older Individuals		X		
Foster Grandparent Program				X
Senior Companion Program				X
Dislocated Workers				
JTPA EDWAA-Dislocated Workers (Local SDA Allotment)		X		
JTPA EDWAA-Dislocated Workers (Governor's 50% Discretionary)		X		
JTPA EDWAA-Dislocated Workers (Secretary's 20% Discretionary)		X		
JTPA Defense Conversion Adjustment		X		
JTPA Clean Air Employment Transition Assistance		X		
JTPA Defense Diversification		X		
Trade Adjustment Assistance-Workers				X
Vocational Education-Demonstration Centers for the Retraining of Dislocated Workers		X		
Transition Assistance Program				X
Economically Disadvantaged				
JTPA IIA Training Services for the Disadvantaged-Adult		X		
JTPA IIA State Education Programs		X		
JTPA IIA Incentive Grants		X		
Job Opportunities and Basic Skills Training				X
Food Stamp Employment and Training				X
Family Self-Sufficiency Program				X
Vocational Education-Basic State Programs		X		
Educational Opportunity Centers			X	
Student Literacy Corps			X	
Youth				
JTPA IIC Disadvantaged Youth		X		
JTPA IIC Disadvantaged Youth-Incentive Grants		X		
JTPA IIC Disadvantaged Youth-State Education Programs		X		
JTPA IIB Training Services for the Disadvantaged-Summer Youth Employment and Training Program (Regular)	X			

(continued)

Appendix VII
Program Annual Operating Cycles

Target group/program	Annual operating cycles			
	Jan. 1-Dec. 31	July 1-June 30	Sept. 1-Aug. 31	Oct. 1-Sept. 30
JTPA IIB Summer Youth Employment and Training Program (Native American)	X			
JTPA Job Corps		X		
Youth Fair Chance		X		
Transitional Living for Runaway and Homeless Youth				X
Independent Living				X
School Dropout Demonstration Assistance				X
Vocational Education-Community Based Organizations	X			
Upward Bound			X	
Talent Search			X	
School to Work		X		
Federal Employment for Disadvantaged Youth-Summer				X
Youthbuild				X

Major Contributors to This Report

Health, Education,
and Human Services
Division,
Washington, D.C.

Clarence Crawford, Associate Director

Detroit Regional
Office

Robert T. Rogers, Assistant Director, Education and Employment,
(313) 256-8011
Edna Saltzman, Evaluator-in-Charge
Jonathon Banas, Intern
Barbara Moroski-Browne, Senior Evaluator
David Porter, Evaluator
Lynda Racey, Evaluator

United States General Accounting Office

GAO

Report to the Chairman, Committee on
Labor and Human Resources, U.S.
Senate

July 1994

JOBS AND JTPA

Tracking Spending, Outcomes, and Program Performance





United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-257383

July 15, 1994

The Honorable Edward M. Kennedy, Chairman
Committee on Labor and Human Resources
United States Senate

Dear Mr. Chairman:

In response to your May 11, 1994, request and discussions with Committee staff, this letter presents information about certain aspects of the Job Opportunities and Basic Skills Training (JOBS) and Job Training Partnership Act (JTPA) programs.¹ These two programs are among the employment and training programs that your Committee is developing legislation to consolidate. Together, they account for about 60 percent of the federal employment and training funds for the nation's economically disadvantaged population. While JOBS is limited to recipients of Aid to Families With Dependent Children (AFDC) benefits, JTPA serves AFDC recipients and other economically disadvantaged individuals.

In your letter, you asked that we provide information on the interrelationship between JOBS and JTPA. Specifically, you asked that we determine how funds are spent and reported for education, job training, support services, and program administration for JOBS and JTPA. In addition, you asked that we determine the outcome-focused data that are collected and performance standards for the two programs.

To accomplish our objectives, we obtained federal expenditure data; reviewed legislation and regulations specifying data collection and reporting requirements and performance standards for the two programs; and interviewed program officials at the Departments of Health and Human Services (HHS) and Labor. We did not assess the quality of the JOBS and JTPA data collected nor did we try to determine if the data collected by HHS and Labor allow the departments to effectively manage or measure the effectiveness of their respective programs. In addition, to make broad comparisons of the two programs' expenditures in cases for which actual data were not available, we estimated the expenditures using other related program data; we have identified these cases in the report.

¹In this report, "JTPA" refers to title II-A of the act. Before 1993, title II-A included adult and youth participants. The Job Training Reform Amendments of 1992 established a separate program for youth participants, limited title II-A to adults over 22 years of age, and made other changes regarding program services and coordination.

Results in Brief

For the program year ending in 1992, JOBS and JTPA spent about \$3 billion in federal and state funds providing employment and training services to economically disadvantaged individuals. Service delivery for these two programs is coordinated and often interrelated at the state and local level. For example, an AFDC recipient participating in JOBS might receive JTPA-funded education and training services and AFDC child care guaranteed to her as a JOBS participant. In addition, state and local welfare agencies may contract with JTPA providers to administer JOBS services. However, the extent to which the two programs rely on each other for services is unknown.

In analyzing JOBS' and JTPA's expenditures for the program year ending in 1992, we found that the proportion of each program's total funds spent on education and training, participant support, and administration were fairly similar, as shown in table 1.

Table 1: Comparison of JOBS and JTPA Title II-A Expenditures, 1992

Expenditure category	Proportion of total funds ^a	
	JOBS	JTPA title II-A
Education and training	62	74
Participant support	19	11 ^b
Administration	20	16

^aProportions do not add to 100 percent due to rounding.

^bIncludes an undeterminable amount for child care.

However, when we included expenditures for child care that is guaranteed to all JOBS participants, the spending patterns for the two programs were much different, as shown in table 2. More than two-thirds of JOBS' participant support expenditures were for child care costs.

Table 2: Comparison of Expenditures for JOBS Including Guaranteed Child Care and JTPA Title II-A, 1992

Expenditure category	Proportion of total funds	
	JOBS including guaranteed child care	JTPA title II-A ^a
Education and training	44	74
Participant support	42	11 ^b
Administration	14	16

^aProportions do not add to 100 percent due to rounding.

^bIncludes an undeterminable amount of dollars for child care

Both JOBS and JTPA collect similar data on participant characteristics, services received, job entry status, and wages. In addition, JTPA has established outcome measures as standards to which states are held accountable for program results, while JOBS has process-focused, but no outcome-focused, performance standards for the states. JTPA tracks participants after they leave the program and measures program performance based on the proportion of participants employed and their wages. In contrast, JOBS has standards that focus on states serving a required proportion of their AFDC caseloads and targeting resources to long-term and potential long-term applicants and recipients. Although HHS is required to provide the Congress recommendations for outcome-focused performance standards for JOBS, HHS has missed its mandated report date of October 1993.

Background

JOBS and JTPA title II-A are the two largest among nine federal employment and training programs that target services to the economically disadvantaged and share a common goal of enhancing clients' participation in the workforce.² Selected background information on these programs is shown in table 3.

Table 3: Selected Information on JOBS and JTPA Title II-A

	JOBS	JTPA title II-A
Implementation date	October 1990	July 1982
Federal administrative agency	Department of Health and Human Services	Department of Labor
Administrative agencies within states	Welfare agencies (Welfare agencies may contract out program administration while maintaining supervisory control)	Service delivery areas (SDA)
Funding amount and source in 1992 ^a	\$1.5 billion of federal and state funds ^b	\$1.4 billion of federal funds
Number of participants in 1992 ^a	510,000 served in an average month	796,000 served during the year

^aThe most recent year for which comparable data were available for the two programs—JOBS' fiscal year 1992 (October 1, 1991, through September 30, 1992) and JTPA's program year 1991 (July 1, 1991, through June 30, 1992).

^bIncludes an estimated \$426.1 million for JOBS-related child care expenditures.

In 1982, JTPA replaced the Comprehensive Employment and Training Act as the principal federal program for job training and related services. Until

²For information about these nine programs and other employment and training programs, see *Multiple Employment Training Programs: Major Overhaul Is Needed* (GAO/HEHS-94-109, Mar. 3, 1994).

1993, title II-A of the act provided job training and employment skills to economically disadvantaged adults and youth. The Department of Labor administers the program at the federal level, while over 600 service delivery areas (SDA) provide program services at the local level. In the program year ending in 1992, state SDAs spent about \$1.4 billion in title II-A funds and served about 796,000 participants.³ JTPA is federally funded with no state matching requirements.

JTPA is more than 10 years old; JOBS, however, is a younger program. JOBS, title IV-F of the Social Security Act, was created by the Family Support Act of 1988 to help AFDC parents get the education, job skills training, work experience, and support services they need to increase their employability and avoid long-term welfare dependency. All AFDC recipients considered able to work must participate in JOBS, and other AFDC recipients may enroll voluntarily, as state program budgets permit. In addition, all AFDC recipients enrolled in JOBS must be provided child care if needed; title IV-A of the Social Security Act provides funds for such child care.⁴ In contrast, JTPA identifies potential voluntary participants through community outreach efforts and may provide, but does not guarantee, child care funds for its participants.

JOBS' predecessor was the Work Incentive program, which the Departments of Health and Human Services and Labor jointly administered at the federal level and state welfare and employment agencies administered locally. The Family Support Act designated HHS and the state welfare agencies sole responsibility for administering the new welfare-to-work program—JOBS. While HHS administers JOBS at the federal level, the states have flexibility in designing and operating their programs. In fiscal year 1992, JOBS expenditures totaled \$1.1 billion, with about 61 percent of the total funded by the federal government and the remainder by the states. JOBS-related child care expenditures during that year totaled \$426.1 million, with the federal government providing about 57 percent of the total. On average, about 510,000 AFDC recipients participated in JOBS activities each month in fiscal year 1992. Unlike JTPA, the overwhelming majority of JOBS participants are women with children. Other JOBS and JTPA program features are shown in table 4.

³This JTPA program year began on July 1, 1991, and ended on June 30, 1992. Because the most recent JOBS data available were for fiscal year 1992 (October 1, 1991, through September 30, 1992), we used comparable data from JTPA program year 1991.

⁴Title IV-A also guarantees child care to AFDC recipients who are employed or participating in state-approved education and training other than JOBS.

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Table 4: Selected Program Features of JOBS and JTPA Title II-A, 1992

Program feature	JOBS	JTPA title II-A ^a
Eligible population	Adult and teen parents and high school dropouts receiving AFDC	Primarily, economically disadvantaged adults and youth, defined by household income but also including welfare and food stamp recipients
Participation requirement	Mandatory for all AFDC recipients considered able to work and voluntary for other AFDC recipients as state program budgets permit	Voluntary ^b
Share of eligibles served	12 percent in an average month	6 percent
Participants' gender	86 percent female 14 percent male	Of the 534,000 who completed or left the program (including 136,000 AFDC recipients), 56 percent female and 44 percent male
Services	Assessment and case management, basic and remedial education, training, job search and placement assistance, work experience, and guaranteed participant support services such as transportation and child care	Outreach, assessment and case management, basic and remedial education, training, job search and placement assistance, work experience, participant support services such as child care and transportation, and post-program follow-up

Note: The most recent year for which comparable data were available for the two programs—JOBS' fiscal year 1992 (October 1, 1991, through September 30, 1992) and JTPA's program year 1991 (July 1, 1991, through June 30, 1992).

^aReflects the JTPA program before the 1992 JTPA amendments that created a new title under the act for the youth program.

^bFor most people, JTPA is a voluntary program; others, namely AFDC recipients, may be required by JOBS to participate in JTPA education and training activities.

JOBS and JTPA Often Interrelated at Local Level

At the local service delivery level, JOBS' and JTPA's program services may be combined to meet the needs of their participants. Under JOBS, states are encouraged to maximize the use of community resources for their JOBS participants. Furthermore, states are prohibited from using JOBS funds to purchase services already available free of charge to AFDC recipients. Consequently, JTPA plays an important role in delivering education and training services under JOBS. Alternatively, JOBS plays a role for JTPA in providing support services, such as child care, to participants. In our 1992 report on JTPA participant support, we found that about half of the nation's SDAS coordinated with other agencies, especially welfare agencies, to provide support services to their JTPA participants.⁵ However, the extent to which the two programs rely on each other for services is unknown. Generally, neither program is required to track the extent or costs of services provided to their participants by other programs.

⁵Job Training Partnership Act: Actions Needed to Improve Participant Support Services (GAO/HRD-92-124, June 12, 1992).

JOBS' reliance on JTPA to provide services to JOBS participants may take different forms at the state and local level. In all cases, however, the state welfare agency must retain supervisory responsibility for JOBS. One study of JOBS in 10 states reported great variation in the coordination and interrelatedness of the two programs. In some localities, the welfare agency refers JOBS participants to JTPA for services that are free of charge to JOBS. In other areas, local welfare agencies contract with JTPA to serve additional JOBS participants beyond those that JTPA is expected to serve free of charge to JOBS.⁶ In yet other areas on a statewide basis, JTPA and JOBS are combined as part of an integrated employment and training system designed to provide services to JOBS participants and other economically disadvantaged individuals.⁷

As an example of the interrelatedness of JOBS and JTPA, a 30-year-old mother on AFDC may be enrolled in JOBS, assigned a caseworker, and provided initial assessment and orientation by the welfare agency. JOBS then may refer her to JTPA for education and training. While enrolled in JTPA-provided education and training, she can receive AFDC (IV-A) child care funds, guaranteed to her as a JOBS participant.

JOBS and JTPA Program Differences Reflected in Spending Patterns

Although JOBS and JTPA report expenditures in similar categories, their funds are spent differently. These differences reflect distinctions in program features, populations served, and program requirements.

Expenditures Reported in Similar Cost Categories

Both JOBS and JTPA report expenditures in three main categories: (1) education and training, including assessment, case management, and directly related administrative costs such as space and supplies; (2) participant support, including child care, transportation, and other work-related needs; and (3) administration, including general supervision, planning, monitoring, contract administration, and computer systems. Under JTPA title II-A, one funding source pays for all services, including child care. In contrast, in the Family Support Act, the Congress designated

⁶Until 1993, JTPA was required to serve AFDC recipients in the same proportion as their representation among the JTPA eligible population. Under current law, JTPA requires that at least 65 percent of an SDA's participants be in one or more hard-to-serve categories, such as AFDC, Food Stamp, and General Assistance recipients, those deficient in basic skills, persons with disabilities, or school dropouts.

⁷For information on the relationship between JOBS and JTPA in 10 states, see Irene Lurie and Jan L. Hagen, *Implementing JOBS: The Initial Design and Structure of Local Programs*, The Nelson A. Rockefeller Institute of Government, State University of New York (Albany, NY: 1993).

two sources of funds to meet the needs of JOBS participants: JOBS (IV-F) funds for all services except child care and AFDC (IV-A) child care funds. Table 5 shows expenditures for JOBS (IV-F) and JOBS including guaranteed child care, both separately and combined, to facilitate the comparison with JTPA, for which child care expenditures cannot be separately identified. The table identifies the JOBS and JTPA expenditures by the three main categories for the most recent year for which comparable data were available for both programs. Further definition of JOBS and JTPA expenditure categories appear in appendix I.

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Table 5: JOBS and JTPA Title II-A Expenditures, by Category, 1992

Dollars in millions

Expenditure category	JOBS and JOBS-related child care, federal and state expenditures, Oct. 1991 to Sept. 1992			JTPA title II-A, federal expenditures, July 1991 to June 1992
	JOBS (IV-F)	AFDC (IV-A) child care for JOBS participants	Total: JOBS including guaranteed child care	
Education and training	\$ 681.2 ^a		\$ 681.2	\$1,064.5
Participant support	209.6 ^b	\$ 426.1 ^c	635.7	\$ 159.7 ^d
Administration	216.4 ^e		216.4	\$ 225.0
Total	\$1,107.2^e	\$ 426.1^f	\$1,533.3^g	\$1,449.2

^aBased on HHS form ACF-331, used by the states to claim federal financial participation in JOBS program costs. As much as 20 percent of these expenditures may be for costs not related to education and training as states may claim a portion of any type of program cost at the rates reserved for education and training.

^bAlthough JOBS and JTPA include similar costs in the administrative category, these costs were not reported separately for JOBS until fiscal year 1992. Until then, both administrative costs and expenditures for participant support other than child care were reported combined on HHS form ACF-331, used by the states to claim federal financial participation in program costs. Under the new additional reporting requirement, according to HHS officials, not all states were able to report complete data. However, HHS officials believe the report provides an indication of the proportion of JOBS dollars devoted to administration and participant support (other than child care). We used these ratios to estimate the allocation of ACF-331 costs between program administration and participant support expenditures, excluding child care. HHS is working with states to improve their reporting.

^cAFDC (IV-A) child care expenditures, including administrative costs, totaled \$687.1 million for fiscal year 1992. We estimated the AFDC child care costs for JOBS participants to be \$426.1 million, as shown above, based on preliminary HHS data on the numbers and reasons for eligibility of children receiving this child care assistance. Of the remaining \$261 million, we estimated that (1) \$86.1 million was used to provide child care for AFDC recipients enrolled in education and training other than JOBS, such as JTPA or postsecondary education, approved by the welfare agency; (2) \$149.3 million was expended to assist employed AFDC families with child care; and (3) the status of \$25.6 million could not be determined. Based on preliminary HHS data on the per capita child care costs across families, JOBS child care costs average more than those for other eligible children. Consequently, our estimate for JOBS-related child care expenditures may be understated.

^dIncludes JTPA-funded child care.

^eFederal share of JOBS IV-F expenditures is 61 percent.

^fFederal share of AFDC child care expenditures is 57 percent.

^gFederal share of total JOBS expenditures is 60 percent.

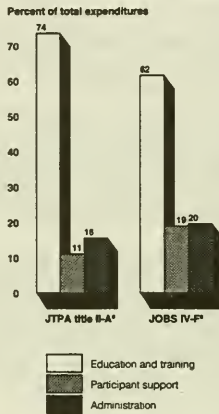
Differences in Programs' Features and Populations Affect Spending Patterns

JTPA title II-A and JOBS IV-F expenditures are similar in the three broad categories of education and training, participant support, and administration. As shown in figure 1, 74 percent of JTPA expenditures was associated with providing education and training compared with

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62 percent of JOBS expenditures. Also, about 11 percent of JTPA program expenditures was used to support participants' needs, including transportation and child care, compared with 19 percent for JOBS participant support, which includes similar costs except child care. Regarding administrative costs, 16 percent of JTPA dollars and 20 percent of JOBS (IV-F) dollars were spent in this category.⁸

Figure 1: Expenditures for JTPA Title II-A and JOBS IV-F, by Category (1992)



*Does not add to 100 percent due to rounding.

JTPA data are for July 1991 to June 1992; JOBS data are for October 1991 to September 1992.

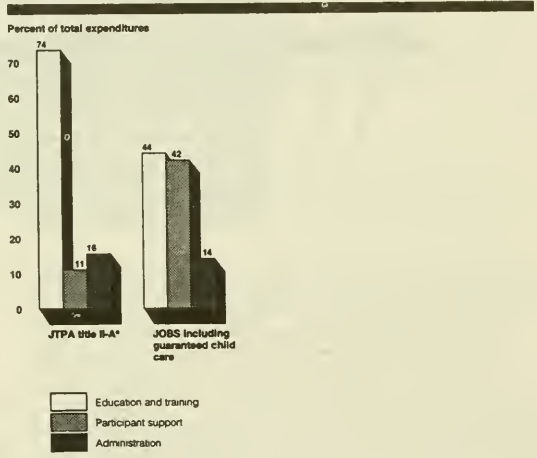
The participant support category for JTPA includes child care expenditures; for JOBS, it excludes child care expenditures.

Sources: For JTPA—DOL/ETA Report No. JTPA-1. For JOBS—HHS forms ACF-331 and ACF-332. The allocation of ACF-331 totals between participant support and administration other than child care were estimated based on ACF-332 data.

⁸See footnote b to table 5 on our estimation of administrative and participant support costs.

When JTPA expenditures are compared with JOBS expenditures, including guaranteed child care, the expenditure patterns for the two programs look quite different. This difference may be attributed to JOBS' focus on helping AFDC recipients, most of whom are women with children, and the legislative mandate that guarantees child care to participants. As shown in figure 2, when JTPA expenditures are compared with JOBS and guaranteed child care expenditures combined, 44 percent of JOBS program dollars was for education and training compared with 74 percent of JTPA expenditures. In addition, the proportion of JOBS expenditures for participant support was 42 percent compared with 11 percent for JTPA. More than two-thirds of the JOBS participant support dollars were for child care costs. Regarding administrative costs, 14 percent of JOBS dollars was spent in this category compared with 16 percent of JTPA dollars.

Figure 2: Expenditures for JTPA Title II-A and JOBS Including Guaranteed Child Care by Category (1992)



*Does not add to 100 percent due to rounding.

JTPA data are for July 1991 to June 1992; JOBS data are for October 1991 to September 1992.

Sources: For JTPA—DOL/ETA Report No. JTPA-1. For JOBS—HHS forms ACF-231, ACF-331, and ACF-332. The allocation of ACF-331 totals between participant support and administration other than child care were estimated based on ACF-332 data.

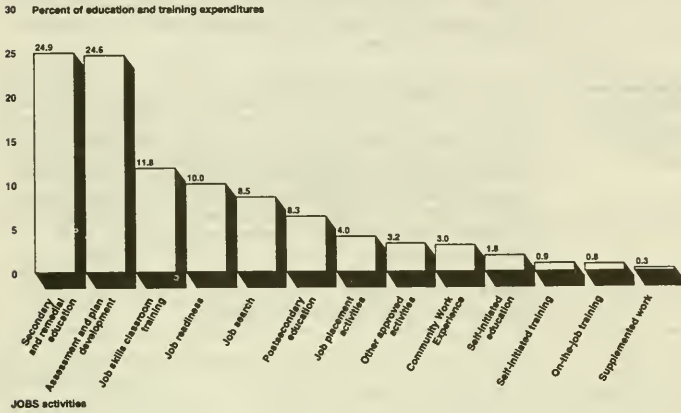
An analysis of how JOBS and JTPA funds are used within the education and training category is not possible because neither program requires a breakdown of specific costs included in the category. The education and training category for both programs includes many cost items such as

- costs associated with client intake, orientation, assessment, employability plan development, and case management;
- education and training services, including teacher and provider salaries, tuition, books, or supplies; and
- directly related education and training administrative costs, including space and equipment.

JOBS data also reflect the distribution of education and training expenditures for various JOBS activities, as illustrated in figure 3. Almost 25 percent of these education and training expenditures was used for client assessment and employability plan development, and another 25 percent was used to provide secondary and remedial education services. However, we could not identify the extent to which these expenditures were for teacher salaries or tuition rather than for case managers who referred, counseled, or monitored clients' progress in education. JTPA does not report the distribution of education and training expenditures for program activities.

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Figure 3: Percentage Distribution of JOBS Education and Training Expenditures by Activity (Oct. 1991 to Sept. 1992)



Source: HHS Form ACF-332, which reports on JOBS (IV-F) federal and state expenditures by spending category and activity.

Differences in Program Requirements Also Affect Spending Patterns

Certain limitations and program requirements also directly affect JOBS' and JTPA's spending patterns. For example, JTPA providers face limitations on the dollars that can be spent in certain categories. In program year 1991, JTPA SDAs were required to limit administrative costs to 15 percent of expenditures and combined administrative and participant support costs to 30 percent. The 1992 JTPA amendments raised the limitation on administrative costs to 20 percent and required that at least 50 percent of expenditures be used for education and training. Although JOBS program providers do not face similar limitations, states do have to spend their own dollars to receive the federal match for JOBS expenditures. In addition, JOBS program administrators face requirements to draw on existing community resources to provide services for participants before spending their JOBS dollars for such services. Consequently, JOBS relies heavily on education,

training, and support services funded by other providers, including JTPA, high schools, state education agencies, Head Start, and others. Although JTPA has no such requirement, JTPA administrators are encouraged to rely on other providers for participant support services. However, neither program reports the costs of services provided by other organizations to JOBS or JTPA participants.

Similar Participant Outcome-Focused Data Collected

Similar information on participants' characteristics, program activities and support services provided, and participant outcomes are collected for JOBS and JTPA, as shown in table 6. Although JOBS collects these data for participants at a point in time through a monthly sample of participants, JTPA collects data on each participant in a program year. In addition to the common data elements collected for both programs, JOBS collects data on the participants' target group membership,⁹ volunteer or mandatory participation status, and family characteristics; JTPA collects data on hard-to-serve participants.¹⁰ Also, for a sample of JTPA trainees, the program collects data on their hourly wages, hours worked per week, and number of weeks employed 13 weeks after they leave JTPA; JOBS does not collect data after participants leave the program.

⁹JOBS target group members include AFDC recipients or applicants who have received AFDC for 36 months out of the past 5 years; are under age 24 who (a) have neither completed nor are enrolled in high school or (b) had little or no work experience in the preceding year; or are soon to become ineligible for AFDC because their youngest child is almost 18. States must spend at least 66 percent of their JOBS funds on these target group members or face reduced federal funding.

¹⁰JTPA requires that at least 66 percent of an SDA's participants be in one or more hard-to-serve categories, such as AFDC, Food Stamp, and General Assistance recipients, those who are deficient in basic skills, persons with disabilities, or school dropouts.

Table 6: JOBS and JTPA Title II-A Participant and Outcome-Focused Data Collected

Data category	JOBS	JTPA title II-A
Participant characteristics	Age, sex, race, education level, volunteer or mandatory program participation status, employment status, AFDC family information, and target group membership	Age, sex, race, ethnicity, education level, employment status, welfare status, unemployment insurance receipt, and information about whether participant is a member of a hard-to-serve category
Participant activities	Specific component assignment, such as job search and adult basic or remedial education; job entry; and scheduled hours and length of time in activity	Occupation for which training is received, number of training hours received, program activities in which participants are enrolled, and length of time in activities
Participant support services	Amount spent for support services, including transportation and child care; number of dependent children receiving child care, type of child care received, length of time received, and source of child care funding	Checklist of whether participant received various support services, including child care and transportation
Participant outcomes	Changes in education level, job entry, occupation, hourly wage, and AFDC case status	Changes in educational level, job entry, occupation, hours worked per week, and hourly wage 13-week follow-up sample of participants who left the program provides information on hours worked per week, hourly wage, and number of weeks employed

Performance Standards Differ for JOBS and JTPA

JTPA has established outcome measures as standards to which SDAs are held accountable for their performance; JOBS has process-focused, but no outcome-focused, performance standards for the states. Under JTPA, SDAs must meet established performance standards or be reorganized if they fail to meet the standards for 2 consecutive years. Separate standards for employment rates and wages at 13 weeks after program termination are established for all adults, including welfare recipients, and for adult welfare recipients. In the program year ending in 1994, the performance standards for adults were 60-percent employed and weekly wages of \$228; for adult welfare recipients, the standards were 46-percent employed and weekly wages of \$207. In addition, as a result of the 1992 JTPA amendments, Labor may establish retention in unsubsidized employment for not less than 6 months as a performance standard.

Although JOBS does not have outcome-focused performance standards, the Secretary of HHS was required to develop and submit recommendations for JOBS performance standards to the Congress by October 1993; however, these recommendations have not been submitted. HHS officials have briefed congressional committees on the delay in issuing the

recommendations and are pursuing outcome-focused performance standards in the context of welfare reform.

In the absence of outcome-focused performance standards, JOBS has process-focused standards that include participation rates and targeting requirements for the states. States failing to meet these standards face a reduced federal funding match rate. Regarding participation rates, for fiscal years 1990 through 1992, 7 percent of a state's mandatory AFDC recipients was required to participate; for fiscal years 1992 and 1993, this rate increased to 11 percent; the rate is 15 percent in 1994 and will increase to 20 percent in 1995. States also must meet participation rates for AFDC recipients in two-parent families, which start at 40 percent in fiscal year 1994 and rise to 75 percent in 1997 and 1998. In addition to the participation rates, states face reduced federal funding if they do not spend at least 55 percent of their JOBS funds on long-term and potential long-term applicants and recipients.¹¹

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after its issue date. At that time, we will send copies of this letter to the Chairman, Senate Committee on Finance; Chairman, Subcommittee on Social Security and Family Policy, Senate Committee on Finance; Chairman, Subcommittee on Human Resources, House Committee on Ways and Means; Chairman, House Education and Labor Committee; Chairman, Subcommittee on Labor-Management Relations, House Education and Labor Committee; Secretary of Labor; Secretary of Health and Human Services; Assistant Secretary for Children and Families; and other interested parties.

¹¹See footnote 9 for a definition of long-term and potential long-term applicants and recipients.

B-257383

If you have any questions or need additional information, please call David Bixler at (202) 512-7201 or Nora Perry at (202) 512-7261. Gale Harris and Thomas Medvetz were also major contributors to this report.

Sincerely yours,



Jane L. Ross
Associate Director
Income Security Issues

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Abbreviations

AFDC	Aid to Families With Dependent Children
HHS	Department of Health and Human Services
JOBS	Job Opportunities and Basic Skills Training Program
JTPA	Job Training Partnership Act
SDA	service delivery area

Appendix I

JOBS and JTPA Expenditure Categories

Expenditure category	JOBS (IV-F) and AFDC (IV-A) child care, Oct. 1991 to Sept. 1992	JTPA title II-A, July 1991 to June 1992
Education and training	<p>(a) Salaries and benefits of full-time personnel working exclusively on JOBS-related program and administrative activities;</p> <p>(b) Costs of part-time personnel for time spent on orientation, assessment, employability plan development, case management, education, and training; and</p> <p>(c) Assorted nonpersonnel costs, including those for space and equipment, directly related to providing JOBS activities</p>	Salaries, benefits, equipment and supplies of personnel directly engaged in providing training (including remedial education, job-related counseling, employability assessment, job development, and preparation for work), tuition, books, classroom space, and 50 percent of work experience program costs ^a
Participant support	<p>JOBS IV-F: Transportation, work-related, and other support services as needed</p> <p>AFDC (IV-A): Child care services and related administrative costs</p>	Needs-based payments, supportive services, including child care and transportation, and 50 percent of work experience costs
Administration	Costs related to general supervision and administration of the program	Direct and indirect costs associated with supervising and managing the program

^aUnder JOBS, work experience payments are funded through AFDC and not included as JOBS expenditures. In our 1992 study of JTPA participant support (Job Training Partnership Act: Actions Needed to Improve Participant Support Services (GAO/HRD-92-124, June 12, 1992)), we noted that about 23 percent of support expenditures was used for work experience payments. Under the 1992 amendments to JTPA, all work experience costs will be considered education and training expenditures.

July 1991

**JOB TRAINING
PARTNERSHIP ACT****Inadequate Oversight
Leaves Program
Vulnerable to Waste,
Abuse, and
Mismanagement**



United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-215774

July 30, 1991

The Honorable Edward M. Kennedy
Chairman, Committee on Labor and
Human Resources
United States Senate

The Honorable Paul Simon
Chairman, Subcommittee on Employment
and Productivity
Committee on Labor and Human Resources
United States Senate

The Honorable William D. Ford
Chairman, Committee on Education
and Labor
House of Representatives

The Honorable Carl C. Perkins
Chairman, Subcommittee on Employment
Opportunities
Committee on Education and Labor
House of Representatives

This report responds to your request for information on the vulnerability of the Job Training Partnership Act program to waste, abuse, and mismanagement and the adequacy of program oversight to prevent and detect such practices. It recommends actions that the Department of Labor needs to take to reduce the potential for improper program management and to address the questionable practices that are occurring.

Copies of this report are being sent to the Secretary of Labor; the Director, Office of Management and Budget; and other interested parties.

Edward A. Blensmore

for

Franklin Frazier
Director, Education and
Employment Issues

Executive Summary

Purpose

Since its inception in 1983, the Job Training Partnership Act (JTPA) has spent about \$28 billion to provide employment and training services primarily to economically disadvantaged individuals. JTPA has been relatively successful in placing participants in jobs. Recently, however, several instances of program waste, abuse, and mismanagement have been brought to light by the Department of Labor's Inspector General and the media. The Congress and many in the employment and training community are concerned that the JTPA program lacks accountability and may not be keeping its "house in order."

At the request of the Senate Committee on Labor and Human Resources and Subcommittee on Employment and Productivity, as well as the House Committee on Education and Labor and Subcommittee on Employment Opportunities, GAO studied JTPA to assess (1) the program's vulnerability to waste, abuse, and mismanagement and (2) the adequacy of federal, state, and local program oversight to prevent and detect such practices.

Background

JTPA is a highly decentralized program with over 600 local programs (service delivery areas) providing employment and training services to youth and adults. Some training services are provided directly by the service delivery areas but, for the most part, these services are provided under contract with public and private entities, such as community colleges and trade schools. Under JTPA, the majority of funds must be spent on training and a statutory limit is placed on funds used for administrative costs.

States and territories have the primary oversight responsibility for ensuring that JTPA programs are properly implemented. Labor has interpreted its oversight role as one of providing broad policy guidance and limited program monitoring.

GAO examined JTPA activities in two federal regions, six states, and 12 service delivery areas, mainly for the program year ending June 30, 1990. To avoid biasing its results, GAO did not include in its review those service delivery areas with known implementation problems, such as those previously identified by Labor's Inspector General.

Results in Brief

Improper spending of JTPA funds on program administration and training contracts has reduced the amount available for training and placement assistance. Further, federal and state oversight has not

detected these problems, leaving the program vulnerable to waste, abuse, and mismanagement. For example, at the 12 service delivery areas visited, GAO found that:

- Administrative expenditures were misclassified by 9 of the service delivery areas. Seven of these service delivery areas would have exceeded the statutory limitation on administrative costs if these costs had been accurately reported.
- On-the-job training contracts for excessive training were developed by 11 of the service delivery areas. About one-third of the JTPA funds spent by these service delivery areas on lower skill on-the-job training was for excess training.
- Other contracting practices followed by 8 of the service delivery areas resulted in improper or unsupported payments being made to training vendors.

State monitoring efforts and independent audits generally did not detect these practices. In addition, Labor has not issued specific policy guidance to prevent shortcomings, such as improper charging of certain administrative costs to other cost categories and on-the-job training contracts for excessive periods of training.

GAO concludes that federal and state oversight of the JTPA program is inadequate to ensure that incidents of waste, abuse, and mismanagement are detected and such practices are minimized.

Principal Findings

Administrative Cost Limitation Circumvented

The majority of service delivery areas that GAO visited underreported administrative expenditures, causing a misrepresentation of program costs and amounting to a circumvention of the statutory limitation placed on administrative costs. Exceeding allowable administrative spending reduces the amount of funds available to provide training services. JTPA requires that a minimum of 70 percent of available funds be spent on training and limits to 15 percent the amount that can be used for administration. Service delivery areas failed to use verifiable criteria, such as time records, in determining the amount of salaries to be charged to the administrative cost category. As a result, inappropriate expenditures were being charged to training, and spending on administration was being understated. (See pp. 15-17.) If administrative costs

had been accurately reported, 7 of the 12 service delivery areas would have exceeded the limitation on administrative spending by an average 68 percent. (See pp. 19 and 20.)

Policies in five of the six states that GAO visited may have contributed, in part, to the underreporting of administrative costs. These policies inappropriately permitted or were sufficiently vague to permit service delivery areas to charge costs for administrative services to the participant support cost category. Participant support includes services such as child care, transportation, and payments to participants that enable them to attend training. One service delivery area charged the participant support cost category for such administrative costs as the salaries of the private industry council staff, rent and supplies for their office, and their travel to seminars. (See pp. 17-19.)

Excessive Periods of On-the-Job Training

JTPA funds are being wasted on excessive on-the-job training. For example, at 11 service delivery areas, about 73 percent of on-the-job training contracts for lower skill positions, such as dishwasher, hotel maid, and fast-food worker, were in excess of Labor's suggested training time. JTPA's share of these excess wages was about \$250,000 out of the \$690,000 spent on this training. Although we pointed out this problem in an earlier report and Labor indicated that it contemplated corrective action, Labor has not issued any guidance to address this problem. (See pp. 21-23.)

JTPA funds also are being used to subsidize portions of employers' salary and training expenses. Service delivery areas developed on-the-job training contracts with employers for individuals who already had significant work experience in the job for which they were being trained. In other cases, the training contracts were for persons already employed by the company. For example, one service delivery area contracted with an employer to provide 4-months' training as a delivery driver to a person with 5-years' experience as a delivery driver. Another service delivery area developed a 6-month on-the-job training contract with an employer for a person who had been employed by that company for over a year in a similar position. Similar examples were found in 7 other service delivery areas. (See p. 24.)

Other Evidence of Vulnerability to Mismanagement

GAO found other problems that, while not widespread, were common enough to indicate program mismanagement. These included service delivery areas paying vendors even when contract conditions were not met, providing vendors with partial payments not in compliance with Labor guidance, and reimbursing vendors for unsupported expenses. As many as two-thirds of the payments reviewed at one service delivery area were improper because contract conditions were not met before payment. (See pp. 25 and 26.) In addition, service delivery areas made partial payments on contracts that often resulted in vendors receiving substantial amounts of money before providing much training. One service delivery area contracted to pay a vendor about 80 percent of a contract if 85 participants were enrolled and attended 5 days of a 6-month training program. (See pp. 26 and 27.)

Service delivery areas were also using contract modifications to pay vendors the full contract amount even though they failed to fulfill the original training requirements. Training contracts at one service delivery area provided for full payment only if participants were placed in jobs within 45 days after training. In two instances this was extended, in one case to 66 days and in another to 134 days, to allow full payment. (See pp. 27 and 28.)

State and Federal Monitoring and Oversight Inadequate

States were generally unaware that service delivery areas were improperly classifying administrative costs, even though they were responsible for, and in most instances performing, local program monitoring. Furthermore, the states failed to detect excessive lengths of on-the-job training. Other problems relating to contracting practices, although not pervasive, were nonetheless occurring at the local level and, generally, were undetected by the states. (See pp. 30 and 31.)

Labor's program oversight has been limited and it has not issued policy guidance that defines administrative costs, acceptable on-the-job training contracts, or adequate state monitoring. Labor has, however, undertaken initiatives aimed at improving program integrity. These initiatives appear to be a step in the right direction, but it is too soon to determine their impact. (See pp. 31-33.)

Independent financial and compliance audits, required at least once every 2 years, do not appear to compensate for inadequate state and federal monitoring and oversight. Few of the audits noted deficiencies related to waste, abuse, or mismanagement within JTPA. (See pp. 33 and 34.)

Recommendations

To reduce the potential for waste, abuse, and mismanagement within JTPA, GAO recommends that the Department of Labor assume stronger leadership in assuring that service delivery areas follow sound management and operational practices. Specifically, Labor should:

1. Provide technical assistance to states for the development and implementation of monitoring procedures designed to detect waste, abuse, and mismanagement within the program.
2. Provide policy guidance to clarify regulations in regards to
 - accounting for and reporting of administrative costs to accurately reflect program expenditures,
 - developing on-the-job training contracts that appropriately reflect the job's requirements and the individual's work experience,
 - monitoring service providers to ensure that incidents of waste and abuse are detected and minimized, and
 - maintaining adequate control over property purchased with JTPA funds to ensure that it is used for its intended purposes.

Agency Comments

The Department of Labor generally agreed with the findings and conclusions in GAO's report and stated that it has proposed legislation that was recently introduced to the Congress and taken other actions that address GAO's recommendations.

GAO believes that these efforts are a step in the direction of strengthening JTPA program monitoring and oversight. Labor's legislative proposal, if enacted, and other initiatives will contribute to improved program management. However, GAO believes that other actions are needed to ensure that its recommendations are fully implemented.

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 Abbreviations

AFDC	Aid to Families With Dependent Children
GAO	General Accounting Office
JTPA	Job Training Partnership Act
OIG	Office of Inspector General
OJT	on-the-job training
SDA	service delivery area

Introduction

During the past year, the Job Training Partnership Act (JTPA)¹ program has been the subject of increased accusations of waste, abuse, and mismanagement. The Department of Labor's Office of Inspector General has reported on a number of such incidents within the program. Also, the media have been critical of JTPA's ability to ensure the proper use of program funds. The Congress and many in the employment and training community are concerned that the JTPA program lacks accountability and may not be keeping its "house in order."

Background

JTPA was enacted to provide job training and employment seeking skills to economically disadvantaged adults and youth. Since its implementation in 1983, it has received annual funding of about \$3.5 billion and served over 2 million people each year. JTPA funds are distributed to states and local service providers using a formula based on the number of unemployed and economically disadvantaged people who live in these areas.

JTPA is a highly decentralized program. Although the Department of Labor is responsible for overall program administration, the states have considerable responsibility and autonomy in carrying out and monitoring program operations. The states are divided into service delivery areas (SDAs). These can include one or more units of local government or, in those states with relatively few concentrated population centers, the entire state may be served by a single SDA. The majority of JTPA participants receive job training services through programs administered by the 56 states and territories and over 600 SDAs; the remaining participants receive services through federally administered programs.

JTPA Activities and Services

SDAs provide a wide range of employment and training services, either directly or through agreements or contracts with other service providers. For the most part, these services can be categorized as shown in table 1.1.

¹Public Law 97-300, signed on October 13, 1982.

Table 1.1: Descriptions of JTPA Training Activities

Activity	Description
Occupational classroom training	Teaches technical skills for specific jobs, such as clerk-typist or medical assistant.
Basic education	Provides training to improve basic educational skills, earn a high school equivalency degree, or improve knowledge of the English language.
On-the-job training	Employer provides training in a specific occupation, such as machine operator. Normally, the employer is reimbursed for one-half of the participant's wages.
Work experience	Provides short-term or part-time work designed to develop good work habits and basic work skills.
Job search assistance	Provides assistance in locating, applying for, and/or obtaining a job.

Because JTPA participants are generally economically disadvantaged, the act allows SDAs to also provide these individuals with needs-based payments and supportive services to enable them to attend training programs. Supportive services include child care, health care, meals, and transportation.

Titles IIA and III are the primary JTPA programs for providing year-round job training services to eligible adults and youth. Title IIA provides year-round training to economically disadvantaged adults and youth. Title III provides funds for programs tailored to the specific needs of dislocated workers—those who have been individually laid off or who have received a notice of layoff as a result of a mass layoff or the permanent closure of a plant or facility. Collectively, these two titles have accounted for about 56 percent of JTPA's annual budget and 62 percent of the participants.

Program Cost Limitations

JTPA requires that the majority of its funds be spent on training. The act specifies that at least 70 percent of title IIA funds and 50 percent of title III funds be spent on training activities. It also places a limit on administrative costs—not more than 15 percent of funds under both titles IIA and III can be spent for program administration. The act specifies that not more than 30 percent of title IIA funds can be spent on a combination of administration and participant support; for title III, up to 25 percent can be spent on participant support.

JTPA regulations state that allowable costs under the program must be charged to one of several specified cost categories. For example, all title

IIA costs must be charged to either training, administration, or participant support, depending on the nature of the costs involved.

Federal Oversight

The Department of Labor is responsible for the oversight of JTPA. Under JTPA, Labor has the authority to monitor all recipients of funds to ensure compliance with the act and implementing regulations. For the most part, however, the act delegates authority for monitoring JTPA program activities to the states. As pointed out in a report by the National Commission for Employment Policy:

"The Job Training Partnership Act is a fundamental example of 'New Federalism' and the block grant concept of funding State and Local programs . . . 'New Federalism' means the assignment of primary responsibility for administering federally funded programs to the States. The Federal role in oversight and administration is severely limited by design."²

Labor requires that states provide it with programmatic and financial data on statewide and individual SDA performance. These reports consist of two program status reports (the annual and semiannual reports) and a longitudinal survey of a sample of JTPA participants. While these reports provide a program-wide view of how JTPA is operating, they give only a limited perspective on individual state and local program operations.

Labor's 10 regional offices periodically conduct a series of management and compliance reviews of state operations. Management reviews are aimed at helping states and SDAs achieve program goals, develop quality programs through better planning and management, and use available resources efficiently. These reviews became a state option rather than a monitoring requirement in February 1990. Compliance reviews are aimed at determining whether state programs are being carried out in accordance with the requirements of the act and implementing regulations.

State Monitoring

The states have primary responsibility for monitoring JTPA programs and activities. JTPA requires that the states establish such fiscal controls and accounting procedures as are necessary to ensure the proper disbursement and accounting of federal funds. The act also requires that the states prepare, or have prepared, an independent audit of each SDA.

²"The Job Training Partnership Act," National Commission for Employment Policy, Washington, D.C., September 1987.

According to JTPA regulations, the states are responsible for oversight of all SDA grant recipients as well as title III substate grantee activities and state-supported programs.

The states have discretion in determining how to carry out their oversight and monitoring responsibilities. Typically, the states visit each SDA and assess a number of areas or activities, including financial management and management information systems, procurement practices, and eligibility determinations. The states also carry out monitoring through the use of (1) management devices, such as quarterly financial reports; (2) performance reports comparing planned with actual performance; and (3) state liaison officials responsible for maintaining continuing contact with the SDAs, as well as for dealing with day-to-day questions and problems.

Objectives, Scope, and Methodology

The Chairmen of the Senate Committee on Labor and Human Resources and its Subcommittee on Employment and Productivity as well as those of the House Committee on Education and Labor and its Subcommittee on Employment Opportunities asked us to assess several aspects of JTPA. Specifically, we were asked to assess (1) JTPA's vulnerability to waste, abuse, and mismanagement; and (2) the adequacy of federal, state, and local program oversight and monitoring to prevent and detect such practices.

We concentrated our efforts at the three levels responsible for overseeing and administering JTPA: the federal, state, and local program levels. At the federal and state levels, we focused on their roles and responsibilities and the procedures they followed to ensure that the program was being carried out in accordance with the law and implementing regulations. At the local level, we concentrated on SDAs' procurement and financial management practices and procedures. With regard to procurement, we looked at the selection of training vendors, the contracting methods used, performance under training contracts, and contract monitoring by the SDAs. In the financial management area, we examined internal controls, the procedures followed in accounting for expenditures, property inventory and control, and audit coverage and resolution.

We carried out our work in two federal regions—Region I (Boston) and Region V (Chicago)—and in three states in each region. In Region I, we included Connecticut, Massachusetts, and Rhode Island. In Region V, we

visited Illinois, Michigan, and Ohio. We included 12 SDAs in our review—2 in each state we visited (app. 1 contains a listing of the SDAs).

We selected SDAs from among those in the states visited that appeared to be more or less representative of SDAs program-wide. For example, we selected SDAs that (1) had a variety of training programs, (2) used various contracting methods, (3) were neither too large nor too small in terms of funding, and (4) did not have an unusual administrative structure. To eliminate potential bias in our results, we excluded those SDAs where previous reviews may have revealed managerial and operational weaknesses (e.g., those previously examined by Labor's Inspector General and those recently visited by Labor regional officials). While the selected states and SDAs do not constitute a representative sample, in our view, they provide examples that illustrate the vulnerability of the program to waste, abuse, and mismanagement.

Our audit work was carried out from January 1990 to November 1990. For the most part, we reviewed financial management activities and procurement practices for program year 1989 (July 1, 1989 to June 30, 1990). Our review was conducted in accordance with generally accepted government auditing standards.

Inaccurate Reporting of JTPA Costs Results in Administrative Limits Being Exceeded

The majority of the SDAs we visited underreported administrative expenditures, causing program costs to be misrepresented. Such underreporting amounts to a circumvention of the statutory limitation placed on administrative expenditures by JTPA. Nine of the 12 SDAs we visited often reported administrative salaries as training costs and other administrative expenditures as participant support costs. If these administrative expenditures had been charged properly, 7 of these SDAs would have exceeded the administrative cost limitation specified in the act by an average of 68 percent.

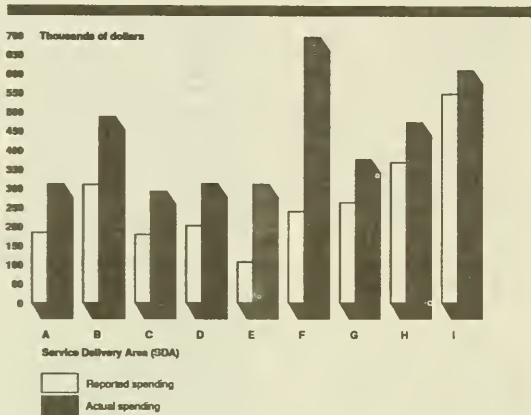
Program Costs Are Misclassified

At 9 of the 12 SDAs we visited, administrative expenditures were being reported inaccurately in the two areas in which we concentrated our efforts—allocation of costs for administrative salaries and employment-generating activities.¹ In 8 SDAs, salaries for certain administrative personnel were charged entirely or partially to training; at 4 SDAs, the costs of employment-generating activities were inappropriately charged to participant support. Improperly charging administrative costs not only misrepresents the extent of services actually being provided, but also reduces the amount of funds available for training and participant support.

On average, the 9 SDAs underreported their administrative expenditures by 38 percent. As illustrated in figure 2.1, the amount of underreported administrative expenditures at these nine SDAs ranged from about \$62,000 (10 percent) at one SDA to about \$456,000 (66 percent) at another SDA.

¹Employment-generating activities are activities that increase job opportunities for JTPA eligible individuals; for example, special surveys and studies, community profiles, job skill forecasts, essential labor market and program analyses, and consultant services.

Figure 2.1: Reported and Actual Administrative Expenditures for Nine SDAs



Administrative Salaries Improperly Charged to Training

Entire salaries for some individuals performing only supervisory or administrative functions were being charged to training at five of the SDAs we visited. Other SDAs did not use a supportable basis (e.g., time records) for allocating a percentage of salaries to training for those individuals who perform training as well as administrative duties.

JTPA regulations stipulate that (1) direct or indirect costs associated with the supervision and management of the program shall not be charged to training and (2) salaries and fringe benefits of project directors, program analysts, labor market analysts, supervisors, and other administrative positions shall not be charged to training.

The SDAs we visited often failed to follow these regulations. We noted a number of instances where administrative salaries had been partially or entirely charged to training, including

- about \$87,000 for such positions as an executive director, a manager for administration, and a manager for planning and operations;

- about \$105,000 for an operations director, a planning director, and a program coordinator;
- approximately \$113,000 for such positions as an administrator, a private industry council liaison, an assistant management information systems manager, and a program monitor;
- approximately \$191,000 for a director, an operations manager, an administrative assistant, and a management information systems coordinator; and
- about \$456,000 for such positions as a casework director, a planner, six employment and training supervisors, and two administrative analysts.

We discussed the characteristics of these positions with Labor officials, who agreed that, based upon available job descriptions, the positions appeared to be administrative rather than training related.

Seven SDAs also lacked a supportable basis for allocating the salaries of individuals who perform both administrative and training duties to these cost categories. JTPA regulations require that salaries of those individuals performing both training and administrative functions be prorated among training and administrative cost categories using verifiable criteria, such as time records. The SDAs estimated percentages for such salaries, rather than using a basis that could be verified. For example, two SDAs relied upon estimates to allocate the percentage of time individuals devoted to training and administration. Neither SDA had such documentation as time records to support the estimates.

Administrative Costs Further Understated by Charging Employment- Generating Activities to Participant Support

Five of the six states we reviewed improperly permitted SDAs to charge costs for employment-generating activities to participant support, even when such activities were administrative in nature.

JTPA regulations specifically stipulate that the costs for employment-generating activities cannot be charged to training, but do not specify which of the other two cost categories—administration or participant support—should be charged for such activities. The act, however, defines the services included under participant support; namely, supportive services (those services necessary to enable individuals who cannot afford them to participate in the program), needs-based payments (payments made to economically disadvantaged individuals to offset the costs associated with training), and certain work experience costs.

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Inaccurate Reporting of JTPA Costs Results
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Some states have developed policies that allow the costs of employment-generating activities (e.g., labor market studies, community profiles, and job skill forecasts) to be charged to participant support, regardless of the true nature of such costs. For example, we identified a policy in one state that specifically allowed all costs for employment-generating activities to be charged to participant support. At one of the SDAs visited in this state, about \$279,000 was charged to participant support in program years 1988 and 1989 for such expenses as the private industry council staff's salaries, rent, office supplies, and travel to seminars. Another SDA charged about \$376,000 to participant support during program years 1988 and 1989 for activities involving outreach, administration, and marketing.

Regional Labor officials reacted promptly when we brought this state's policy to their attention and questioned whether the policy was consistent with the act and regulations. They issued a cease and desist letter to the state to stop SDAs from charging all costs of employment-generating activities to participant support and requested the state to determine the extent to which SDAs were inappropriately charging these costs. In its response to Labor, the state identified seven SDAs as having charged costs for employment-generating activities that were administrative in nature to participant support. The total amount of costs improperly charged in program year 1989 at these SDAs was about \$644,000.

Four of the other five states we visited also did not have policies in program year 1989 that specifically required SDAs to charge the costs for employment-generating activities to administration. For example, one policy simply stated that employment-generating activities may be charged to either the participant support or administrative cost categories. Another state delegated to its SDAs the responsibility for determining which cost category to charge for employment-generating costs. The two Labor regional offices included in our review have instructed states to revise their policies. In one letter, for example, Labor concluded that

"... the costs of [employment-generating activities] would normally be expected to be allocated to the Administration cost category, and that [the] State policy needs to be reviewed to more narrowly define the charging of these costs and to insure that it is consistent with the intent of the Act and regulations."

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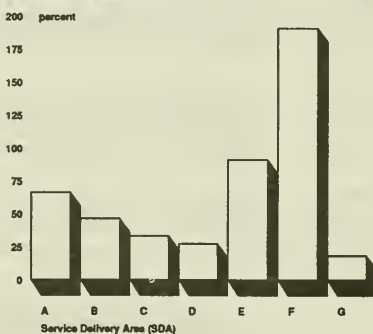
Of the states we visited, only one state's policy specifically required that costs for employment-generating activities be charged to administration. The policy states that

"Employment generating activities, defined as activities not directly related to the provision of training or employment for participants, but which are generally intended to increase job opportunities for eligible individuals in the area served by the program, shall be charged to the administrative cost category."

Limitation on Administrative Costs Is Often Exceeded

As noted earlier, nine of the SDAs we visited inaccurately reported the amount of funds spent on administration. We determined that seven of these SDAs would have exceeded the statutory limitation placed on administrative costs had they accurately reported such expenditures. In addition, they would have exceeded the allowable amount of funds to be spent for administration by an average 68 percent. As illustrated in figure 2.2, had the SDAs accurately charged expenditures to the administrative cost category, the statutory limit would have been exceeded by about 18 percent in one instance and over 190 percent in another.

Figure 2.2: Percentage That SDAs Exceeded Allowable Administrative Costs



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Our findings reinforce a concern raised by Labor's Office of Inspector General (OIG). In a 1989 report,² the OIG noted that determining whether SDAs have complied with the basic restrictions on cost limitations has become increasingly difficult and concluded that no accountability by cost category exists for program expenditures.

²Semiannual Report, Office of Inspector General, U.S. Department of Labor, April 1-September 30, 1989.

JTPA Funds Wasted on Questionable On-the-Job Training

Most of the SDAs we visited wasted JTPA funds by developing on-the-job training (OJT) contracts that appeared to be more of an employer subsidy than a training mechanism. These SDAs developed OJT contracts for lower skill jobs that substantially exceeded Labor's suggested training times. In addition, many OJT clients had significant prior experience in the job for which they were being trained and in several instances were already employed by the OJT contractor.

Excessive Training in Lower Skill Occupations Wastes JTPA Funds

SDAs provided OJT for lower skill jobs (e.g., carwash attendant, hotel maid, and fast-food worker) for periods that exceeded Labor's suggested training times for these types of jobs.¹ OJT affords JTPA participants the opportunity to earn a wage while receiving direct, "hands-on" experience in a specific occupation.

In a prior report,² we found that many OJT contracts for lower skill jobs allowed too much time for training when compared with the suggested training time for these occupations. Labor officials responded that they were considering legislative and/or regulatory options to address this issue. They further noted that they

"... expect that the types of lower skill OJT contracts identified in the GAO report as prone to excessive duration will gradually cease to exist."

But our review indicates that SDAs are continuing to provide excessive OJT for lower skill jobs.

Under standard OJT arrangements, employers provide JTPA participants with training in a particular occupation for a specified length of time. JTPA normally reimburses the employer for one-half of the participant's wages during this training.

During our current review, we found that approximately 73 percent of the lower skill OJT contracts exceeded the upper limit of Labor's training guidelines. We defined lower skill jobs as those jobs that, according to Labor, require no more than 3 months of training. Of the 558 OJT contracts for lower skill jobs we reviewed, 407 exceeded Labor's suggested training times for these positions. The cost to JTPA for the 558 lower-skill

¹We used the specific vocational preparation (training time) included in Labor's Selected Characteristics of Occupations Defined in the Dictionary of Occupational Titles.

²Job Training Partnership Act: Services and Outcomes for Participants With Differing Needs (GAO/HRD-89-52, June 8, 1988).

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OJT contracts was about \$691,000, of which about 36 percent (\$251,000) was for excess training. Table 3.1 shows, by SDA, the percentage of lower skill OJT contracts that were longer than Labor's suggested training times.

Table 3.1: Percentage of Lower Skill OJT Contracts Exceeding Labor's Suggested Training Time

SDA	Number of lower skill OJT contracts	Number (percent) exceeding Labor guidelines
A	6	3 (50)
B	5	5 (100)
C	15	6 (40)
D	3	2 (67)
E	33	30 (91)
F	*	*
G	24	19 (79)
H	38	31 (82)
I	106	96 (91)
J	53	40 (75)
K	43	24 (56)
L	232	151 (65)
Total	558	407 (73)

*SDA F had no OJT contracts in program year 1989

The 407 OJT contracts exceeding Labor's guidelines did so by an average of 6 weeks. As shown in figure 3.1, the amount of excess training ranged from an average of 2 weeks at one SDA to an average of 12 weeks at another.

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Figure 3.1: Suggested and Contracted Training Times for Lower Skill OJT



Table 3.2 lists the training time for seven excessive OJT contracts for lower skill jobs. All of these jobs have suggested training times of 30 days or less.

Table 3.2: Examples of Excessive OJT for Lower Skill Jobs

Occupation	Length of OJT (days)
Fast-food worker	40
Hotel maid	65
Meat wrapper	65
Kitchen helper	71
Laundry attendant	73
Rug cleaner	80
Carwash attendant	129

Excessive Training for Those With Prior Experience

We noted instances at nine SDAs where OJT contracts were used to train individuals who already had significant work experience in the occupation for which they were receiving OJT. About one-fourth of the 386 sampled individuals for whom work histories were available had at least 1 year of prior experience in the job for which they were being trained. Table 3.3 illustrates seven instances where SDAs entered into OJT contracts to train individuals who had significant experience in these jobs.

Table 3.3: Examples of Significant Prior Experience in OJT Occupation

Occupation	Months of OJT training	Years of prior experience
Custodian	3	19
Draftsman	4	14
Tool/die worker	5	12
Welder	6	7
Oil burner technician	12	5
Delivery driver	4	5
Security guard	4	3

OJT Being Used to Subsidize Employees' Wages

We also found a few instances at six SDAs where OJT contracts were used to subsidize a current employee's wages and to provide training normally paid for by the employer. While developing OJT contracts with companies to train current employees was not a pervasive practice, it further indicates potential abuse of JTPA training funds. We believe that using OJT to subsidize a current employee's wages is an abuse of the program and should not be tolerated. Labor's OIG in a recent report questioned about \$600,000 in costs relating to some 200 cases in which the OJT participant had been employed by the OJT employer at least 1 week before the start of training.³

Our review of OJT client work histories identified 11 cases where six SDAs entered into OJT contracts with companies to train current employees. For example, one SDA entered into a 4-month contract with a company to train a radio and television service technician. The OJT trainee had been hired by the company 2 weeks before the OJT contract and was already being trained as a service technician when the OJT began. Another SDA developed a 6-month OJT contract with an employer to train a person who had been employed by that company for approximately 18 months in a similar position.

³National Summary Report JTPA/OJT Performance Based Broker Contracts, Office of Inspector General, U.S. Department of Labor, March 29, 1991.

Contracting Practices Contribute to Program Vulnerability

Two-thirds of the SDAs we visited used questionable contract administration and monitoring practices, making contracting with training vendors vulnerable to potential waste, abuse, and mismanagement. We noted instances where SDAs

- made payments to training vendors that were not in accordance with contract requirements,
- did not comply with federal guidelines on providing partial payments to vendors,
- modified contracts to allow payment to vendors who failed to meet performance requirements, and
- reimbursed vendors for unsupported expenditures.

While not all of these problems occurred at each SDA we visited, the occurrence was common enough to cause concern that the Job Training Partnership Act program is vulnerable to waste, abuse, and mismanagement.

Improper Payments Made Under Fixed Unit Price, Performance-Based Contracts

Two-thirds of the SDAs we visited that used fixed unit price, performance-based contracts either (1) made payments to vendors even though the payments did not comply with contract requirements, (2) made partial payments to vendors that did not comply with Labor's guidance, or (3) wrote modifications to change contract conditions to permit full payment.

Under Labor's guidance for fixed unit price, performance-based contracts, vendors can receive partial payments when they attain performance benchmarks. The performance must be measurable and documented and cannot be for more than the estimated cost of providing that portion of the contract. JTPA regulations also require that full payment under these contracts be contingent upon three conditions: completion of training, placement in a training-related job, and receipt of a specified wage.

Payments Made Despite Contract Requirements

Of the nine SDAs that used fixed unit price, performance-based contracts with vendors, three made payments that were not in accordance with contract requirements. In addition, two other SDAs did not verify that contract requirements were satisfied before paying the vendors.

At one SDA, for example, a provision in the contracts stipulated that vendors would receive payment for each person placed in a training-related

job if the person kept that job for some specified length of time—usually 3 or 4 weeks. The SDA's procedures required that, before making payment, SDA staff were to verify that each person was placed in a training-related job and had retained that job for the required length of time. At this SDA, however, as many as two-thirds of the payments reviewed may have been improper. We examined 75 payments made to seven vendors and found that 11 payments were made before the completion of the required job retention period and another 39 were made without performing the job retention verification.

At another SDA, inadequate monitoring procedures may have resulted in improper payments being made. This SDA's contracts called for vendors to be paid for placements in training-related jobs obtained within 45 days of training completion. However, vendors were paid before the SDA verified reported placements.

Partial Payments Not in Compliance With Federal Guidelines

Six of the SDAs that used fixed unit price, performance-based contracts with vendors made partial payments that were not in compliance with Labor guidelines for such contracts. As a result, SDAs were often paying training vendors substantial amounts for minimal effort (e.g., for enrolling clients), regardless of the amount of training provided.

According to Labor officials, partial payments can only be based on a documented measurable achievement; enrollment and attendance alone do not constitute measurable achievements.¹ Labor's guidelines also note that costs associated with intake, enrollment, and assessment—without participation in occupational or basic skills training—cannot be the basis for partial payments.

In contrast to Labor's guidance, six SDAs awarded contracts that provided partial payments to vendors based on client enrollment. The amount of these payments ranged from 24 percent of the contract to as much as 79 percent. One SDA's contract with a vendor offering clerical training, for example, allowed the vendor to receive 79 percent of a \$239,000 contract if 85 participants were enrolled and remained in the

¹An example of an acceptable basis for making a partial payment is illustrated by one SDA's contract with a vendor that stipulated that, before receiving its first partial payment, the vendor had to certify that participants satisfactorily completed 15 percent of the curriculum with a grade of 70 percent.

program for 5 days of the 6-month training program. Another SDA's contract with a vendor offering word processing training (a 12-week program), permitted the vendor to receive 40 percent of the \$177,000 contract if 100 participants were enrolled and spent just 1 day in training.

Modifications Used to Change Contract Requirements

Two of the SDAs we visited modified performance requirements in several instances, resulting in vendors being paid without meeting original contract conditions. While Labor's guidance on fixed unit price, performance-based contracts recognizes that "risk is an inherent feature" of these contracts, both for service providers and SDAs, there appeared to be relatively little risk to the training vendors at these two SDAs after the contract modifications were made.

One SDA modified contract time limits or placement wage requirements to allow for full payment to be made to vendors. This SDA used fixed unit price, performance-based training contracts that contained precise definitions for completion, placement, and retention. However, the SDA allowed one vendor to receive full payment when it modified a contract, without any apparent justification, to extend the placement period from 45 to 66 days in one case, and from 45 to 134 days in another case. The vendor received \$2,054 for these two placements that would not have been paid had the contract not been modified. In another instance, the SDA modified a contract to reduce the stipulated placement wage from \$5.50 to \$5.00 per hour. As a result, the vendor received \$2,100 that would not have been paid under the original contract conditions.

At another SDA, training vendors received incentive payments without fulfilling the incentive requirements stipulated in the contract. Labor's policy guidance strongly recommends that SDAs focus more on at-risk populations, stating that "[t]his might involve an additional adjustment to the unit price to provide increased financial incentive . . ." for serving this group. This SDA entered into training contracts that provided incentive payments for services to the hard-to-serve, such as handicapped individuals, school dropouts, and Aid to Families with Dependent Children (AFDC) recipients. However, the contracts also contained a clause stating that if the vendor failed to enroll the specified number of hard-to-serve clients, the SDA would modify the contract to increase the placement payments by the incentive amount, thereby negating any incentive to enroll these clients.

One of the SDA's contracts provided an incentive payment of \$1,245 for enrolling two AFDC clients. When, after 9 months, the vendor had failed to enroll two such clients, the SDA modified the contract to increase the placement payments by \$1,245, thus negating any incentive effect. Similarly, the SDA modified another contract to increase placement payments by \$1,140 when a vendor, after 8 months, could not enroll a single AFDC client (as specified in the contract). In both cases, the vendors received the incentive payments without fulfilling the terms of the incentive clauses.

Payments Made Under Cost-Reimbursement Contracts Unsupported

Two of the five SDAs using cost-reimbursement contracts had reimbursed training vendors for incurred costs without ensuring that reported expenditures were allowable and sufficiently documented. Such a practice could lead to a misuse of JTPA funds.

Generally, SDAs entered into cost-reimbursement training contracts with organizations such as community colleges, city-operated institutions, and vocational schools. Under these arrangements, SDAs reimburse vendors for the cost of training based on the vendors' reported expenditures. Five of the SDAs we visited used such contracts to provide occupational classroom training.

One SDA paid a vendor 75 percent of the value of two contracts worth approximately \$700,000 without verifying the accuracy of the submitted expenditure reports. For the first 9 months of the contract period, the vendor submitted expenditure reports and received payments under these contracts that were totally unsupported by the vendor's records. Nonetheless, the vendor received full reimbursement for reported costs—about \$530,000.

A subsequent visit by the SDA disclosed that the vendor lacked any records supporting program expenditures. We believe the SDA should have questioned the vendor when the first expenditure report requested about \$80,000 for administration, twice the amount allowed for the entire year.

Another SDA also did not verify the accuracy or appropriateness of expenditures reported by vendors. In this instance, the SDA paid about \$213,000 under a cost-reimbursement contract with a vendor to provide training in office occupations. The vendor's monthly expenditure reports requesting payment contained only one line item—training—and the requested amount. Neither additional documentation as to the

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types of expenses incurred nor SDA verification of the accuracy or appropriateness of the payment requests was presented in the reports.

Inadequate Monitoring Has Left JTPA Vulnerable to Waste, Abuse, and Mismanagement

Incidents of waste, abuse, and mismanagement in the Job Training Partnership Act program are going undetected. State agencies, which have the primary responsibility for overseeing JTPA implementation, often failed to identify improper reporting of costs, questionable uses of on-the-job training, and inadequate procurement practices occurring at the SDAs included in our review.

Although JTPA requires that each program be independently audited at least once every 2 years, such audits have not provided reasonable assurance that JTPA programs are operating in accordance with applicable laws and regulations. These audits generally did not detect the improper management practices at the SDAs we visited.

Federal oversight also has not been directed at identifying improper practices or providing reasonable assurance that the program operates in accordance with the law, regulations, and sound management practices. Such oversight consists primarily of broad policy guidance, limited technical assistance, and minimal scrutiny of program implementation and operation.

Inadequate State Monitoring

Most states were not adequately monitoring local JTPA program operations. As reported in chapter 2, SDAs in five of the six states we visited were underreporting administrative expenditures, yet state monitors in only two of these states questioned the SDAs' basis for allocating expenses among the cost categories.

States vary substantially in the extent to which they monitor local program operations. One state we reviewed did not perform any monitoring of its SDAs' financial management or procurement systems until program year 1990. Similarly, another state had not performed any financial or procurement monitoring since program year 1986, although it did so in program year 1990. On the other hand, another state spent about 4 weeks per year at each of its 26 SDAs assessing various SDA activities, including cash management, cost classification, OJT, and contractor monitoring.

State monitoring to ensure that OJT was reasonable apparently was not occurring because none of the state monitoring reports we reviewed identified length of training as a problem. As reported in chapter 3, the 11 SDAs that had OJT contracts consistently contracted with employers to provide training in lower skill jobs for periods longer than the training

times suggested by Labor. Over one-third of the OJT costs for these contracts was being wasted on excess training.¹

Furthermore, none of the state monitoring reports we reviewed identified weaknesses in the SDAs' administration of their training contracts. As reported in chapter 4, SDAs were paying vendors even when contract conditions were not met; providing vendors with partial payments, thereby failing to comply with federal guidelines; and reimbursing vendors for unsupported expenditures.

Additionally, property management could be susceptible to abusive practices. States are responsible for ensuring that property purchased with JTPA funds is being used for JTPA purposes as required by federal regulations. Seven of the SDAs we visited did not have adequate control over property inventory. The five states where these SDAs were located either (1) did not assess SDA property inventory control or (2) made no mention of such weaknesses in their monitoring reports. For example, directors of two SDAs (in different states) were assigned automobiles purchased or leased with JTPA funds. In neither case were records maintained to show what these vehicles were used for. We were able to establish that one of these cars had been used regularly for personal purposes and not just program-related ones.

Other instances of poor property management were noted during our review. At one SDA, for example, four computers that were issued to a vendor were being used for non-JTPA purposes. In addition, about one-fourth of the 100 items we tested at this SDA were not at the locations specified on the inventory list, and SDA officials could not locate 15 of these items. This property was valued at \$44,000 and included a computer, terminals, printers, and modems.

Recent Initiatives May Improve Federal Oversight

Labor's oversight responsibilities have been insufficient to address the improper practices we identified. New initiatives by Labor are aimed at improving program integrity, but it is too soon to determine whether these efforts will reduce the program's vulnerability to waste, abuse, and mismanagement.

¹In acknowledgement of the potential abuse of OJT, three states have begun to develop policy guidance for SDAs to use when contracting with employers for this training.

Federal Policy Guidance Has Been Limited

Labor's program-wide guidance to the states and SDAs has been limited, and this lack of clear guidance has caused some of the problems discussed in this report. Labor has, on a few occasions, issued notices in the *Federal Register*, but these have not been formally incorporated into JTPA regulations. Labor also has provided guidance to individual states on specific questions and issues, such as the determination by two regional offices that costs for employment-generating activities should be charged to administration, but has not made such information available on a program-wide basis. Although Labor has issued policy guidance regarding the use of performance-based contracts, it has not clearly defined administrative costs, acceptable uses of OJT, and adequate levels of state monitoring.

Labor's compliance reviews as well as its previously required management reviews have contributed to improving program management at the state and local level. However, they have not detected, nor were they intended to detect, improper or questionable practices at every SDA.

New Oversight Initiatives Are a Step in the Right Direction

Labor has indicated a need to go beyond its current oversight and monitoring practices. As pointed out by Labor in a notice to its regional offices, "... it is evident that a more extensive and in-depth analysis is needed to detect system irregularities and vulnerabilities."

Labor's February 1990 JTPA oversight plan states that, while the existing system has enabled Labor to meet its monitoring responsibilities, changes in the program's environment and priorities require a reassessment of its oversight strategy. As a result, significant changes are anticipated in the near future. Under consideration are recommendations to focus reviews on program quality, effectiveness, and outcomes. Furthermore, Labor is considering shifting emphasis away from state administration and towards local program operations. According to the oversight plan, significant changes are being made to the current system, including Labor's directive that

"Reviews will go beyond simply verifying the mere existence of written system procedures and look at actual operational effectiveness."

Labor also has initiated a series of special reviews targeted to specific areas of program vulnerability. The two initial reviews were directed at the areas of procurement and OJT. According to Labor, these reviews are similar to but more in-depth than its compliance reviews.

Labor also is developing additional clarification and guidance for the states and SDAs. In February 1991, Labor issued an advance notice of proposed rulemaking that outlines areas of proposed regulatory change, and it is seeking comments on the advisability of amending the program regulations and the suggested areas for change. Labor's proposal includes several of the actual and potential problem areas identified in our review, including program monitoring, property management, OJT, and employment-generating activities.

Labor's new initiatives are designed to improve the integrity of JTPA at the state and local levels. However, it is too early to tell whether these efforts will significantly increase program integrity and prevent future waste and abuse.

Few JTPA Deficiencies Noted During Audits

All 12 of the SDAs we visited had been recently audited. Although we found questionable practices being followed at each of these locations, only three of the audit reports noted deficiencies relating to JTPA waste, abuse, or mismanagement. The lack of findings in the audits raises questions as to the adequacy of independent audits to detect the types of improper practices we identified during our review.

JTPA requires that, at least once every 2 years, all recipients of JTPA funds undergo an independent financial and compliance audit. This requirement can be satisfied either as part of a single audit of a state or local government's entire financial operations or through an audit aimed specifically at an individual JTPA program's operation. The audit requirements of 70 percent of the SDAs are met under the Single Audit Act. Of the 12 SDAs included in our review, 8 were included in audits conducted under the provisions of the Single Audit Act.

The single audit concept was implemented in order to (1) eliminate audit duplication, overlap by the responsible federal agencies, and gaps in audit coverage; (2) provide a basis for additional audits and evaluations, if needed; (3) identify accountability and ensure resolution of audit findings; and (4) address the need for uniform single audit requirements. The Congress enacted the Single Audit Act of 1984 to require state and local governments that were receiving \$100,000 or more in federal financial assistance to be the subject of a single, organization-wide audit.

The Department of Labor, in its 1989 and 1990 reports on the management control and financial management systems under the Federal Managers' Financial Integrity Act, identified coverage of JTPA under the

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Single Audit Act as one of several "high risk areas." The 1990 report stated:

"A determination must be made whether the scope of coverage under the Single Audit Act is adequate to protect [Labor] interests under the Job Training Partnership Act (JTPA) and other [Labor] programs."

Five of the eight single audit reports did not contain any significant JTPA deficiencies. We could not, however, determine from these reports the extent to which JTPA activities were examined. We stated in a previous report² that program managers and other audit report recipients had difficulty in using single audit reports because they could not determine whether their programs were tested for compliance or the extent of such testing. GAO has another assignment underway performing an overall assessment of the implementation of the Single Audit Act in 13 federal programs, including JTPA.

Five of the SDAs we reviewed received JTPA-specific audits.³ None of these audit reports, however, identified deficiencies and questionable practices similar to those we found during our review.

Conclusions

JTPA program oversight and monitoring at the federal and state levels is inadequate. Widespread problems were noted at the states and SDAs in our review, leading us to conclude that the program is vulnerable to waste, abuse, and mismanagement.

Labor's oversight has been limited to providing broad policy guidance with limited technical assistance and scrutiny of program implementation. As a result, problems at the state and local levels were not detected.

The extent of JTPA monitoring by the states varied, but generally the states did not detect improper management practices of local programs. Inaccurately reported administrative expenditures, excessively long OJT contracts, and questionable contracting practices were generally unreported.

²Single Audit Act: Single Audit Quality Has Improved but Some Implementation Problems Remain (GAO/APMD-89-72, July 27, 1989).

³At one of the SDAs, the grant recipient is the private industry council who contracts with the State Department of Employment and Training to act as its administrative entity. In program year 1989, a JTPA-specific audit was performed on the private industry council's activities and the state's department activities were included under the state's single audit.

Biannual audits, required by the act, have not detected program mismanagement. We recognize that, given finite time and resources, such audits cannot be expected to detect each and every incident of waste, abuse, and mismanagement. However, only three of the audit reports noted any such deficiencies relating to JTPA.

At the local level, we noted that 7 of 12 SDAs were circumventing the legislative limit on administrative spending by not accurately classifying all administrative costs. This practice also raises questions about the accuracy of program expenditures reported to the Department of Labor and the Congress.

The 11 SDAs providing training under OJT contracts were wasting scarce JTPA resources by (1) entering into lower skill OJT contracts that exceeded the length of training suggested by Labor, (2) training individuals with significant prior work experience in the occupations for which they were being trained, and (3) training individuals already working for the OJT employer. Such practices, in effect, subsidize portions of an employer's salary and training expenses.

Contracting practices followed by eight of the SDAs were also contributing to program vulnerability by not following Labor guidelines or adhering to their own contract requirements when paying vendors for services rendered.

Labor, which is responsible for issuing implementing regulations and policy guidance, has allowed states and SDAs considerable discretion in implementing the program. To resolve those questionable practices and problem areas identified through Labor's new detailed reviews, clear and definitive guidance is needed to correct program-wide problems. Labor's recent initiative to develop additional program regulations should help in that regard.

Recommendations

To reduce JTPA's potential for waste, fraud, and abuse, and to address questionable management practices at the local level, we recommend that Labor provide technical assistance to states for the development and implementation of monitoring procedures directed at detecting waste, fraud, and abuse within the program.

We also recommend that Labor provide policy guidance to clarify regulations for

- accounting for and reporting administrative costs to accurately reflect program expenditures;
- developing OJT contracts that appropriately reflect the job requirements as well as the individual's work experience;
- maintaining adequate control over property purchased with JTPA funds to ensure that it is used for its intended purposes; and
- monitoring service providers to ensure that incidents of waste and abuse are detected and corrective actions taken.

Agency Comments

In its July 2, 1991, comments on a draft of this report (see app. III), the Department of Labor generally agreed with our findings and conclusions. Labor stated that it has proposed amendments to JTPA, introduced on May 30, 1991, that would address most of our recommendations. In addition, it has taken other steps that respond to our recommendations, including conducting a program-wide series of special reviews in the areas of JTPA procurement and on-the-job training and undertaking state and SDA training initiatives.

These efforts are a step in the direction of strengthening JTPA program monitoring and oversight. Labor's legislative proposal, if enacted, and other initiatives will contribute to improved program management. However, we believe that Labor needs to take additional actions in order to fully implement our recommendations.

The following summarizes Labor's comments on each of our recommendations and our analysis, where appropriate.

With respect to our recommendation that Labor provide states with technical assistance on monitoring procedures, Labor referred to the initiatives that it has taken or that are underway. These include its reviews of procurement and OJT practices; system-wide procurement training, including OJT procurement; on-site technical assistance for areas with significant problems; and the development of a broad strategy to improve training and technical assistance program-wide. Labor said it has uncovered problems in its reviews, but added that over 90 percent have been resolved and the remainder are in the process of being resolved. Labor also said that substantial operational changes have been made, particularly in the area of OJT practices and procedures.

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Vulnerable to Waste, Abuse,
and Mismanagement

While Labor's monitoring reviews may have resulted in corrective action, our review indicates that technical assistance to the states is needed. Labor's reviews amounted to direct monitoring efforts on its part and do not address the need for guidance and assistance to the states and SDAs in developing and implementing adequate monitoring procedures. Moreover, while the results from Labor's reviews could be useful to program managers, they are not being disseminated system-wide. We believe that these results should be made universally available to all JTPA managers in such a way as to (1) highlight both inappropriate activities and laudable program practices and (2) encourage JTPA managers to look for such inappropriate practices and to adopt successful approaches. Regarding its other actions, Labor's training initiative is limited to the area of procurement, whereas our efforts showed program weaknesses in a number of areas, including classification of costs and property management. Moreover, its on-site assistance is being provided in only a few locations and its broad strategy is still under development.

With regard to our recommendation that Labor provide guidance to clarify regulations related to accounting for and reporting on administrative costs, Labor stated that its legislative proposal would require that all costs be charged to the appropriate cost category. Furthermore, under this proposal it will issue rules that define each cost category and ensure that the state governors carry out their responsibility to enforce such provisions.

We believe that these provisions, and particularly the one relating to defining cost categories, will contribute substantially to improvements in this area. However, we also believe that the rules Labor issues should clearly set forth which costs can be appropriately charged to each cost category and that the Department should attempt to anticipate and address any potential misunderstandings with respect to cost classifications.

Regarding our recommendation that Labor provide guidance with respect to developing appropriate on-the-job training contracts, Labor referred to its monitoring reviews of state and SDA OJT policies and practices. Furthermore, its legislative proposal would establish a limit on the length of OJT contracts as well as provide other requirements. Labor believes that these actions, as well as training for local program officials on OJT procedures, are appropriate to limit questionable OJT practices. Labor said that further policy guidance is dependent on legislative action.

We believe that Labor's actions will contribute to improved OJT contracting practices. However, we believe that Labor needs to take measures to insure that its proposed 6-month ceiling on OJT contracts does not become the norm. Therefore, in developing its guidance and implementing regulations, Labor needs to emphasize that the maximum training length should be used only when it is the normal length of training for a particular occupation or is fully justified by appropriate factors, such as a participant being handicapped.

With respect to our recommendation regarding the monitoring of service providers, Labor again referred to its monitoring reviews of OJT and procurement activities, training initiatives, and legislative proposal. It also plans to establish an oversight approach that focuses on program and management performance and preventive oversight. Labor's actions should contribute to improved program management and monitoring.

Regarding our recommendation on maintaining adequate property control, Labor referred to its procurement training activities and legislative proposal that will, in part, strengthen property management.

We believe that Labor's procurement training, coupled with its comprehensive guide on procurement practices, will improve and strengthen the program's procurement process. Further, its legislative proposal incorporates federal requirements that, in part, address the proper use and disposition of property. In view of the need for guidance by program managers, we believe that Labor should include in its training program and incorporate in its comprehensive guide, guidance on the proper use and disposition of program property.

SDAs Selected for Site Visits

State/city	Service delivery area
Connecticut	
Hartford	Hartford: SDA 5
Waterbury	Waterbury: SDA 9
Illinois	
Belleville	St. Clair County: SDA 24
Rockford	Boone and Winnebago: SDA 3
Massachusetts	
Fall River	Bristol County Training Consortium
Springfield	Hampden County
Michigan	
Ann Arbor	Livingston and Washtenaw Counties and City of Ann Arbor: SDA 18
Mt. Clemens	Macomb and St. Clair Counties: SDA 19
Ohio	
Columbus	Franklin County: SDA 16
Toledo	Toledo Area: SDA 9
Rhode Island	
Lincoln	Northern Rhode Island
Providence	Providence/Cranston

Appendix II

Tables Supporting Bar Graphs in Report Text

Table II.1: Difference Between Reported and Actual Administrative Costs (Data for Figure 2.1)

SDA	Administrative costs		
	Reported	Actual	Difference
A	\$183,237	\$310,282	\$127,045
B	308,732	487,144	178,412
C	179,106	292,010	112,904
D	202,306	312,461	110,155
E	107,328	310,304	202,976
F	239,348	695,621	456,273
G	262,927	376,443	113,516
H	367,565	472,605	105,040
I	546,601	608,934	62,333

Table II.2: SDAs Exceeding Allowable Administrative Costs (Data for Figure 2.2)

SDA	Percentage exceeding allowed administrative costs
A	66.2
B	46.4
C	33.3
D	27.4
E	91.0
F	190.6
G	18.4

Table II.3: SDAs Exceeding Suggested Training Time for Lower Skill OJT (Data for Figure 3.1)

SDA	Average training time (Weeks)		
	Suggested	Contracted	Excess
A	13	25	12
B	7	13	6
C	7	12	5
D	6	8	2
E	11	16	5
G	6	11	5
H	8	14	6
I	8	17	9
J	6	9	3
K	7	12	5
L	7	12	5

Comments From the Department of Labor

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

July 2, 1991

The Honorable Charles A. Bowsher
Comptroller General of the
United States
U.S. General Accounting Office
441 G Street, N.W.
Room 7000
Washington, D.C. 20548

Dear Mr. Bowsher:

Thank you for the opportunity to review and provide comments on the U.S. General Accounting Office (GAO) draft report, entitled Job Training Partnership Act: Inadequate Oversight Leaves Program Vulnerable to Waste, Mismanagement and Abuse (GAO/HRD-91-97). This report provides further information on issues which have been the basis for both administrative action and legislative proposals to strengthen the integrity of Job Training Partnership Act (JTPA) programs. Accordingly, the Department will give careful consideration to the recommendations contained in this report.

The Department has already taken major steps to address the concerns expressed in the report. All States and the majority of service delivery areas (SDAs) have recently been monitored in depth with respect to procurement practices and on-the-job training (OJT) program administration. Well over 90 percent of the problems identified in the review have been resolved. The Department has proceeded with training State and SDA staff in procurement practices and provided the system with a comprehensive technical assistance guide. The Department has also provided training for all States in the areas of OJT and proper program administration.

The Department's legislative proposal to amend JTPA which is pending before the Congress very specifically addresses the program integrity concerns identified in the report. The amendments make significant changes in the law to strengthen program accountability. These include new provisions requiring the Governors to establish and implement procurement standards to ensure fiscal accountability and prevent fraud and abuse. The provisions would also ensure that compliance with the standards is closely monitored and that, where problems arise, corrective action is promptly taken or, where necessary, appropriate sanctions are applied. Other provisions, such as those relating to the charging of expenditures to appropriate cost categories, proper OJT administration, property management, and restrictions on program income, also promote fiscal integrity.

Appendix III
Comments From the Department of Labor

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Enclosed are responses to your specific findings. I hope this information will prove helpful in compiling your final report.

Sincerely,

Lynn Martin
LYNN MARTIN

Enclosure

U.S. Department of Labor's Response to
 the Draft General Accounting Office Report
 Entitled --

Job Training Partnership Act: Inadequate
 Oversight Leaves Program Vulnerable to
 Waste, Mismanagement and Abuse

Following are the recommendations to the Secretary of Labor contained in the GAO report, and the Department's responses.

To reduce the potential for waste, fraud, and abuse within JTPA, GAO recommends that the Department of Labor assume stronger leadership in assuring that service delivery areas follow sound management and operational practices. Specifically, Labor should:

- I. Provide technical assistance to states for the development and implementation of monitoring procedures designed to detect waste, fraud, and abuse within the program.

The Department has undertaken several initiatives in this regard. First, the Department's Employment and Training Administration (ETA) has undertaken the monitoring of procurement practices and on-the-job training (OJT) administration for all States and SDAs. To date, all States and the majority of SDAs have been monitored. Problems have been uncovered, and well over 90 percent of the problems have been resolved with the resolution of the balance in process. Procurement and OJT were selected for review because these areas purportedly involved the greatest extent of questionable practices. On the basis of the reviews, substantial changes have been made, especially in the area of OJT practices and procedures.

Second, ETA has proceeded with training on procurement (including OJT procurement) for the entire JTPA system. As part of this training, participants were provided with a comprehensive guide on procurement practice with specific information on monitoring procurement systems. This spring, all State Directors received training on program integrity responsibilities as part of a training conference for State liaisons. The ETA has also included training on OJT as part of other training conferences they sponsored this spring.

Third, ETA is providing on site technical assistance for areas with severe problems, such as working with one State to resolve some serious problems identified in one of its service delivery areas (SDAs).

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Fourth, ETA is developing a much broader strategy to improve training and technical assistance throughout the JTPA system. This strategy was described in a Federal Register notice published on February 7, 1991 entitled "Building the Capacity of the JTPA System." An essential feature of this capacity building effort will be the training of JTPA staff in basic monitoring and program administration.

II. Provide policy guidance to clarify regulations regarding:

A. Accounting for and reporting of administrative costs to accurately reflect program expenditures.

Policy guidance for the proper classification of costs is presented at Part 20 Section 629.38 of the Code of Federal Regulations (CFR). Pursuant to the rules, it is the responsibility of the Governor to ensure that SDAs and substate areas properly charge expenditures against the proper cost categories. The proper classification of costs has also been a concern in the JTPA system as a result of the widespread practice of performance based contracting pursuant to 20 CFR 629.38(e)(2), wherein all of the costs could be charged to the training category. Our legislative proposal would require that all costs, with two limited exceptions, be charged to the appropriate cost category. Furthermore, the Department will issue rules defining each of the cost categories and ensure that the Governors fulfill their responsibility to enforce those provisions.

B. Developing on-the-job training contracts that appropriately reflect the job's requirements and the individual's work experience;

The ETA has monitored all States and is well on the way to monitoring all SDAs' OJT policies and practices. An essential element of this review is determining the presence and enforcement of State and local policies regarding the length of the training as it relates to the occupation, minimum and maximum durations, and limitations on who is appropriate to refer to an OJT opportunity, especially participants with previous experience in the firm or occupation. The Department has also included additional provisions regarding OJT in the proposed amendments. These provisions include limitations on the length of OJT to a period "...generally required for acquisition of skills needed for the position within a particular occupation, but in

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occupation, but in no event shall exceed six months." The legislation also indicates that the length of training should be based on a standard reference such as the Dictionary of Occupational Titles, and should take into account prior work experience, training content, and the individual's service strategy. In addition, the legislation includes requirements for OJT contracts and would impose significant new conditions on OJT brokering contracts.

The Department considers that it has taken appropriate action to limit questionable OJT practices throughout the JTPA system. Further policy guidance will depend on the legislative action taken on the OJT provisions included in the proposed legislation.

C. Monitoring service providers to ensure that incidents of waste and abuse are detected and minimized:

The ETA has taken direct and comprehensive action to monitor all State and local JTPA programs for the areas which were considered to be most vulnerable to waste and abuse - OJT and procurement. Such monitoring not only included review of program policies and practices, but also reviewed State and local monitoring practices. Where deficient, immediate corrective action has been required and in virtually all cases has been taken. The ETA's in-depth training on procurement includes detailed instructions on monitoring. The ETA plans to continue program oversight as a major priority. Emphasis will be placed on having Governors assume more fully their responsibility for program oversight and monitoring. The ETA will move toward an oversight approach which focuses on issues affecting program and management performance, and will devote a significant portion of its efforts to preventive oversight, i.e., identifying issues that signal potential problems.

The Department has included in its legislative proposal to amend JTPA specific provisions strengthening monitoring. All grantees and subgrantees are required to conduct oversight to ensure compliance with procurement standards. Further, the Governor is required to conduct annual onsite monitoring of each SDA and substate area to ensure compliance with procurement standards. These provisions are in addition to the current responsibility of the Governor and private industry councils to monitor their programs for compliance with the Act.

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Furthermore, when specific cases of fraud and abuse are uncovered by or brought to the attention of ETA, immediate action is taken to investigate and direct corrective action to be taken.

D. Maintaining adequate control over property purchased with JTPA funds to ensure that it is used for its intended purposes.

The ETA's procurement training includes specific provisions for analyzing the costs of property and other aspects of property administration.

The Department's JTPA amendments include provisions regarding property which specify that "The Federal requirements governing the title, use and disposition of real property, equipment and supplies purchased with funds provided under this Act shall be the Federal requirements generally applicable to Federal grants to States and local governments." Such provisions will serve to strengthen property management in the JTPA system.

Major Contributors to This Report

Human Resources Division, Washington, D.C.

Sigurd R. Nilsen, Assistant Director for Employment and Training
Issues, (202) 523-8701
Thomas N. Medvetz, Senior Evaluator

Boston Regional Office

Carol L. Patey, Senior Evaluator
Wayne J. Sylvia, Evaluator-in-Charge
Robert M. Krailo, Site Senior
Ann M. Thomas, Evaluator
Lena L. Huang, Evaluator
Carlos J. Evora, Evaluator

Detroit Regional Office

Robert T. Rogers, Regional Assignment Manager
Louis M. Ockunzzi, Site Senior
Lynda Racey-Jones, Evaluator
George M. Duncan, Evaluator
Robert Y. Hill, Evaluator

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—. Single Audit Act: Single Audit Quality Has Improved but Some Implementing Problems Remain (GAO/AFMD-89-72, July 27, 1989).

Related GAO Products

Amending the Job Training Partnership Act: Inadequate Oversight Among Issues That Need to Be Addressed (GAO/T-HRD-91-28, May 9, 1991).

Job Training Partnership Act: Youth Participant Characteristics, Services, and Outcomes (GAO/HRD-90-46BR, Jan. 24, 1990).

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PREPARED STATEMENT OF JUDY A. ENGLAND-JOSEPH

COMMUNITY DEVELOPMENT

COMPREHENSIVE APPROACHES AND LOCAL FLEXIBILITY ISSUES

Mr. Chairman and Members of the Committee:

We are pleased to be here today to participate in your hearing on S. 88, the Local Empowerment and Flexibility Act of 1995, whose purpose is to create increased flexibility for local governments and private nonprofit organizations using federal programs to assist communities and their residents. The proposed act would, among other things, create a council composed primarily of cabinet-level officials to review and approve local plans for integrating federal funds to meet the needs of a specific geographic area. The plans would include requests to waive federal laws and regulations that hinder the locality's ability to implement its plan.

Our testimony is based primarily on our February 1995 report on community groups that are using a multifaceted—or comprehensive—approach that relies on residents' participation to address housing, economic, and social service needs in distressed neighborhoods.¹ Comprehensive efforts typically receive technical support and funding from nonprofit organizations, State and local governments, and a variety of federal sources. Federal funding generally flows through State and local governments in the form of block grants or goes directly to the organizations in the form of categorical, or program-specific, funding. In our February report, we examined (1) why community development experts and practitioners advocate a comprehensive approach, (2) what challenges they see to its implementation, and (3) how the Federal Government might support comprehensive approaches. The report incorporated information obtained during our review of four organizations that are applying a comprehensive approach for improving their respective communities.² In addition, in this testimony we will discuss how recent experiences with the Empowerment Zone and Enterprise Communities Program provide helpful insights but also pose questions about the complexity of an undertaking like that envisioned in the proposed Flexibility Act.

In summary, our February report and recent work have shown the following:

- Community development experts advocate comprehensive approaches to address the problems of distressed neighborhoods because such complex, interrelated problems are better addressed in tandem than individually. The comprehensive approach was endorsed by the Department of Housing and Urban Development (HUD) in March 1994. Several national foundations—frustrated with the results of programs they previously funded—have begun funding organizations that are taking a comprehensive approach.
- However, multiple challenges confronted the four organizations we studied. The organizations had to, among other things, piece together a complex web of funding from several private and public sources to cover program and administrative costs. Overall, the groups relied on public funding—often with conditions and/or restrictions on its use—for up to 30 to 60 percent of their budgets. The organizations also faced the onerous task of managing a diverse set of concurrent housing, economic development, and social service programs.
- The Federal Government assists distressed urban communities and their residents through a complex system involving multiple federal departments and agencies. Together, these agencies administer hundreds of programs in the areas of housing, economic development, and social services. These agencies have tended not to coordinate their efforts with one another because they have separate missions and have been concerned about losing control over their own resources. In addition, the federal efforts to coordinate that have been undertaken have had few successes, leaving community organizations—such as the ones we reviewed—with the burden of trying to piece together programs to serve their communities.
- The Empowerment Zone and Enterprise Communities program allowed communities to request waivers to certain federal requirements. In light of the lessons HUD has learned from its experience with the Empowerment Zone and Enterprise Communities program, some questions that might be considered with respect to the proposed Local Empowerment and Flexibility Act of 1995 include:

¹ *Community Development: Comprehensive Approaches Address Multiple Needs but Are Challenging to Implement* (GAO/RCED/HEHS-95-69, Feb. 8, 1995).

² The four organizations we studied were (1) the Core City Neighborhoods in Detroit, Michigan; (2) the Dudley Street Neighborhood Initiative in Boston, Massachusetts; (3) the Marshall Heights Community Development Organization in Washington, D.C.; and (4) the Neighborhood Housing Services in Pasadena, California.

(1) what process will allow the flexibility plans to be approved in a timely manner while allowing the agencies time to consider and process the waiver requests, (2) how will waiver requests that cut across federal agencies be approved and monitored, (3) how can accountability for the funds and programs affected by the waivers be built into the process, and (4) what level of resources will be necessary to administer the provisions of the proposed act and in an era of downsizing, where will these resources come from?

Background

Despite overall economic growth in the United States during the 1980s, the economic and social health of many cities declined. While crime, poverty, and the physical and social deterioration of urban neighborhoods increased, intergovernmental aid to cities declined between 1980 and 1993 by about 19.4 percent in constant dollars. Meanwhile, the out-migration of many middle-income residents and businesses has caused cities' tax bases to shrink, hampering the ability of local governments to assist economically and socially distressed areas suffering from a mix of inter-related problems.

Over the past several decades, the public and private sectors have tried different strategies to assist people living in distressed communities. Some of these efforts have focused on improving the chances for individuals in these areas to obtain the education, social services, and other support that they need in order to leave their neighborhoods. Others have focused on improving the neighborhoods' physical environment through affordable housing or economic development. Still others have combined aspects of both approaches by addressing the needs of residents and their environment. These latter efforts are referred to as "comprehensive" by community development experts because they consider the housing, economic development, and social service needs of communities and are considered community-based because they focus on specific geographic areas and involve the residents in the planning and implementation. Comprehensive community-based efforts have often begun within communities in response to neighborhood conditions—rather than in response to a federal program—and are operated by local nonprofit organizations.

The Empowerment Zone and Enterprise Communities Program, which was established by the Omnibus Budget Reconciliation Act of 1993, represents a major federal investment in comprehensive strategies and local flexibility. Under this program, over 500 rural and urban communities submitted strategic plans for revitalizing a distressed community. In their applications, communities were encouraged to identify the specific programmatic or regulatory impediments—within certain areas—to achieving the outcomes they sought. On December 21, 1994, 71 urban and 33 rural Empowerment Zones and Enterprise Communities were designated. Together, they will receive \$1 billion in Social Services Block Grant funding, tax incentives estimated at \$2.5 billion, and priority for other federal grant programs.

Complex Problems Call for Comprehensive Approaches

According to the experts we consulted, comprehensive approaches enhance the chances of improving conditions in distressed neighborhoods because the problems in these areas are complex and interrelated. Addressing these problems in tandem, the experts believe, makes long-term results possible. In addition, the experts said that comprehensive approaches are more viable now than they were in the past because community organizations have gained experience and an infrastructure has evolved to provide funding and technical assistance. However, the experts cautioned that conditions in distressed neighborhoods cannot be quickly reversed and that the outcome of much of the work these groups do—community outreach, counseling, and referral services—is hard to quantify, making evaluation of the results difficult. The comprehensive approach was endorsed by HUD in March 1994 in a publication in which the Secretary wrote, "We believe the best strategy to community empowerment is a community-driven comprehensive approach which coordinates economic, physical, environmental, community, and human needs." Dissatisfied with the results of previous single-focused approaches to community revitalization, national organizations and foundations have begun funding organizations that are taking a comprehensive approach.

Comprehensive Approaches Are Difficult to Implement

Multiple challenges confronted the four organizations we studied. All experienced substantial difficulty organizing residents, gaining their trust, and maintaining their involvement. All four organizations said that residents needed to see a tangible result—rehabilitated housing or a cleaner neighborhood—before they wanted to participate. Obtaining financial support and managing a diverse set of concurrent programs also presented significant challenges. The four organizations relied on a myriad of public and private funding sources, such as federal block grant and pro-

gram-specific funding, foundation grants, and corporate donations. Overall, the organizations relied on public funding—often with conditions and/or restrictions on its use—for 30 to 60 percent of their budgets. After obtaining funds, the organizations faced the challenge of concurrently managing multiple programs, each with several separate funding sources; application requirements; and reporting expectations.

The four organizations we studied responded to the challenges confronting them in a variety of ways. They obtained residents' support by including residents in their planning and decision-making. They also used the multiple funding sources and collaborations to leverage resources that could then be applied over a wide range of needs in the communities. In addition, each organization had access to some relatively flexible funding—either public block grants or private foundation funds—that enabled it to set priorities consistent with its community's needs. Finally, the organizations built a cadre of experienced staff to administer and manage the array of programs.

Fragmentation of Federal Programs is Burdensome to Communities

The Federal Government assists distressed urban communities and their residents through a complex system involving multiple federal departments and agencies. Together, these agencies administer hundreds of programs in the areas of housing, economic development, and social services. For example, we recently issued a report listing over 340 federal economic development-related programs administered by 13 of the 14 executive departments and many agencies and administrations.³ Considered individually, many of these programs make sense. But together they often work against the purposes for which they were established, according to a National Performance Review report.

In addition, there has traditionally been little coordination among the many federal departments and agencies with the responsibility for administering the programs that can be used to assist distressed communities. Agencies have tended not to coordinate efforts with one another because they have been protective of their own resources and separate organizational missions.

The proliferation of federal programs and the lack of coordination among agencies impose a burden on local organizations that attempt to piece together programs to serve their communities. The neighborhood organizations we studied found it burdensome to manage multiple programs with individual funding streams, application requirements, and reporting expectations. In addition, one organization reported that it had strained its managerial and financial systems to meet federal record-keeping and accounting standards for several funding sources. While the organization implemented the necessary procedures to comply with the standards, officials said that the administrative burdens nearly forced the organization to reduce the scope of its services.

Lessons May be Learned From the Empowerment Zone and Enterprise Communities Program

As you know, the Empowerment Zone and Enterprise Communities program allowed communities to request waivers to certain federal requirements. In addition, the President established the Community Empowerment Board to, among other things, assist with the implementation of the program. In their applications for this program, the 293 urban applicants made over 1,100 requests for federal program flexibility covering 17 different federal departments and agencies. The Community Empowerment Board first responded to flexibility requests from the 12 urban communities that received the bulk of the funding under the program. According to HUD—which administers the urban portion of the program—the 12 communities made 270 waiver requests of which 115 could not be approved because statutory changes would be needed. Favorable action was taken on approximately 130 of the waiver requests, and about 25 requests were still under consideration as of September 20, 1995. Since then, the staff have begun to analyze the requests from the remaining communities and to look at other ways agencies might meet the needs of the communities whose requests would require a statutory change, according to HUD officials. HUD found that the waiver process was time consuming and resource intensive because:

- Localities often lacked enough knowledge about federal programs to define the regulatory relief sought. For example, many of the requests submitted were relevant to state rather than federal agencies. Others were requests for assistance that could be resolved through dialogue between the appropriate federal, state, and local agencies to work through perceived impediments. Provision of the

³ *Economic Development Programs* (GAO/RCED-95-251R, July 28, 1995).

technical assistance required to resolve these requests was staff-intensive for the agencies involved.

—Although the Community Empowerment Board was established to manage interagency cooperation, the majority of agencies have no formal process for reviewing and granting waivers. Some agencies lack global authority to grant regulatory waivers; others have authority but must formally issue new regulations before granting any waivers. Authority to make decisions may be vested in the field in some agencies or at central headquarters in others, adding to the time- and staff-intensive nature of the process.

In light of the lessons HUD has learned from its experience with the Empowerment Zone and Enterprise Communities Program, we would like to lay out some questions that could be asked in considering the proposed Local Empowerment and Flexibility Act of 1995. The questions are as follows:

- What kind of process will allow the flexibility plans to be approved and waivers to be granted in a timely manner while allowing the affected agency or agencies time to consider and process the requests?
- How will waiver requests that cut across federal agencies be approved and monitored? This question becomes more troublesome if funds from various federal programs are commingled.
- How can accountability for the funds and programs affected by the waivers be built into the process without being overly burdensome for the localities? If performance standards in the flexibility plans prepared by the localities are not specific enough, it will be difficult to determine the waivers' impact and to ensure that program goals are achieved and funds adequately safeguarded.
- What level of resources will be necessary to administer the provisions of the proposed act? Several agencies would face a time/resource burden similar to the one they face under the Empowerment Zone and Enterprise Communities Program. In an era of downsizing, where will these resources come from?

Mr. Chairman, this completes my prepared statement. I would be pleased to respond to any questions that you or Members of the Committee may have.

RESPONSES TO POSTHEARING QUESTIONS BY SENATOR LEVIN REGARDING THE LOCAL EMPOWERMENT AND FLEXIBILITY ACT OF 1995

QUESTION 1. Please provide your best estimate of the number of grants currently administered under the approximately 600 categorical financial assistance grant programs.

Answer. There were about 123,000 grants reported as of the third quarter of 1995, according to the Federal Assistance Awards Data System. This figure reflects grant transactions reported to the Census by all federal agencies that make grant awards. According to Census officials, the 123,000 is an undercount because only the State allocations are counted for about 160 grant programs where the Federal Government provides its allocation to the State and the State further allocates the funding. However, for the Medicaid, AFDC, Highway Construction, State Health, and Child Support programs estimates are made to the county level.

QUESTION 2. How will the commingling of funds from different programs and/or agencies be monitored? How will an agency's accountability for funds be affected by the commingling of funds from different agencies?

Answer. In its current form, S. 88 does not directly address federal monitoring of commingled funds from different programs and/or agencies. This was an issue that we raised in our statement. As you know whenever funds are commingled across programs and among federal, State, and local governments it becomes difficult to identify the programmatic impacts of federal funds. Financial accountability issues are also somewhat different for consolidated grant programs. We discuss these problems in greater depth and describe some options the Congress has for building both program and financial accountability into consolidated federal grant programs in our report *BLOCK GRANTS: Issues in Designing Accountability Provisions* (GAO/ AIMD-95-226).

Regarding program accountability, S. 88 does contain some language that would require that the flexibility plans address the usage of federal funds and how implementation of the plan adequately achieves the purposes of the Act and of each covered Federal financial assistance program under the plan. In addition, the Act would require that each local government and qualified organization that would receive financial assistance enter into a memorandum of understanding that would,

among other things, include measurable performance criteria and the data to be collected to determine whether performance criteria is met.

Relying on States and localities both to set program objectives and determine the measures and approach for evaluating performance in this way is one approach to assuring program accountability that the Congress could choose. However, as our report on block grant accountability notes, based on lessons from past block grants the Congress should carefully consider its current and future needs for uniform data and data collection procedures in a consolidated program or block grant context. Our work on the block grants enacted during the 1980s showed that when consolidated programs lack uniform definitions and data collection, the Congress has limited information and may find it difficult to draw meaningful conclusions about relative effectiveness. In the absence of uniform information, policymakers are pressed to make changes and add restrictions based on examples and reports that may or may not represent broadscale problems with program implementation. For example, in 9 of 11 block grants in existence from fiscal year 1983 to 1991, the Congress added new cost ceilings and set-asides or changed existing ones 58 times as a result of congressional concern that States were not adequately meeting national needs.

Regarding financial accountability, we have said that the Single Audit Act of 1984 provides an important tool for ensuring that States are promoting financial accountability for consolidated or block-granted programs. Under S. 88 funds would be monitored through this framework. The Act helps ensure that State agencies responsible for block grant funds have sound financial management systems and internal controls. The act promotes sound financial management by requiring each State or agency to arrange for an annual (or in some circumstances, a biennial audit) of its financial statements. The single audit also involves evaluating the adequacy of the internal financial and management controls used by the agency to prevent problems and ensure the integrity of public funds.

QUESTION 3. Please provide your best estimate of the number of Local Flexibility Plans that would be submitted to the Flexibility Council over the 5-year period covered by the Act.

Answer. It is difficult to estimate how many Local Flexibility Plans would be submitted over the 5-year period covered by the Act. Over 500 rural and urban communities applied for the Empowerment Zone and Enterprise Communities program. The program is similar in that it required a comprehensive planning effort with community involvement. The plans also included waiver requests. However, the EZ/EC program is unlike what is proposed by the Flexibility Act because the EZ/EC program was limited to 71 urban and 33 rural locations and involved additional federal financing. In addition, the EZ/EC program was heavily publicized and there was an aspect of competition between applicants. These factors make it difficult to determine whether a similar number of plans would be submitted under the Flexibility Act.

PREPARED STATEMENT OF JOHN A. KOSKINEN

Mr. Chairman, I am pleased to have the opportunity today to testify before the Committee on Governmental Affairs on S. 88, the "Local Empowerment and Flexibility Act of 1995." This Committee's leadership in the efforts to encourage innovation and entrepreneurship at the State and local levels has been exemplary. The Administration commends you for your dedication to improving State and local flexibility. The Administration believes S. 88 is focused on an important issue, especially the question of how to assist our distressed rural and urban communities to empower themselves, and we appreciate the chance to express our views and concerns about this legislation.

The President has consistently supported efforts to empower communities to take charge of their own destinies and to remove Federal impediments that constrain innovation, experimentation, and entrepreneurship at the local level. The President and his Administration have worked hard to restore balance to the intergovernmental partnership between the Federal Government and State, local and tribal governments, to promote bottom-up solutions to our nation's problems, and to curtail the imposition of unfunded Federal mandates. In "Putting People First," the President promised to create a program to allow cities the flexibility to redirect a percentage of Federal assistance they receive to meet their own community priorities and further their local revitalization strategies.

In a time of declining Federal resources, the granting of waivers and the providing of flexible funding streams are two ways to increase the impact of Federal programs. The President and his Administration have supported greater waiver authority and flexibility in a number of ways. In September 1993, the National Perform-

ance Review (NPR) recommended a bold, bottom-up grant-consolidation to encourage innovation and create flexibility in the face of grant proliferation. Then, in the 103rd Congress, the President proposed legislation as part of the EZ/EC initiative that would have given the Federal Government broad authority to provide waivers in a one-stop process to local governments that develop a comprehensive strategic plan. As you are all aware, the Senate adopted similar legislation as an amendment offered by Senator Hatfield to S. 4 the "Competitiveness Act", but the bill was not enacted.

A few existing Federal programs are authorized to provide waivers to States in administering programs within statutory and regulatory guidelines. The best known are the demonstration authorities in AFDC and Medicaid. Those particular authorities were designed to allow State experimentation with new ideas for research and evaluation purposes, not as a vehicle for regulated State flexibility. This Administration has increased the use of the existing system of granting waivers and we are proud of the fact that we have been able to reduce the time it takes to review waiver requests. However, no matter how much we continue to streamline the existing waiver process, there are statutory limits to our waiver authority.

In his 1996 Budget, therefore, President Clinton proposed that 271 separate programs be consolidated into 27 "Performance Partnerships." Each of these would consolidate funding streams and eliminate overlapping authorities, create financial incentives and reward results consistent with broad national purposes, and reduce micro management and wasteful paperwork. The distinctive feature of the Performance Partnerships model, in contrast to the traditional block grant approach to consolidation, is the combination of greatly increased flexibility with accountability and rewards for performance. This model empowers States and communities, who can use Federal resources flexibly to construct the best local solutions to problems, and rewards them for their success.

While the Administration's efforts to promote flexibility have proven to be a strong beginning to devolving power to the local level, they are not complete answers to the problem. For Federal grant programs to work, we believe strongly that the Executive Branch agencies must have the flexibility to waive statutes and remove barriers that interfere with communities trying to improve their economic and social conditions. Some departments currently have this authority, but others do not. Your legislation, with some key changes, would help to address this issue.

The Administration would like to support legislation such as S. 88 introduced by Senator Hatfield, if we can reach agreement on the issues that we believe are critical to the effectiveness of your legislation. These include:

- Improving ways to review applications for waivers, such as establishing an appropriate time frame for reviewing waivers (the 45 day review period does not provide sufficient time to ensure that strategic plans are of high quality) and ensuring that the legislation does not make the process so complex and difficult to administer that it unnecessarily delays community efforts.
- Making approval of plans contingent upon the submission of a strategic plan containing specific goals and measurable performance criteria.

It is important, as we talk about waivers and flexibility, that we make certain we are not waiving accountability. In fact, well-designed accountability provisions help clarify the financial and programmatic relationship between the Federal Government and States and localities. Thus, we strongly believe the bill should clearly maintain the financial accountability provided through single audits as a foundation for ensuring appropriate financial management and internal controls.

In addition, we must not lose sight of the need to test and validate the integrity of financial and performance information, as well as to develop the capacity to understand what it means. This will be as important to our State and local partners as much as ourselves. We will all need to know what the data reveal. Are things really getting better? Why? Was it due to the program, or was it simply that the economy was stronger? Such evaluations will take resources—because such information and understanding of the data does not come free.

- Making States as well as local governments eligible for waivers, expanding the involvement of States in the review of proposed waivers and encouraging State and local governments to eliminate barriers to innovations at the State and local level.
- Providing additional exclusions for certain important areas, such as tax policy, worker safety, environmental protection, labor standards and relations, financial management, and public health.

- Providing appropriate authority for Federal agency heads to approve waiver requests and sufficient administrative support for the interagency mechanism to respond efficiently to the local strategic plans and waiver requests.
- Replacing the Flexibility Council with the Community Empowerment Board (CEB), removing the Assistants to the President for Domestic and Economic Policy, and maintaining the President's discretion in choosing the CEB's members.
- Tying the continuation of waivers to the performance measures provided under related strategic plan.

We support a performance-based approach in which States and localities would be responsible for program outputs and outcomes, not simply implementation and administrative processes. We think a focus on results is a more responsible way to administer federally-assisted programs. Our goal is to have States and cities begin to consider how they deploy all Federal resources available to them, whether block grants or otherwise. We would, for example, be looking to see how they answer such questions as: "What are we trying to accomplish?" and "Who will be held accountable?"

- Narrowing the criteria of those who may apply, or providing some priority consideration to communities of greater need or distress, so that agencies can process requests in reasonable time frames.

Specifically, we propose that the CEB accept for review no fewer than 50 local flexibility plans per year. This would allow the CEB to limit the number of communities that receive waivers, but would give the Board the option to consider more than 50 plans if they have the time and resources.

We look forward to working with you to address these concerns and we thank you for your leadership in sponsoring this bill and this hearing.

I would be happy to answer questions you and the members of your Committee may have.

PREPARED STATEMENT OF SUE CAMERON

Thank you for the opportunity to testify today in support of the Local Empowerment and Flexibility Act. My name is Sue Cameron, and I am the administrator of the health department in Tillamook County, Oregon. Tillamook is a rural coastal county, with 20,000 people, and far more cows. Our economy is built on tourism and timber resulting in our county placing 33rd out of 36 counties in per capita income. We are a medically underserved county and 42% of our population is under 200% of the Federal Poverty Level. Our county motto is "Trees, Cheese, and Ocean Breeze." And our most auspicious resident is Senator Hatfield.

I want to describe to you some remarkable developments in our home state and our home county. Since 1989, Oregon has embraced a system known as the Oregon Benchmarks, which is a set of 257 measurable goals for Oregon that grew out of our strategic plan, *Oregon Shines*. Our goals include those for people, for the environment and the economy. The Benchmarks represent a different way of thinking. We talk about results: literacy—not dollars spent for schools or student-teacher ratios; reduced crime—not prison beds; reduced teen pregnancy rates—not contraceptives delivered. We talk about accountability for results, and the key idea here is that by being accountable for results we should not have to face the red tape and micromanagement often imposed by government when results are vague or completely invisible. The second idea behind the Benchmarks is that we measure how the entire community performs, and the idea that by looking holistically we can pull together funding teams and organizations to actually achieve those results. Rather than trying to manage individual programs, our goal is to bring all efforts together to a common purpose. To use this system wisely, we need to decategorize funding streams, pool funding and reduce barriers. We were the first state to move to a results-driven system, and we have had several years to develop this alternative approach—an approach embodied in the Local Empowerment and Flexibility Act.

I want to relay to you some of the actual experience that comes from moving to a results-driven system. Let me take an example—teen pregnancy. Four years ago, everyone concerned with the teen pregnancy issue in Tillamook County gathered in a room and asked, "What can we do to reduce teen pregnancy?" We had good reason. We had the second highest teen pregnancy rate in the state, an unacceptable 24 per thousand; so we decided to focus on results. We asked every person there—people from churches, schools, health clinics, interest groups of all kinds—what we could do to get to our Oregon Benchmark of 9 per thousand. Each had a different idea,

and we were able to develop some strategies. One of them was to make sure every girl who called for advice had a clinical contact within 24 hours—as opposed to the four to six weeks many of them were facing after making an appointment. Another was for the churches to help parents communicate well with their children to postpone sexual activity. We have largely achieved that goal, working in concert, and I am firmly convinced this is a major factor in our success. The main point, though, is that collaboration is the main reason for our accomplishments—many working together, applying different strategies from schools, clinics, churches, service organizations—together making a difference in the result. We could have made even more progress had we been able to consolidate funding that was coming into the county from a variety of federal programs. Luckily, Oregon a year ago signed an agreement with the Federal Government called the Oregon Option, which allows us to pilot a new kind of service delivery system based on results. Local, state and federal partners are working together under this agreement to try to reduce red tape in exchange for being accountable, together, for a set of Oregon benchmarks. This kind of arrangement would be greatly enhanced with the passage of this act.

Another example of local empowerment in Tillamook County is that over the last 9 months, we have through the Northwest Economic Adjustment Initiative put together a pilot “Jobs of the Woods” program that is managed by the Management Training Corporation, our local job training provider. It includes as partners the U.S. Forest Service, the U.S. Fish and Wildlife Service, the Bureau of Land Management, U.S. Department of Labor, Tillamook County, Tillamook County Soil & Water Conservancy District, the Oregon Department of Forestry, and the Oregon Economic Development Department. We have employed 13 dislocated timber workers who are working on state and federal forest land, performing restoration projects that will help bring back both the fish to our streams and the trees to our land. These individuals are also receiving training to become multiskilled workers at family wage jobs. This is a successful local, state and federal partnership that we hope will continue far into the future, and is one of the kinds of models that the Local Empowerment and Flexibility Act will encourage. In order to create this kind of project, we have had to face many state and federal barriers dealing with procurement, training, and rules that make it difficult, if not impossible, to cross land ownership boundaries to achieve our goals. Enabling our partners, local, state, and federal, to overcome the barriers that we all encounter would enable us to employ more people and to do a better job at solving the employment and environmental problems that our community has faced.

One thing that happens when you move to a results-driven system is that you find yourself measuring how you are doing. We have moved to a greatly improved system of timely, accurate measurement based on our Benchmarks. Through the Oregon Option, working with the U.S. Census Bureau and various state agencies, we have designed new graphic tools to help local and state decision makers allocate resources based on real—not anecdotal or imaginary—need. These tools are extremely effective in mobilizing communities. I have provided you with some examples of these new tools to show how the result-driven system can lead to an informed, accountable resource allocation. This will clearly be needed in a block grant environment.

In closing, I want to thank you for the opportunity to explain how Tillamook County has used the results-driven model to begin to move to better results, often under difficult circumstances. We have formed broader partnerships and refined our ability to measure how we are doing. We believe that the Local Empowerment and Flexibility Act would help all American communities make the most of limited resources, and we encourage others to move, as we have, to focusing on results.

In Oregon



Accountability is "hot"!

the OREGON *Option*

It's about how we
get our resources,
deliver services and
measure success.

It involves consolidating
funding streams.

It says, "These are the goals
we want to achieve."
Hold us accountable!"

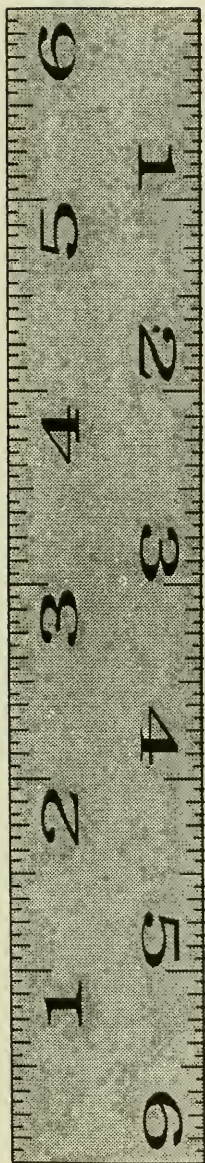
It means cutting across
organizational, jurisdictional
& program boundaries.

Oregon Option History

July 1994 ~ ~ Proposal at the White House

September 1994 ~ ~ Conference in Oregon

December 1994 ~ ~ Vice President Gore signs MOU



Measuring

OUTCOMES

RESULTS

Benchmarks will measure:

- Literacy
- Crime Rates
- Air & Water Quality

INRUTS

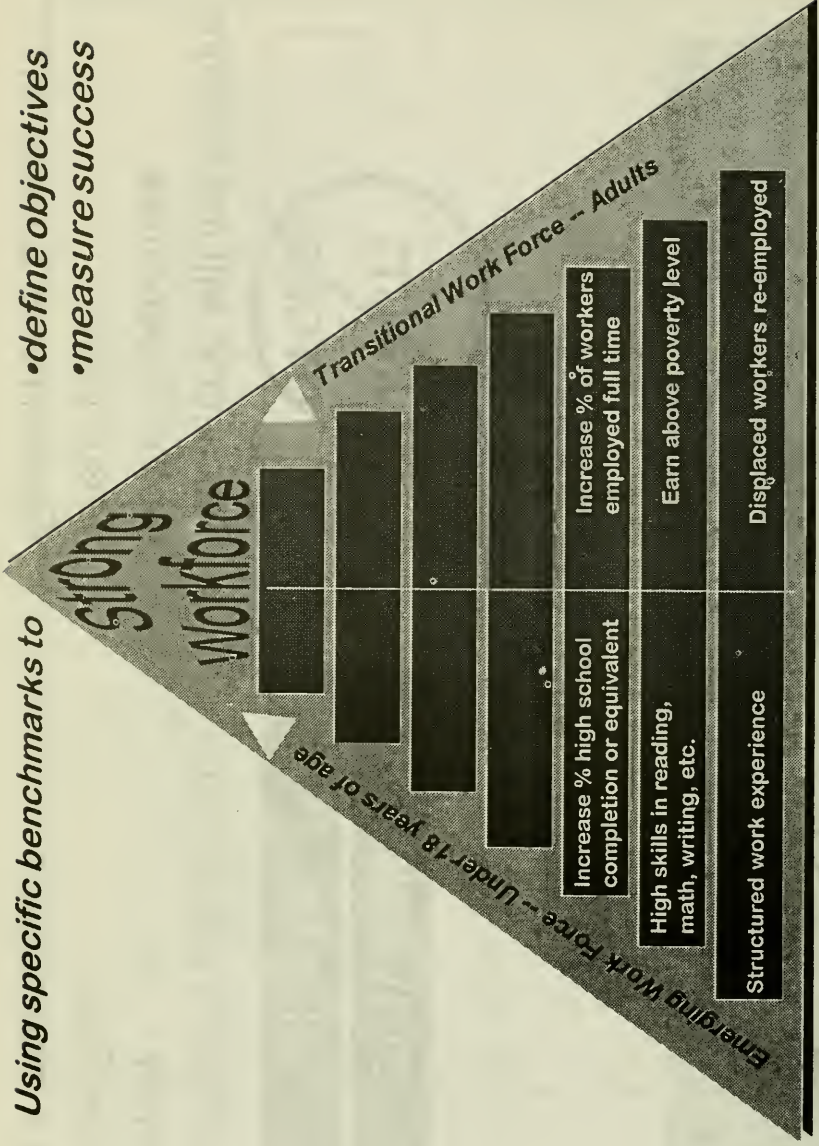
EFFORTS

Benchmarks will not measure:

- School Expenditures
- Prison Beds
- Environmental Enforcement

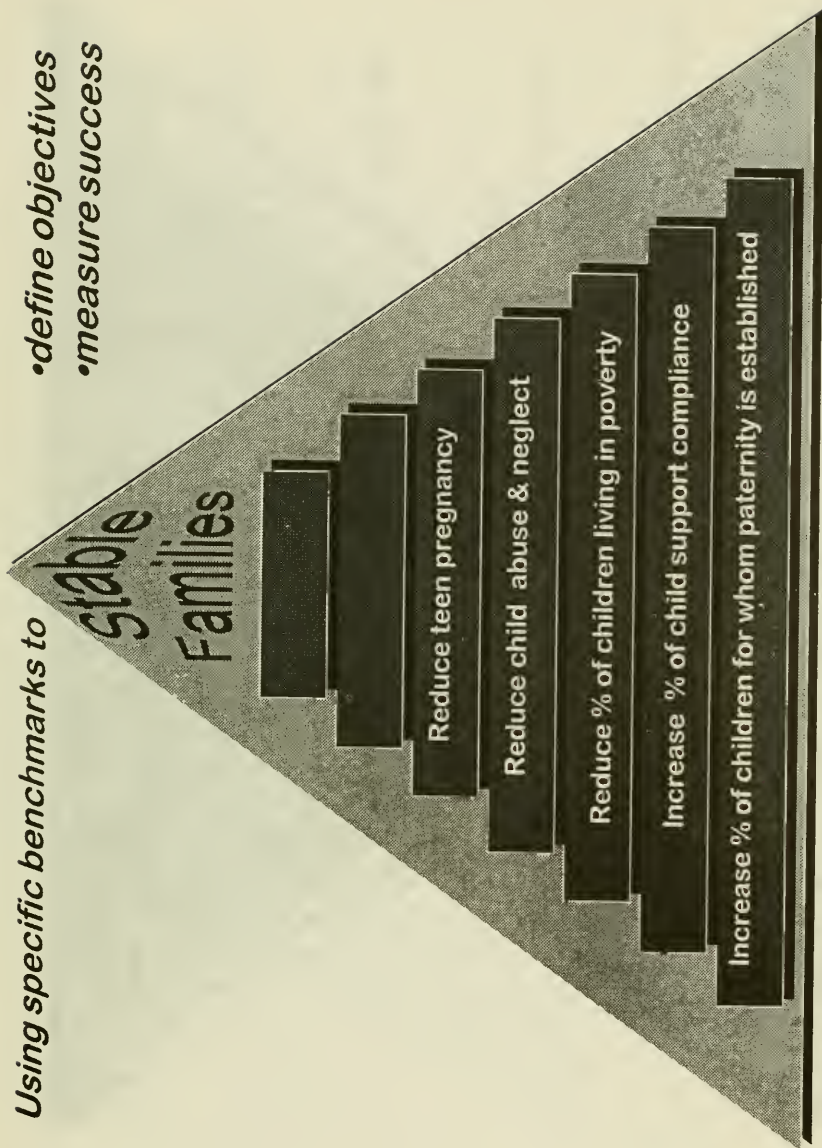
Using specific benchmarks to

- define objectives
- measure success



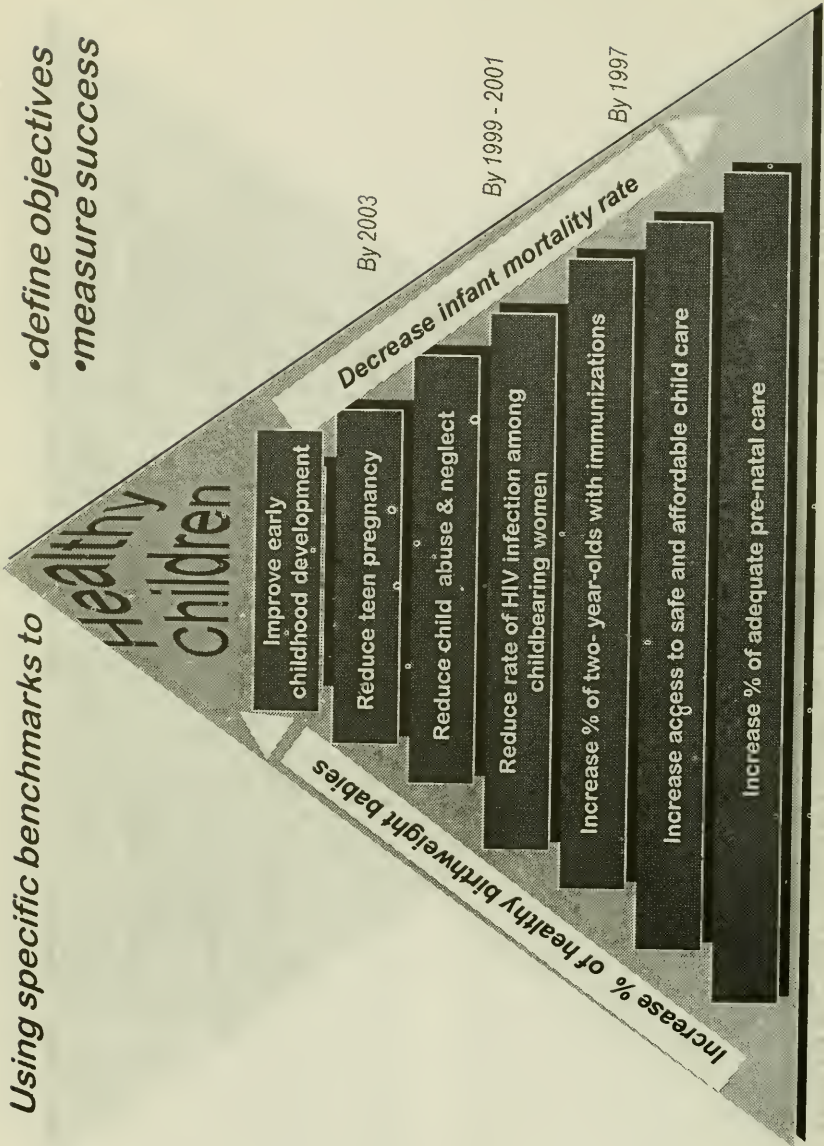
Using specific benchmarks to

- define objectives*
- measure success*



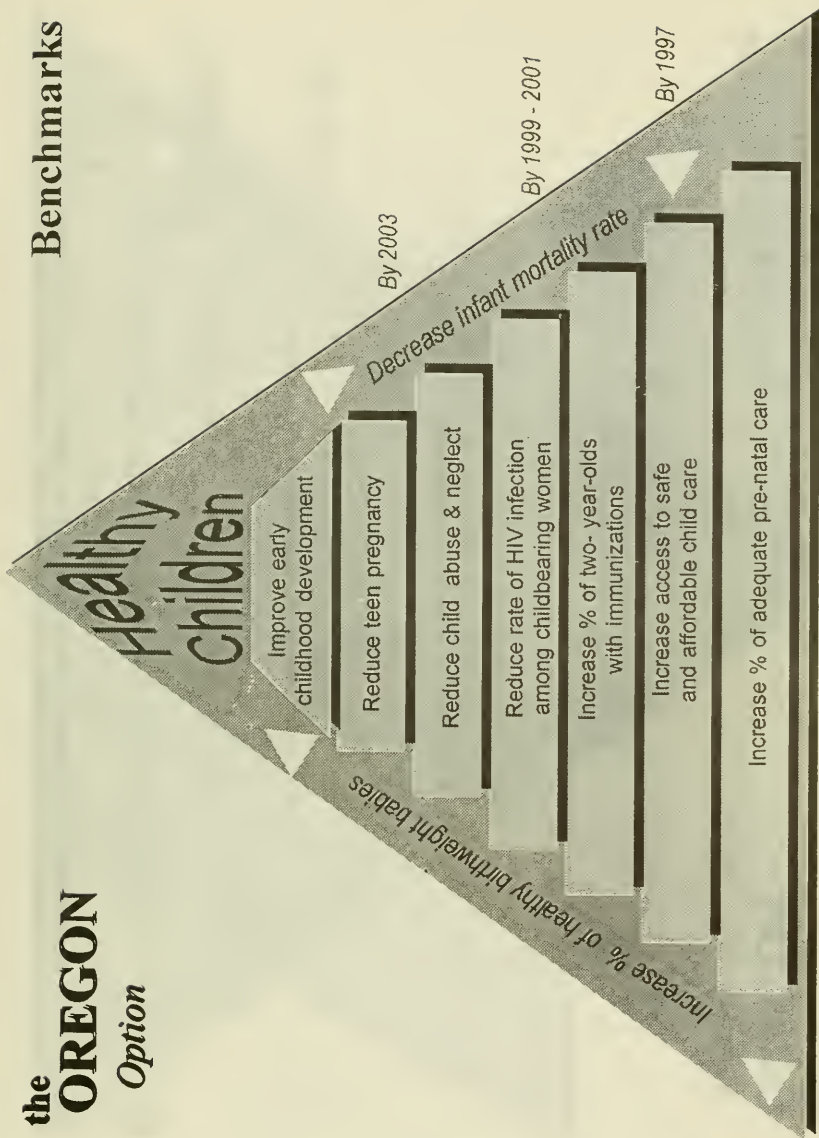
Using specific benchmarks to

- *define objectives*
- *measure success*



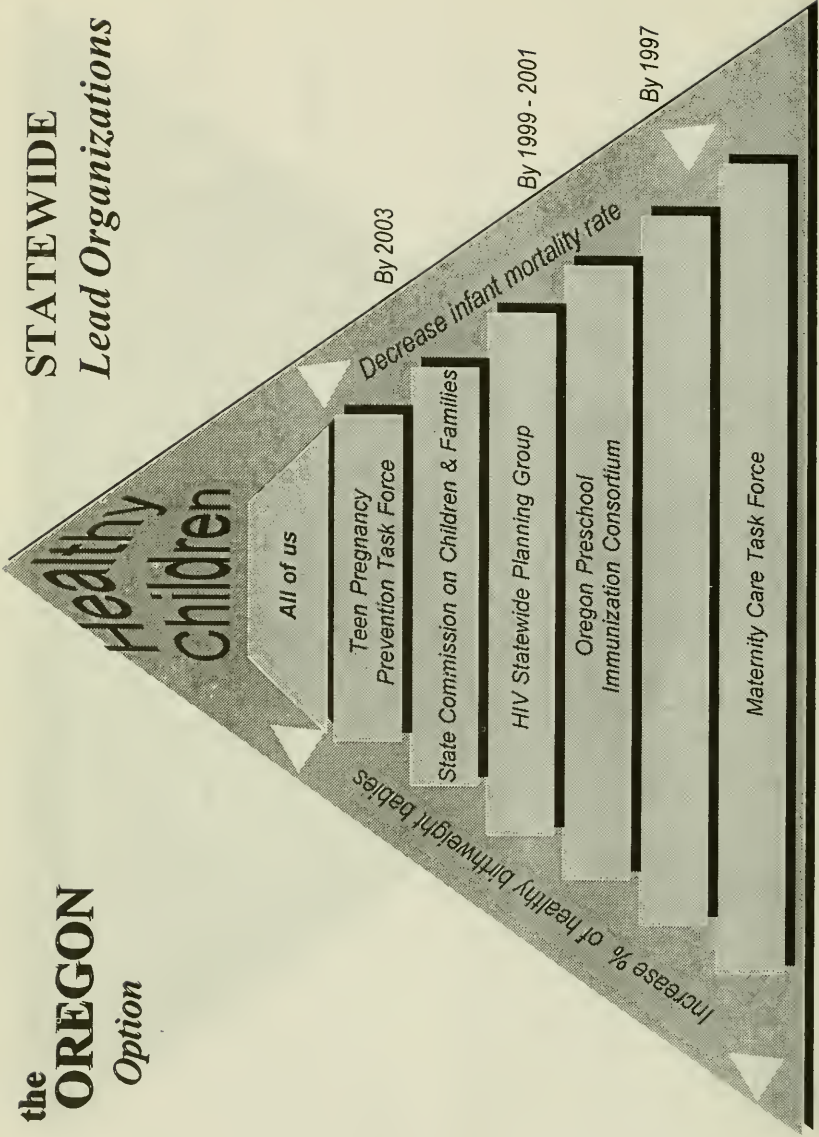
the
OREGON
Option

Benchmarks



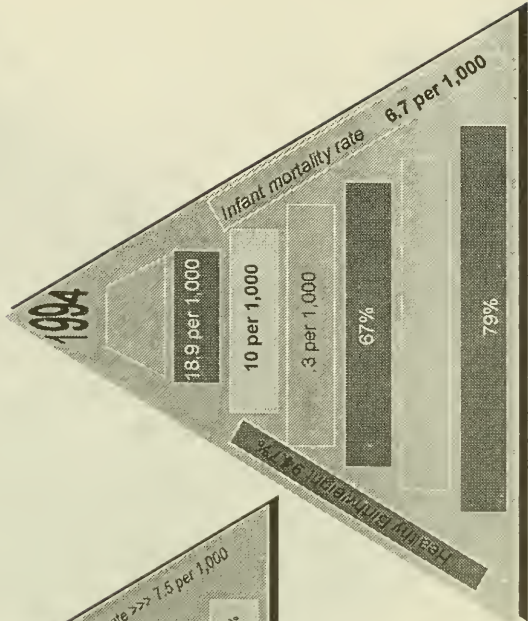
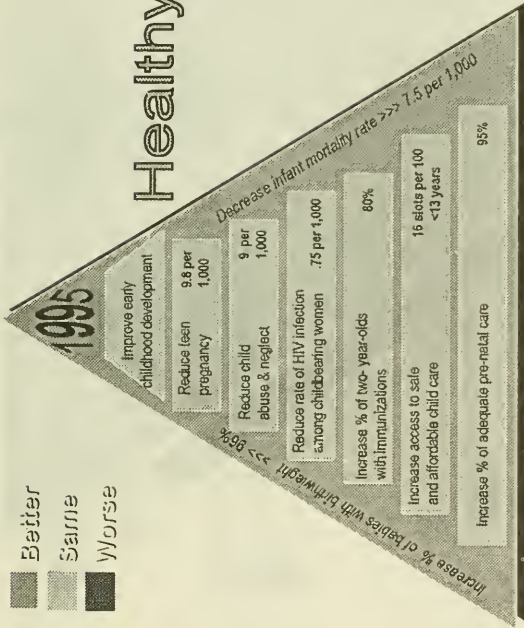
the OREGON
Option

STATEWIDE
Lead Organizations



Healthy Children Cluster

- Better
- Same
- Worse

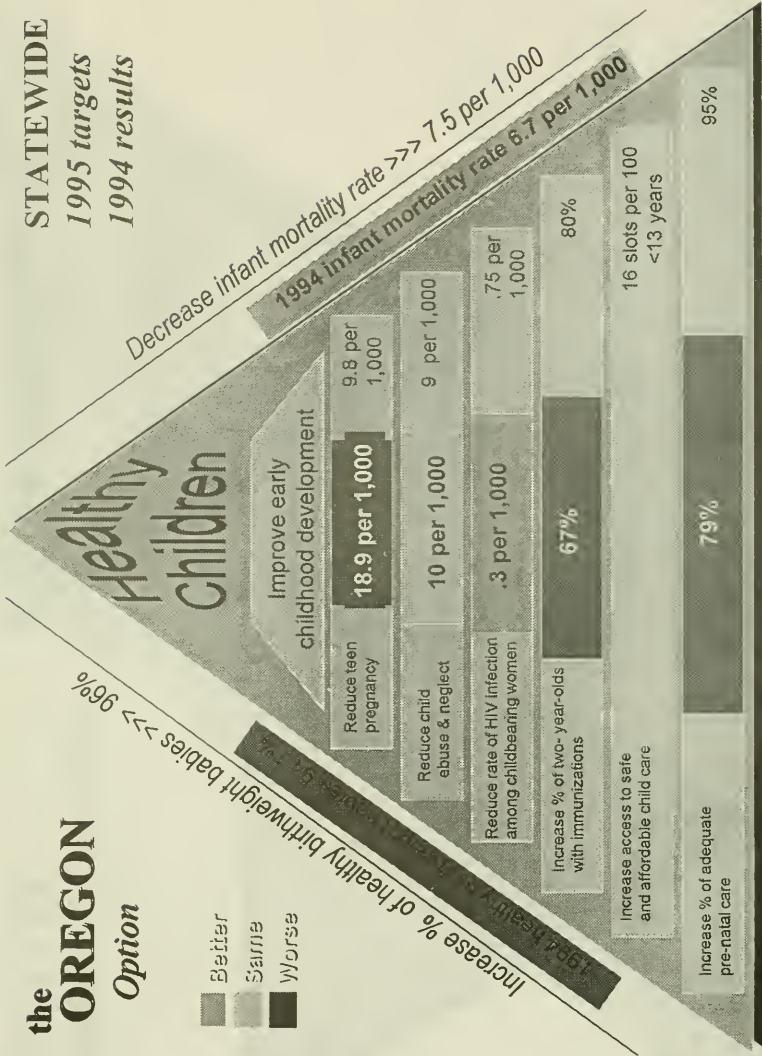


State of Oregon

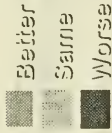
the **OREGON**
Option

- Better
- Same
- Worse

STATEWIDE
1995 targets
1994 results



1994 Statewide Results



Healthy Children

Comparison
1994 statewide results
1994 county results

Healthy birthweight babies 94.7%

Improve early childhood development

7

Reduce teen pregnancy

18.9 per 1,000

Reduce child abuse & neglect

12

10 per 1,000

Reduce rate of HIV infection among childbearing women

0

.3 per 1,000

Increase % of two-year-olds with immunizations

68.5%

Increase access to safe and affordable child care

16 slots per 100 <13 years

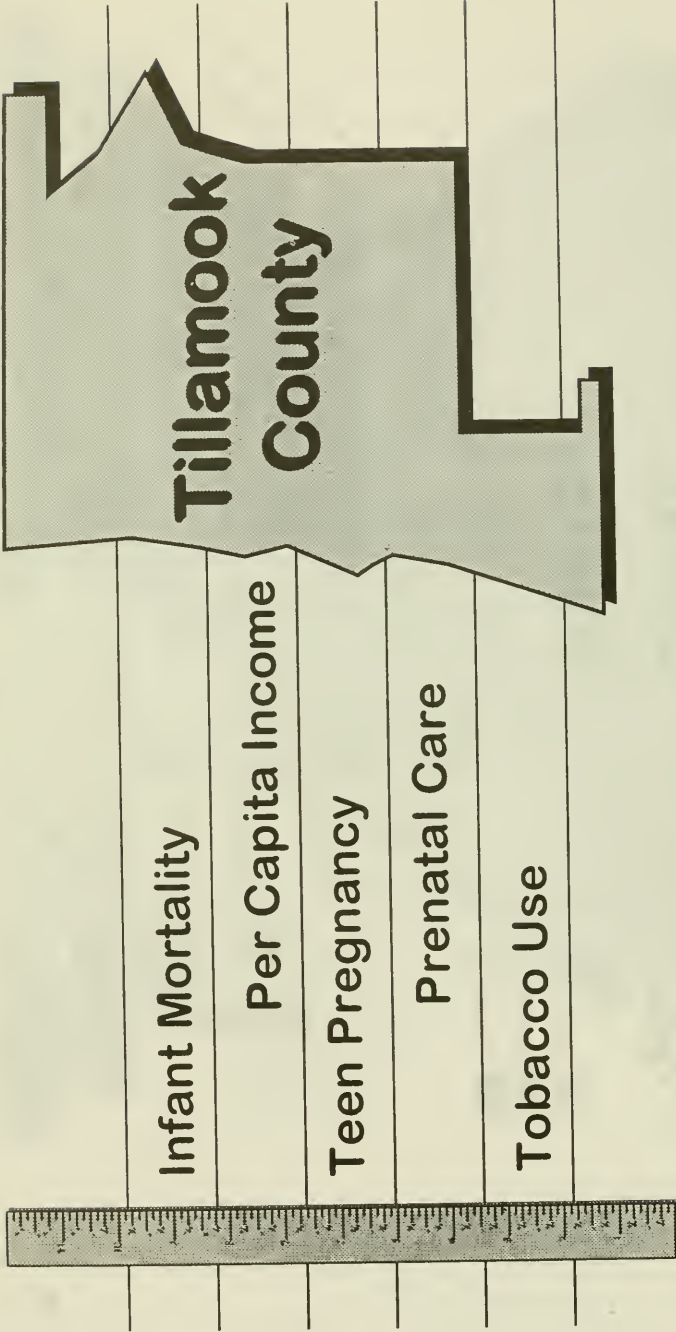
Increase % of adequate pre-natal care

80%

79%

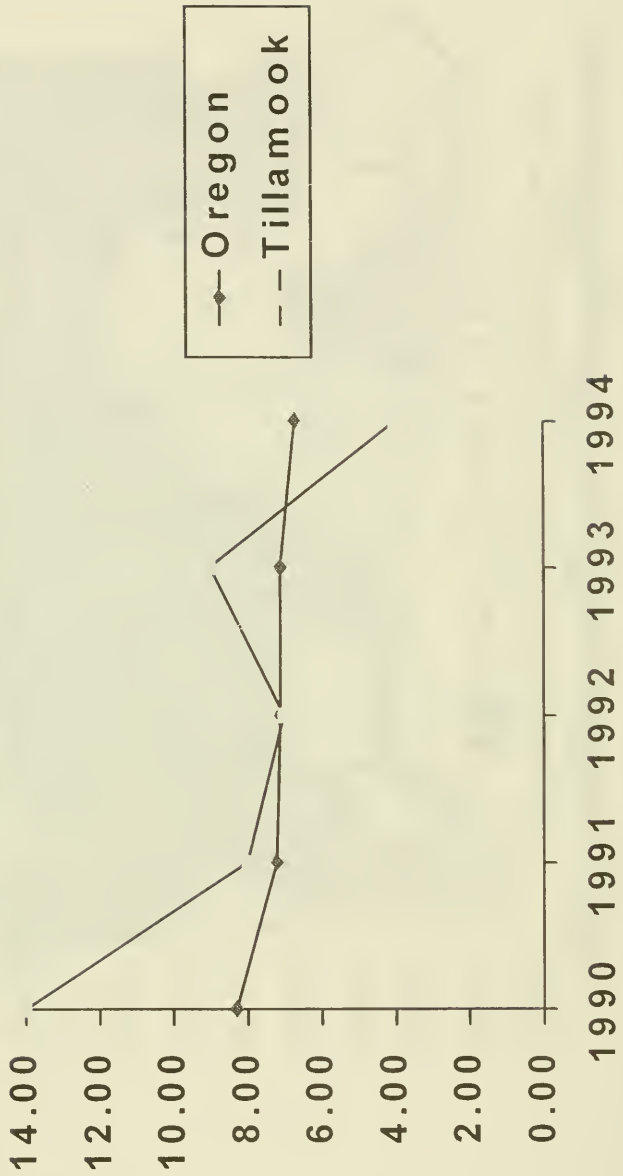
Infant mortality rate 6.7 per 1,000

Infant mortality rate 4 per 1,000



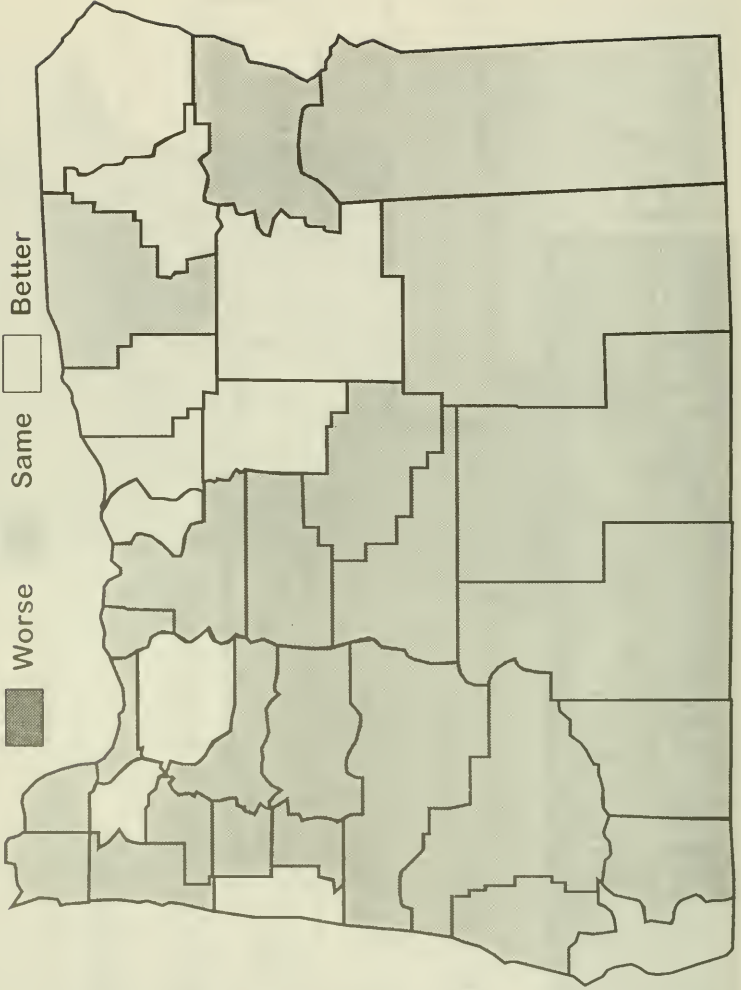
How do we measure up?

Infant Mortality Rate: per 1,000 births

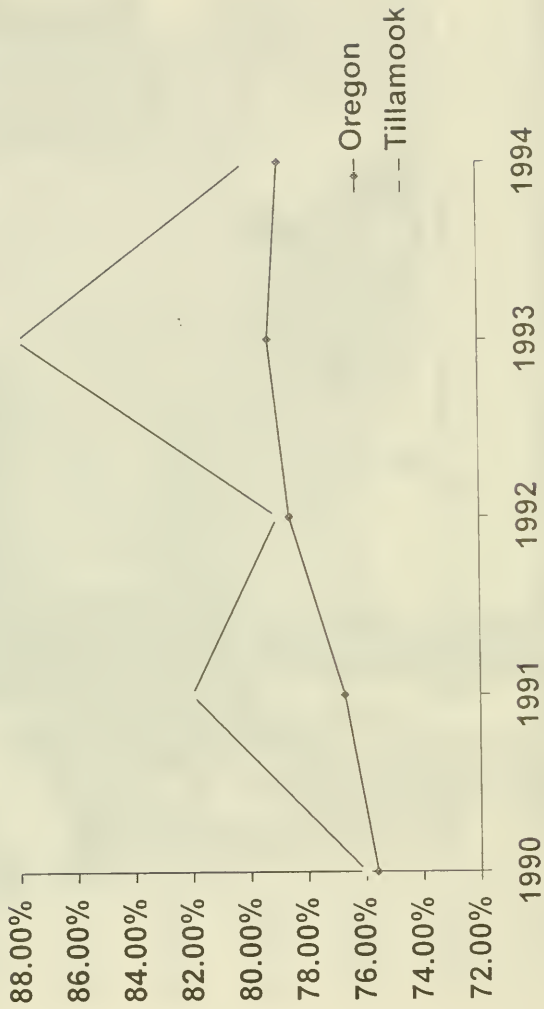


1994* Relative to 1995 Target: Infant Mortality Rate

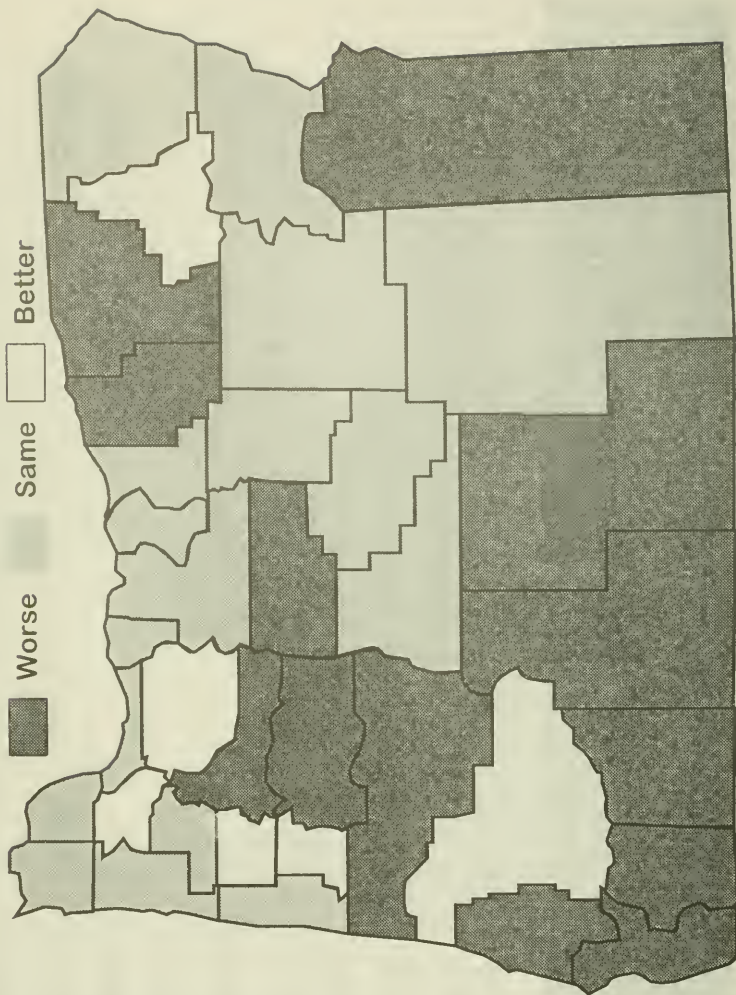
* Infant death data are provisional. 1995 Target set at 7.5 per 1,000.



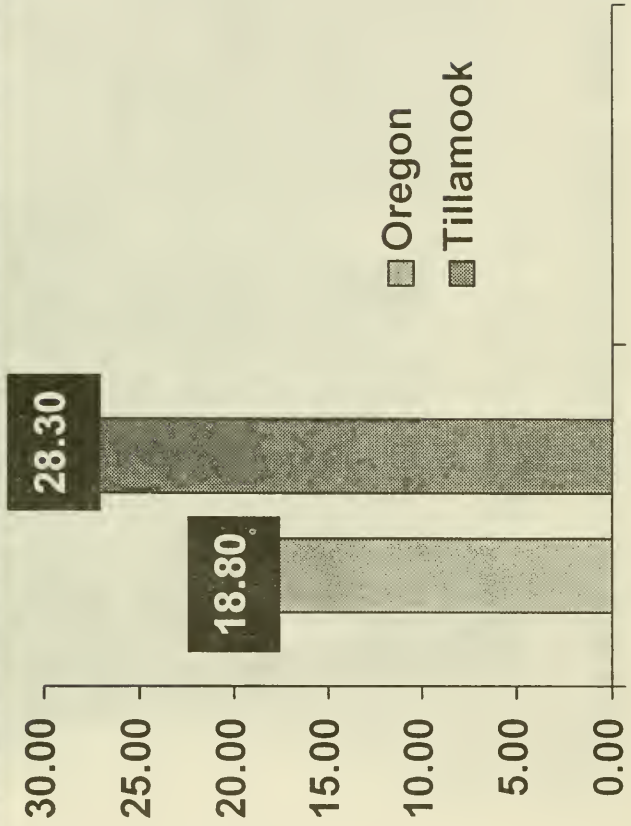
Adequate Pre-Natal Care (Benchmark: 95% by the year 2000)



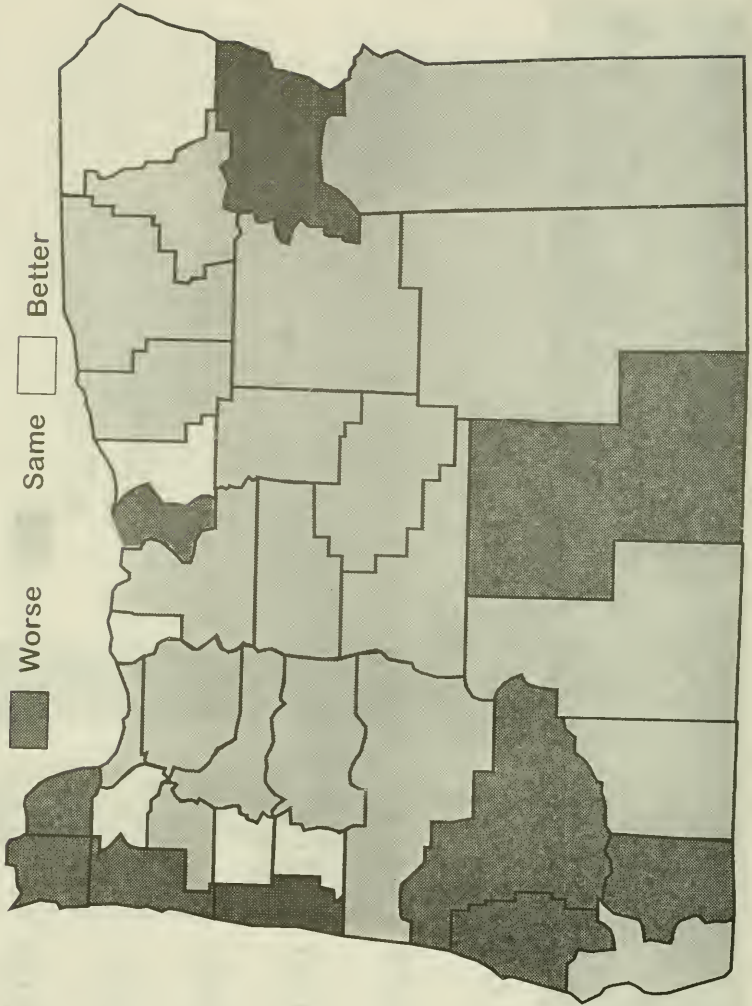
1994 Adequate Prenatal Care Relative to State



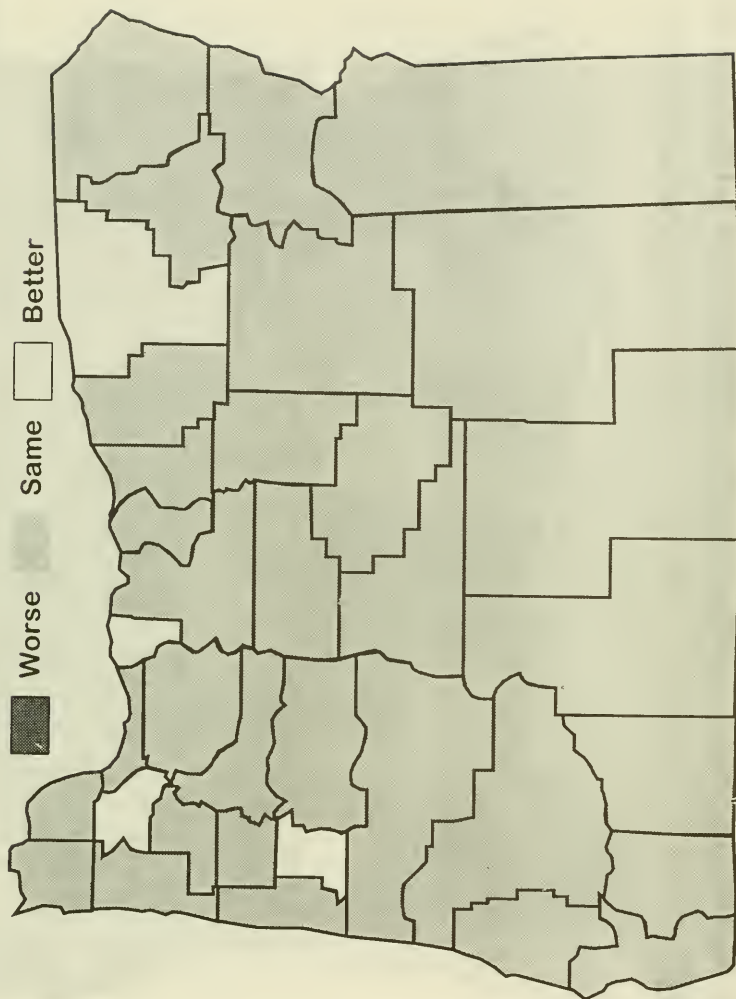
Tobacco Use During Pregnancy Maternal Risk Factors 1993



1993 Maternal Risk Factors: Tobacco Use

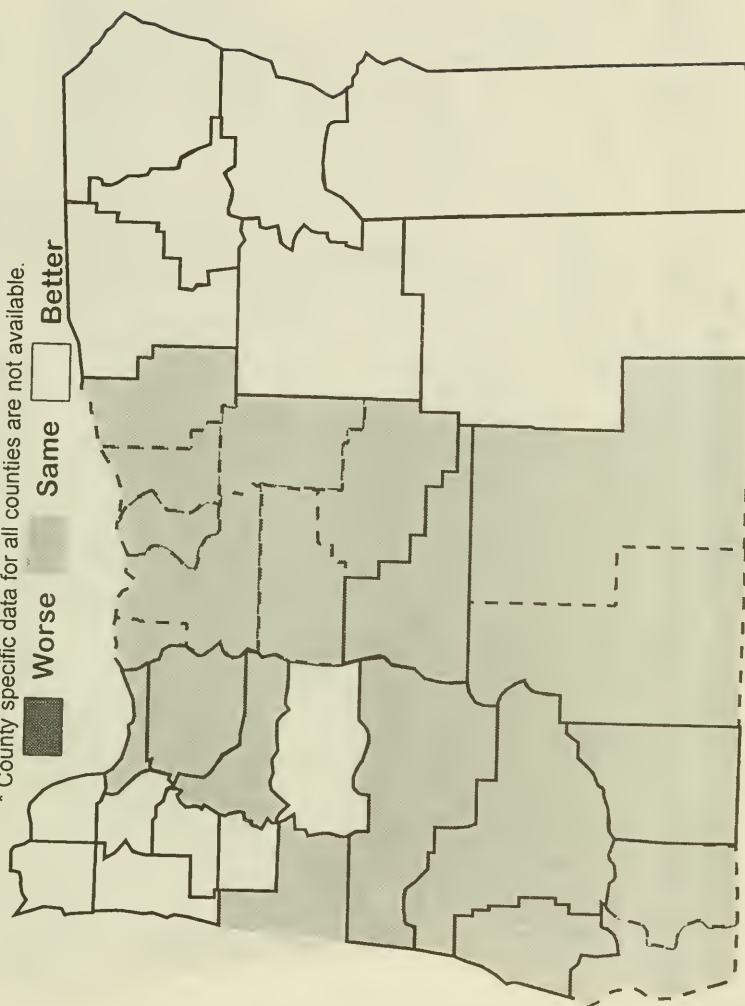


1994 Healthy Birthweight Babies Relative to State



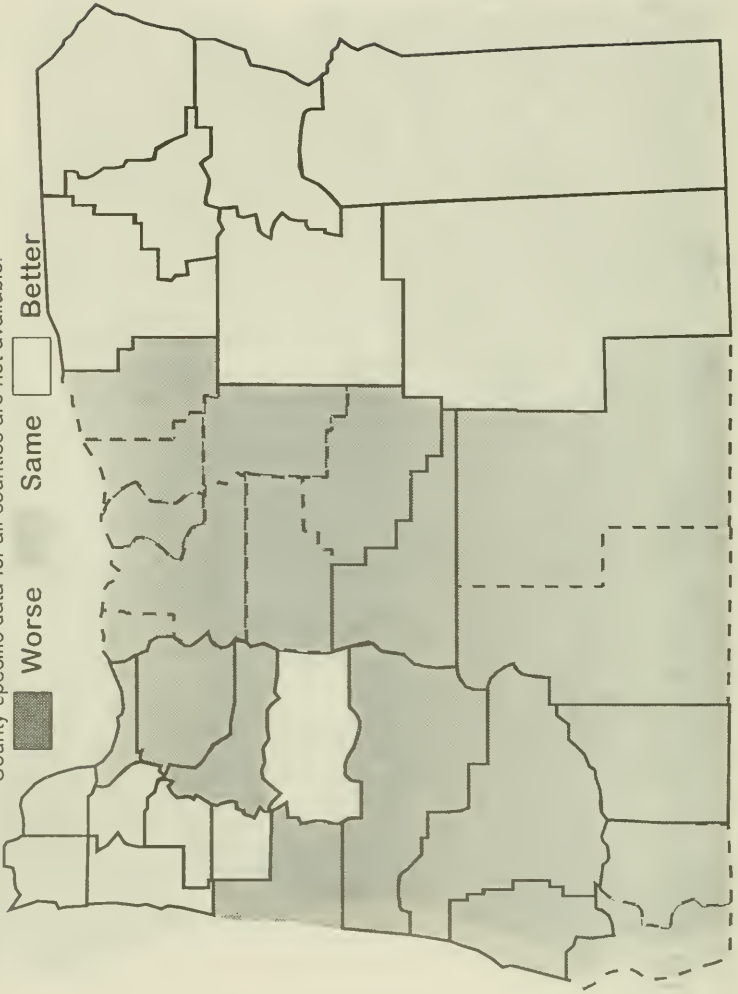
1990 -- 1994 Aggregate HIV Rate Among Childbearing Women* Relative to State

* County specific data for all counties are not available.

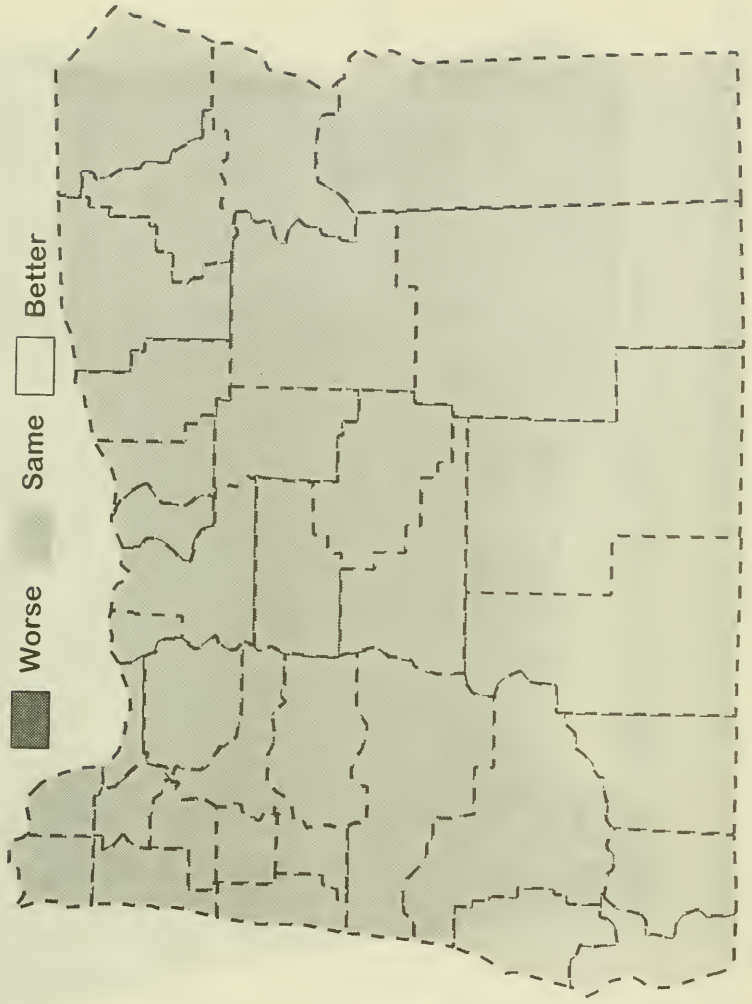


1990 -- 1994 Aggregate HIV Rate Among Childbearing Women* Relative to State

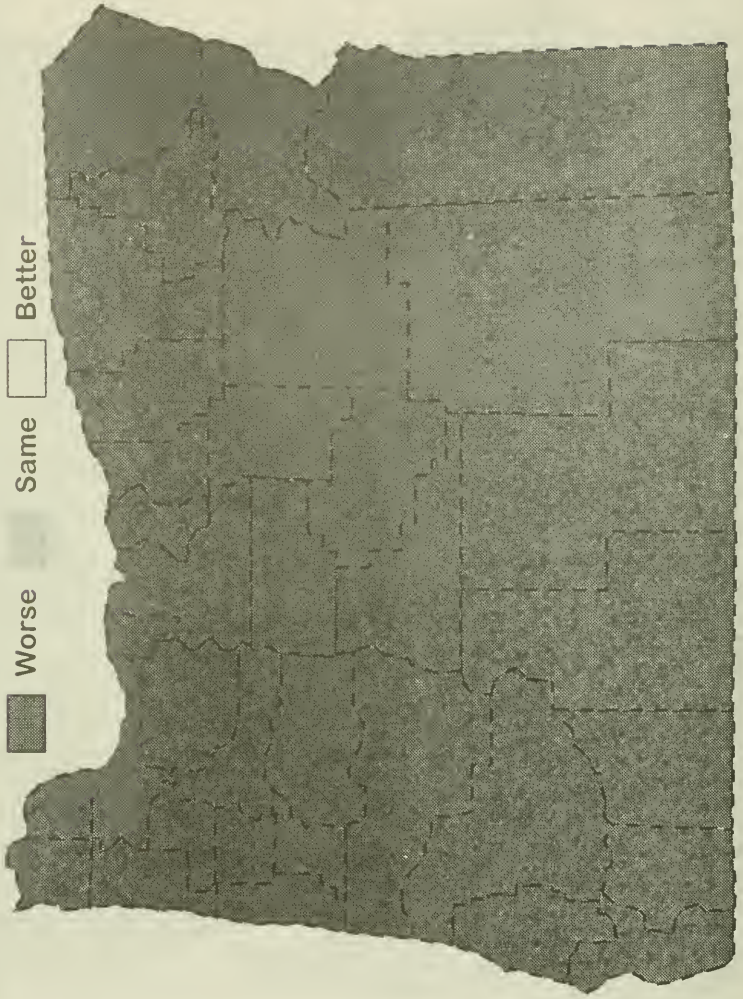
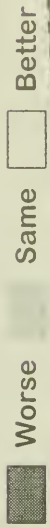
* County specific data for all counties are not available.



1994 Immunization Rate Relative to State

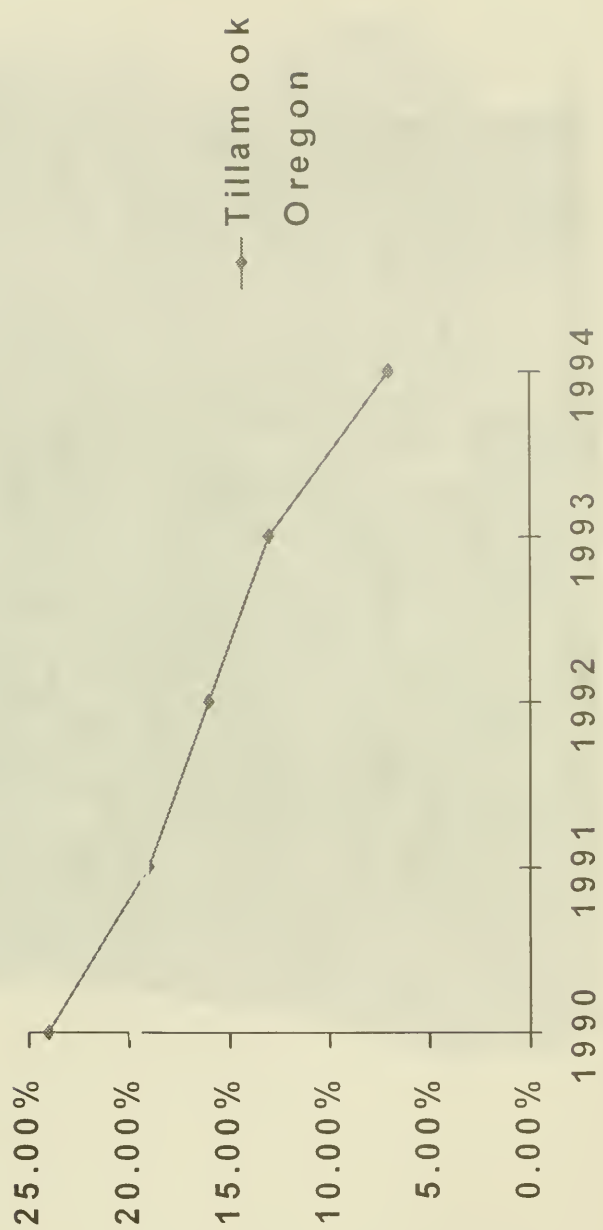


1994 Relative to 1995 Target: Immunization Rate

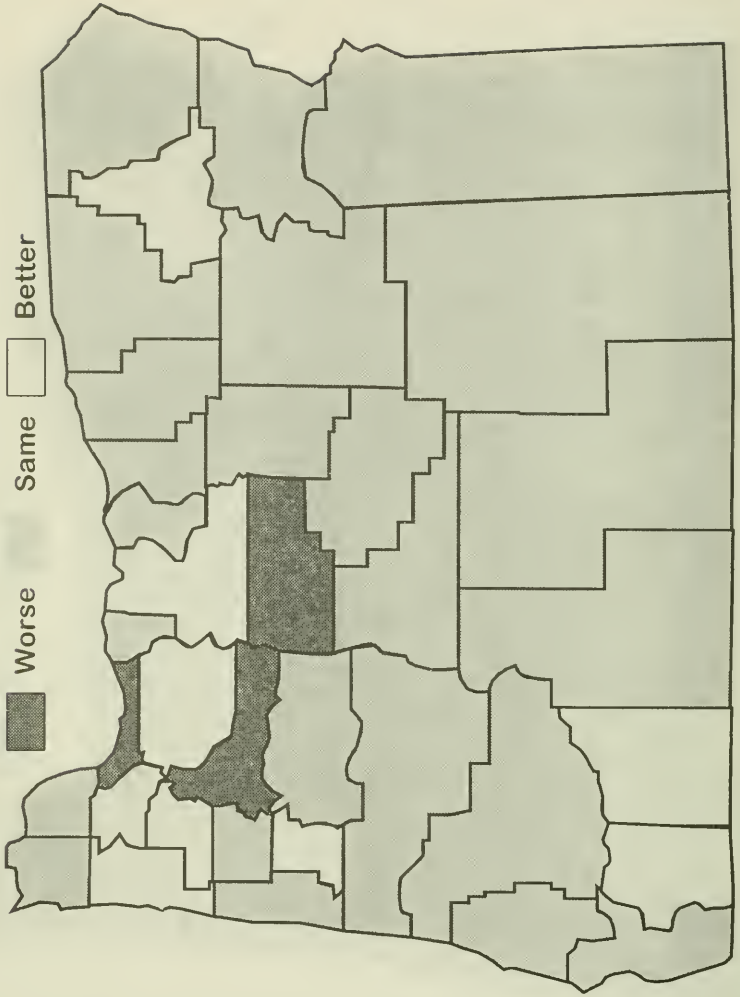


Teen Pregnancy

Rate per 1,000 females ages 10 - 17

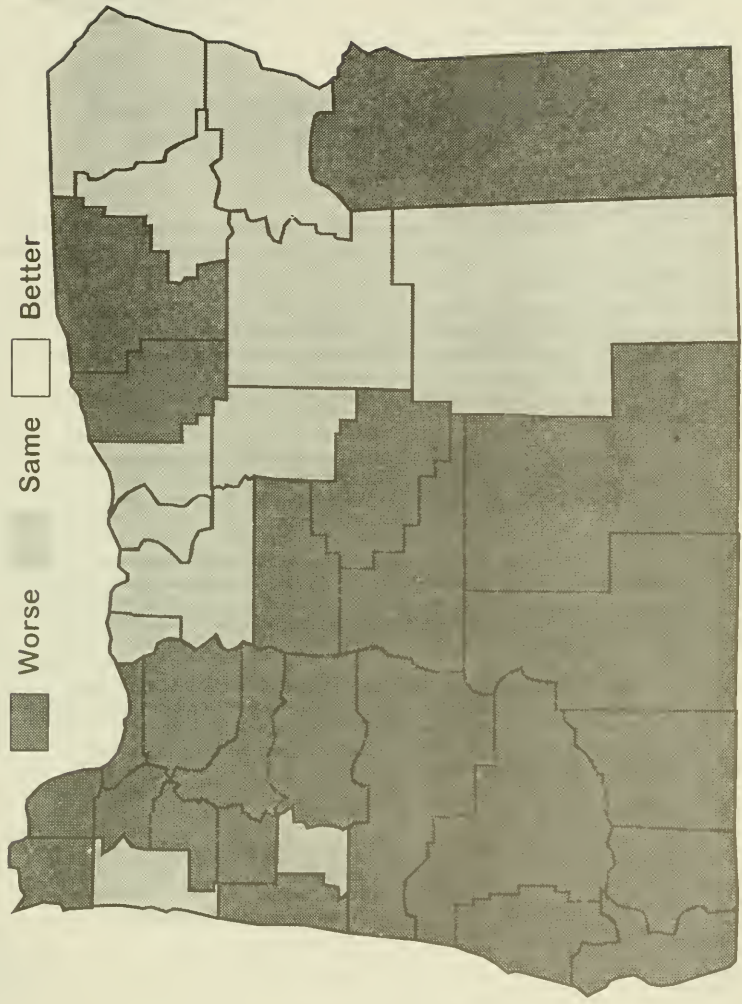


1994 Teen Pregnancy Rate Relative to State



1994 Relative to 1995 Target*: Teen Pregnancy Rate

* 1995 Target set at 9.8 per 1,000.





December 1, 1996

The Honorable Ted Stevens
 United States Senate
 SH-522 Hart Senate Office Building
 Washington, D.C. 20510-0201

Dear Senator Stevens.

On behalf of county governments across the nation, I am writing to express our strong support for S. 88, the Local Empowerment and Flexibility Act of 1995. As you prepare for the December 5 hearing, I am very pleased you have invited Sue Cameron of Tillamook County, Oregon to testify before the Senate Governmental Affairs Committee. I have asked her to mention the National Association of Counties' support for the bill in her testimony.

As federal aid to local governments decreases, we will be under increased pressure to do more with less. While the benefits provided by this legislation will not reduce the need for federal aid, it will provide localities greater flexibility to design and implement federal grant programs in a more efficient and cost effective manner.

Under the proposal, local governments will be granted a waiver from excessive regulations and allowed to combine separate federal grants. This will enable them to use a comprehensive approach to address the needs of their local residents and thereby spend more of their grant funds on serving citizens and less on meeting excessive regulatory and paperwork requirements.

The attached is NACO's resolution urging support for the Local Flexibility Act, which was adopted in 1994 in response to the original House bill. As county officials, we stand ready to assist you in any way we can to secure the immediate passage of the Senate companion bill, S. 88. Thank you for your support and please feel free to contact Larry Jones of the NACO staff if you have any questions.

Sincerely

A handwritten signature in dark ink, appearing to read "Douglas R. Bovin". The signature is fluid and cursive, written over the printed name.

Douglas Bovin
 NACO President
 Commissioner, Delta County (Mich)





RESOLUTION URGING SUPPORT FOR THE LOCAL FLEXIBILITY ACT

WHEREAS, the Local Flexibility Act was introduced in 1993 to provide local governments increased flexibility to administer federal programs; and

WHEREAS, under the proposed legislation, a five year demonstration program would be established to encourage local governments to develop comprehensive plans that better meet the needs of low income individuals by granting local governments waivers from federal regulations in order to make it easier for them to combine federal grants in several categories; education, employment and training, health, housing, nutrition, social services and economic development; and

WHEREAS, the National Association of Counties also urges that other federal funded programs such as the Intermodal Surface Transportation and Efficiency Act be coordinated with programs sponsored under the Local Partnership Act; and

WHEREAS, the proposed legislation grew out of Vice President Al Gore's recommendations in his National Performance Review report issued in 1993; and

WHEREAS, the Senate approved its version of the bill (S.4) earlier this year in the National Competitiveness Act; and

WHEREAS, the House approved the National Competitiveness Act but did not adopt its version of the Local Flexibility Act; and

WHEREAS, House and Senate conferees will consider the final approval of the Local Flexibility Act in 1994:

THEREFORE BE IT RESOLVED, that the National Association of Counties urges House and Senate conferees on the National Competitiveness Act to approve the Local Flexibility Act; and

BE IT FURTHER RESOLVED, that NACo urges Congress to adopt the conference report and the President to sign the measure into law.

Adopted August 4, 1994



PREPARED STATEMENT OF GAIL PHILLIPS

It is nice to see you again and I thank you Mr. Chairman for this opportunity to testify favorably on the Local Empowerment and Flexibility Act and Senator Hatfield for introducing this legislation. My name is Gail Phillips, and I am the Speaker of the Alaska House of Representatives. Previous to my State Legislative service, I also served in local government at the City Council and Borough Assembly levels. My background and experience gives me the impetus for strongly supporting the concept of this legislation.

Communities around our country are different from one another in many ways. This Act provides the framework which recognizes these differences by providing greater flexibility to local governments to administer funding.

Federal regulation as administered across the country, in many instances, is not as effective as it could be simply because communities and situations are so different.

Alaska communities, in many cases, are hit the hardest by unilateral regulation and federal administration of funding because of their differences from other localities across the country. Partly because of their size but also because of their distance from the Continental U.S. Many rural communities for example do not have running water or sewage treatment facilities. Others are in desperate need of basic housing and many do not have roads that connect them to anywhere let alone highways to the outside world. Rural roads in Alaska are significantly different from major highways.

I was raised in the community of Nome, Alaska, located in the Northwestern region of Alaska. The differences between Nome, a mining town of 5,000 residents and a community such as Arlington, Virginia, are staggering.

Alaska will greatly benefit from this legislation given the unique situations found in our state and the need to recognize the differences. There are great differences in the need for rural health care providers and the unique circumstances found in Alaska with regard to Clean Air and Water regulation.

My constituents are the people of Alaska and they feel strongly about the need to decentralize government. I believe the American people feel the same way. This Act is a great beginning at truly re-inventing government to better serve the needs of its citizens while at the same time maximizing efficiency. Regulatory reform is something we are all trying to accomplish—this certainly should help!

I do have several recommended additions to be included in the Act:

1. Additionally consider for state government funding Departments of Transportation, Education and Health.
2. Have a system of accountability built into the process.
3. Once programs are designed, a provision should be added that will ensure funding will remain intact and no significant changes will be made to the Act.
4. The Flexibility Council should have representation from state or local government organizations.
5. After developing the list of regulations most frequently waived, the Flexibility Council should prepare justification for dismissing these regulations.
6. Conditions for qualification need to be clearly defined so certain regionalized councils are not included.

This Act is an important step for States rights of which I am a strong advocate. I think a strong process for accountability will guarantee its success.

Local and State government entities need to work together to make certain this succeeds.

I strongly urge adoption of this Act. Again, I appreciate this opportunity to testify on this important legislation.

 PREPARED STATEMENT OF R. SCOTT FOSLER

Good morning Mr. Chairman and members of the Committee. I am Scott Fosler, President of the National Academy of Public Administration. I'm pleased to testify on the important reforms to federal categorical grants and the intergovernmental systems for administering them reflected in S. 88, The Local Empowerment and Flexibility Act of 1995. My testimony today is also similar to that of the chair of NAPA's Standing Panel on the Federal System, Carl Stenberg, as he testified in early August to the House Subcommittee on Human Resources and Intergovernmental Affairs on H.R. 2086.

The Academy is an independent, nonpartisan, nonprofit organization chartered by Congress to identify emerging issues of governance and to provide practical assist-

ance to federal, State, and local governments to improve their performance. The Academy's unique resource is its membership—more than 400 current and former members of Congress, cabinet secretaries, senior federal executives, State and local officials, businesspersons, diplomats, journalists, and civic activists who are elected by their peers.

In 1993, the Academy created the Alliance for Redesigning Government to help generate a dramatically more effective system of governance by connecting and supporting people at the federal, State, and local levels who are developing new and better ways to make government work. Through the Alliance's bimonthly newsletter, *The Public Innovator*, this network is up-to-date on cutting-edge practices and reforms being implemented. As always, the Academy stands ready to share its resources with this committee and the rest of Congress.

We want to express our appreciation to Senator Hatfield and to this Committee for examining a series of issues that are vital to our nation's future.

The federal categorical grants system has grown like topsy. A 1995 study by the Advisory Commission on Intergovernmental Relations (ACIR) reported that there were 618 categorical programs available to State and local governments in the federal system as of January 1, 1995. The count included 110 education programs, more than 100 health care grant programs, 82 social service grant programs, and close to 30 grant programs dealing with community and regional development.

As the number and variety of categorical grants has grown, so too has the list of requirements and restrictions imposed through both statute and regulation. Born of good intentions, in practice they can hinder or frustrate effective efforts to achieve the ambitious goals these programs have established. Negotiating the maze of mandates related to planning, applying for, and administering some of these programs would test the patience of Job and the wisdom of Solomon.

It also imposes significant compliance costs. Scarce resources are diverted from the intended recipients to administration and overhead. In his statement introducing S. 88, Senator Hatfield starkly stated the problem: "Many of these programs are too narrow and regulatory rigidity translates into funding spent wastefully in audits and record-keeping rather than directed to meet community needs."

In exercising their duties, federal officials are exercising a sacred public trust. They must ensure that the public's money is allocated to meet the nation's highest priorities and that each and every taxpayer dollar is used as effectively as possible. Generally, the intergovernmental system has sought to meet this obligation by imposing a series of processes, management, accounting, and reporting requirements.

However, depriving State and local governments of discretion that could produce misbehavior also limits the discretion that could call forth outstanding innovation and achievement of important and legitimate public responsibilities. That doesn't mean the Federal Government should hand out blank checks. It does mean a more balanced approach that gives greater flexibility to make the system work and at the same time requires accountability for achieving results.

In the kind of overly centralized, prescriptive system that's been created, we also pay a price for limiting the ability of others to experiment and to learn how to get the public's work done better, faster, or cheaper. Setting priorities and ensuring accountability for producing real results are the responsibility of top policymakers and political leaders. Dictating the details of the strategies, methods, and procedures applied to meet those goals may be counterproductive, however. The control of discretion and resources does not guarantee that the holder has a monopoly on the knowledge about how to adapt and respond to the disparate needs of communities across the country. America is too diverse for "one size fits all" policies and programs. Administrative "stovepipe" mentality precludes addressing functionally related needs. To be effective, federal, State, and local programs must recognize the differences among our communities, permit variation in spending and administration based on local needs and changing conditions, and seek to provide flexibility while enhancing accountability for results that really matter.

During the 1980s, corporations around the world learned a powerful lesson. If the gap between those with the power to decide and those on the production line or in the front line with consumers grows too large, the businesses' vitality and profitability sag. The Federal Government specifically—and the public sector generally—should learn how these lessons apply to the public service.

Public and nonprofit organizations at the State and local level are the front line in our intergovernmental partnership. They are the vital key to achieving the best possible performance. Rather than enforce compliance with rigid rules, the Federal Government should challenge these capable and committed people to apply the full measure of their skills, creativity, and adaptability to achieving results for communities and people. The good news is that there is a wellspring of promising innova-

tions at the State and local levels and from community-based and other nonprofit organizations that others can learn from.

The bad news is that the burden of federal compliance and oversight measures can be overwhelming and often wasteful and detrimental to achieving program goals. For example, in Multnomah County, Oregon, a local community college leads a consortium that has integrated a wide range of services and is showing remarkable success in supporting the transition from dependency to work for local welfare recipients. A portion of the funds are provided by the Job Training Partnership Act (JTPA). The JTPA link created two administrative problems. First, although JTPA funding amounts to less than 10 percent of the community college's overall funding, a separate accounting process is required to meet JTPA's precise financial monitoring and reporting requirements. Second, in some cases equipment purchased with JTPA funds cannot be used by clients or students who do not meet JTPA eligibility requirements. To comply with the letter of the law, some equipment would be left idle when it could be put to fuller use with clients who are not JTPA eligible.

To achieve the highest level of performance, we should create systems that are capable of continuous learning and adjustment. Prescriptive systems place too much emphasis on outmoded "command-and-control" models and too little emphasis on flexibility with accountability for meeting ambitious performance goals and cross-cutting needs.

We can and must do better. S. 88 is a good starting point in at least five respects:

- *First, authorizing Local Flexibility Plans creates a powerful incentive for the most innovative local governments and nonprofit organizations to pioneer new approaches to meeting pressing social needs.* It will help demonstrate the efficacy of placing greater emphasis on aligning public and nonprofit resources through a "bottom up" process. State governments are also an important conduit for categorical programs and provider of services and we urge you to consider expanding the bill to include State Flexibility Plans as well. The broadening of the scope of the Flexibility Plan approach has merit in view of the fact that relatively few direct federal-local grant programs currently exist.
- *Second, the bill would require participants to "specify goals and measurable performance criteria,"* to monitor and report performance against these goals, and to provide for a "comprehensive evaluation" of the impacts and costs. All are important steps toward more results-oriented governance systems.

The proposal, however, may benefit from greater specificity on the procedures for ensuring accountability. The "Evaluation and Termination" provisions would require annual reports on activities under each approved Local Flexibility Plan. Periodic reporting will be necessary, but it may be better to authorize The Flexibility Council to establish reporting periods appropriate for individual cases. Further, rather than emphasizing termination of plans when goals and performance criteria have not been met, the proposal should stress prompt consultation between the federal agencies and the local authorities and the opportunity to adjust both the flexibility plan and its goals and measurable objectives based on experience and changing conditions. Ambitious goals may not be met by successful programs, just as modest goals can be met by failing programs.

- *Third, the bill recognizes the importance of developing data bases, planning, and evaluation processes in building more results-oriented governance systems.* Policymakers too often assume data are available—reliable, current, and with appropriate geographical coverage—to support effective benchmarking, performance monitoring, and reporting. This is not generally the case. Data systems and collection efforts should be improved to meet the uses envisioned. Confidentiality requirements, such as those that limit the use of Social Security numbers as identifiers, can limit the utility of administrative data bases for these purposes. In many cases, integrating administrative data bases across an array of State and local programs will be the best method for tracking results. On the federal level, proposals to reduce funding or limit the type of social and demographic data to be collected in the next census would also hamper performance measurement. Both are issues that merit congressional attention.
- *Fourth, the proposal creates a feedback system by requiring reports on the federal regulations most frequently waived under this new authority.* Congress should consider giving an "early out" to statutory and administrative restrictions that are identified as outmoded in the course of implementation and evaluation of Local Flexibility Plans. The process used to review and recommend the closure of military bases is one model that may be worth considering for this purpose. That approach could provide a mechanism to trigger congressional action to allow broader exemption from general rules when identical or similar

waivers arise from separate jurisdictions and from across the jurisdictions of a number of authorizing committees.

- *Finally, section 10 of the proposal will help ensure that technical assistance will be available to local governments and others involved in designing flexibility plans.* This is a desirable feature in view of the complexity of and inadequate information available about applying this new approach. While federal agencies can be an effective provider of such assistance, you may consider broadening the range of options by authorizing or directing the agencies to support technical assistance provided by others—such as State governments, State and National associations of public officials, and NAPA and other organizations with existing capacity to provide effective technical assistance and support.

The 104th Congress has dedicated itself to addressing fundamental issues in our system of governance. In his January 4, 1995 address to the opening of this session, Speaker Gingrich declared: "We should insist that our success for America is felt in the neighborhoods, in the community, is felt by real people leading real lives who can say 'yeah, we're safer, we're healthier, we're better educated, America succeeds.'" In light of the critical role the State and local public and nonprofit sectors play in meeting those goals, the reforms and exciting challenges presented by this proposal would be a good step toward translating the speaker's and this Congress' vision into reality.

Thank you Mr. Chairman for the opportunity to testify on this important proposal. I would be happy to answer any questions you or other members may have.

PREPARED STATEMENT OF CHARLES GRIFFITHS

Mr. Chairman, I appreciate the opportunity to comment on S. 88, the Local Empowerment and Flexibility Act of 1995.

My remarks today are from the perspective of a staff member of the Advisory Commission on Intergovernmental Relations. The Commission itself has not taken a position on either S. 88, or its companion legislation, H.R. 2086, that has been introduced by Representative Shays, Chairman of the Human Resources and Intergovernmental Relations Subcommittee of the Government Reform and Oversight Committee.

I hasten to add, however, that I believe the Commission would endorse the general purposes and thrust of this legislation. For over two decades, ACIR has stressed the need for the type of federal assistance reform embodied in S. 88.

Mr. Chairman, I have worked in the intergovernmental arena for nearly 25 years. Prior to coming with the ACIR, I served as Chief of Federal Program Coordination for the Commonwealth of Pennsylvania, and then served as Director of the Pennsylvania Intergovernmental Council, a state-local body similar to ACIR.

I am well acquainted with the growth, benefits, and problems associated with federal assistance. In a sense, State and local governments have had a "love-hate" relationship with federal aid. These governments have certainly appreciated the help that federal aid has been in critical program areas. At the same time, though, these governments have had to endure federal program structures, processes, and requirements that often frustrated State and local efforts to apply and manage this assistance effectively and efficiently.

In response to the frustrations expressed by State and local governments, there have been numerous efforts over the years to reform the federal aid system, by streamlining and simplifying it in ways intended to increase effectiveness and efficiencies. Some of these efforts were successful in whole or part, while others failed.

I believe that there are four basic ingredients to successful federal aid reforms:

- Holistic rather than partial solutions. If a reform attempts to treat only part of a problem or need, it will likely fail. I believe that S. 88 goes much further than previous reform efforts towards a holistic solution to federal aid problems and needs, but I will have some suggestions for additional steps in this regard.
- Sufficient commitment of time to allow the reform to succeed. The 5 year authorization provided in this bill provides critical time for implementation, but it should not be viewed as a 'once-and-done' effort, but rather as an initial testing and refinement period for a longer intergovernmental commitment.
- Flexibility that allows recipients to apply and adapt federal aid to particular circumstances and capacities. This is a primary purpose of S. 88, and its principle strength. I will, however, have additional suggestions in this regard.
- Avoiding excessive complexity in the objectives being sought and the processes involved. The results must be truly cost-effective and time-saving. I be-

lieve that S. 88 strives to avoid excessive complexity but, again, I will suggest additional ways to help achieve this goal.

Before turning to my suggestions, I would like to briefly outline two past reform efforts that I believe are instructive, and which help to set the foundation for my suggestions.

Integrated Grant Administration

The Integrated Grant Administration (IGA) was initiated in 1972 by OMB, as a test for simplifying the funding and administration of federal program assistance.

The central objective of the IGA was to simplify the process by which State and local grantees identified, applied for, and administered funds comprised of more than one Federal assistance program to carry out a single project. Initially, the only programs excluded were those supporting construction or the acquisition of land. Later, even these exclusions were lifted for some demonstration projects.

Federal Regional Councils (FRCs), which were in place at that time, were given the primary responsibility for liaison with State and local governments, and to coordinate the packaging of IGA applications.

To qualify as an IGA project, the federal programs involved had to be included in a single application, be related by a common purpose or ability to support related goals, and based on an overall strategy to achieve a common objective.

One Federal agency "point-of-contact" was appointed to process each consolidated application, rather than making an applicant deal with multiple federal agencies. A single grant award notice was issued with synchronized funding periods. Funding was "pooled" from the different federal agencies, and delivered as a single funding stream through one federal agency.

Grantees were required to submit single financial reports to a single federal agency. These reports were guided by one set of coordinated federal requirements to monitor progress.

It should be noted that the IGA provided no additional funds to grantees other than what they were already eligible to receive, and which had been appropriated.

The IGA began with 24 approved projects totaling over \$33 million. OMB's first assessment of the program was a favorable one. For example, the assessment found that the IGA promoted improved intergovernmental working relationships.

On the other hand, assessments by OMB and GSA found a need for greater commitment on the part of federal agencies for participating in this program. Problems of "turf", as well as statutory barriers to program consolidation were seen as stumbling blocks to agency cooperation.

It was also found that the IGA required more time and effort by federal agencies than what would be normally expected with individual categorical grants. Observers believed this to be a normal part of the "learning curve", and not necessarily a long-term condition.

This latter finding suggested that significant changes to existing financial assistance processes require several years to implement and refine, before their full potential could be realized.

Joint Funding Simplification Act of 1974

Based on the encouraging experience of the IGA, the House Subcommittee on Intergovernmental Relations held "New Federalism" hearings in 1974.

At the time, H.R. 11236, the Joint Funding Simplification Act, was before the Subcommittee. The purpose of this legislation was to embody the essence of the IGA experiment.

In the hearings on this legislation, it was again stressed that it takes time to implement and perfect significant changes to the federal aid system. It was pointed out, for example, that the early years of the IGA tended to concentrate more on procedural issues than substantive outcomes.

The Joint Funding Simplification Act was enacted in 1974. The three purposes of the act closely resemble the purposes of S. 88:

- Enable States, local governments, and private nonprofit organizations to use assistance of the U.S. Government more effectively and efficiently;
- Adapt the assistance more readily to particular needs through wider use of projects that are supported by more than one executive agency, assistance program, or appropriation. . . ; and
- Encourage Federal-State arrangements under which local governments and private nonprofit organizations may more effectively and efficiently combine Federal and State resources to support projects of common interest to those local governments and those organizations.

Some of the key provisions of this act included:

- Requiring the President to promulgate regulations to assure that the act was applied by all federal agencies consistently, in accordance with the purposes of the act;
- Authorizing federal agencies to identify programs suitable for joint funding, and to develop guidelines and common application forms;
- Authorizing federal agencies to modify administrative requirements that might impede joint funded projects;
- Permitting the Administration to develop a system for designating "lead agencies" to coordinate the review of joint programs applications, and for overseeing projects that are approved;
- Authorizing the creation of "joint management funds" to finance multipurpose projects, into which the participating agencies could transfer their share of the funding to be paid out by the "lead agency"; and
- Permitting federal agencies to determine a single "non federal matching share" for each project, where such requirements applied.

It is interesting to note that this act also permitted a federal agency to enter into joint funding agreements with States, where a single federal program could be jointly funded with a single State program, and granted to a local government for implementation.

After becoming law, and in successive executive orders, oversight of this act was given first to GSA, and then later to OMB. The act was authorized for 5 years. In 1980, the act was reauthorized for another 5 years. However, in 1982, this act, along with a number of other laws considered to be obsolete or ineffective, including the Intergovernmental Cooperation Act of 1968, were repealed.

I have been unable to find any significant evaluations of the Joint Funding Simplification Act. I did find, however, passing comments about the act that lead one to the conclusion that act never really got off the ground. Some who remember the act believe that there was never a strong commitment on the part of federal agencies to make this process work (because of the difficulties of crossing agency and program boundaries). Those State and local governments who knew about the act (and this was not a large number), found it difficult and time-consuming to pursue joint funding, and therefore became less interested in attempting to do so.

S. 88

I believe that S. 88, in combination with current block grant reforms, provides an important opportunity to address grant assistance issues that have bothered State and local governments for many years.

The suggestions below attempt to build on the lessons of the past, and to reflect the circumstances found today.

GOVERNMENTAL FOCUS

S. 88 focuses on local governments. This is understandable because local governments are on the "front-line" for achieving most federal policy objectives. The success of these objectives rests largely on the ability of local governments to apply and manage federal and State funding as effectively and efficiently as possible.

S. 88 attempts to strengthen local abilities by providing increased flexibility for local officials to pursue federal objectives in a cost-effective manner most suitable to local circumstances and needs. Greater flexibility will enable local officials to better coordinate and achieve federal, State, and local priorities.

S. 88 is particularly useful to smaller and rural communities that lack the capacities to obtain and manage federal programs. In effect, these communities are not able to participate as full partners in our intergovernmental system for no other reason than their size.

Nonetheless, S. 88 is less than an holistic solution because it leaves out State and tribal governments. I believe that the purposes of this legislation are equally important for State and tribal governments. S. 88 is concerned with achieving maximum economies and efficiencies in the use of federal funds, by focusing on outcomes rather than rigid requirements and processes. Certainly these are worthy goals for State and tribal governments as well.

In addition, we are now in a period of dramatic reforms of American Federalism. These reforms will result in shifting roles and responsibilities, including how federal money is distributed and applied. The movement towards consolidating and blocking federal programs at the State level will result in stronger state-local assistance relationships. These changes will give States a greater role and involvement in the kind of "local empowerment and flexibility" envisioned by S. 88. Not to give States and tribal governments the same flexibility is to leave out a very important component that can be critical to the purposes of the act, and to federal reform efforts.

PURPOSES

The purposes of S. 88 are meritorious. But I believe that the legislation can be strengthened in two ways.

First, the bill appears to concentrate on consolidating two or more federal programs or appropriations. I believe that it is also important to provide the flexibility for federal and State agencies to join programs that can serve a common purpose at the local level. This may involve the pooling of funds through a single administering agency, and/or synchronizing time periods, regulatory requirements, and reporting. I would add here that this flexibility should be available even if only one federal program is involved.

Perhaps the bill's language could be changed under Section 3.(3), that includes a new subsection (C) to read: "integrating one or more federal programs or appropriations with one or more State programs."

Second, I believe one purpose of the bill should be to streamline federal planning requirements, by providing common standards that can be met by applicants with existing comprehensive plans that are up-to-date and reasonably adequate. This is particularly important to smaller local governments. Federal planning requirements are costly for small communities, and more so if they have to develop separate plans for each federal program.

This purpose could be made clear if, under Section 3, a new (2) were inserted as follows: "reduce local government costs by streamlining federal planning requirements, and by allowing communities to use existing, updated comprehensive plans for federal program planning purposes."

Definitions

The definition of "eligible local government" does not appear to include entities other than a single government. It does not, for example, appear to include Councils of Government, or other regional bodies that may be eligible to receive federal assistance. For rural areas, these regional entities often serve groups of local governments in certain programmatic areas because they have a greater capacity to do so.

I believe that the term "eligible local government" should be changed to "eligible applicant", and that the definition of "eligible applicant" include local governments, councils of governments, qualified regional bodies, and States if my previous suggestion is included.

If regional bodies are not included, it may remain difficult if not impossible for some smaller governmental bodies to participate (even with increased flexibility) because they lack the capacity or expertise.

One important benefit of having regional bodies listed as "eligible applicants," is that these entities could then prepare a single Flex Plan for two or more smaller communities. As the bill is now written, if several local governments wished to cooperate in a joint program endeavor, the bill would require separate flexibility plans and assurances from each community. It would be much more cost-effective if a regional body could develop a single plan, with assurances of participation and public hearings by the participating governments.

APPLICATION REVIEW AND APPROVAL OF FLEXIBILITY PLANS

S. 88 creates a Flexibility Council at the federal level to receive local flexibility plan proposals, to approve or disapprove applications, and to provide technical assistance if requested and feasible. The bill gives agencies the authority to detail personnel to the Council. Given the current fiscal situation, it is likely that detailed personnel would be required.

I have several suggestions related to this part of the bill which I believe would be less expensive but more effective for the Federal Government, and which would be more consistent with the federalism reforms now underway.

First, I believe that the Federal role should be as minimal as possible. This can be done by giving the States an optional coordinating role for processing local Flex Plan proposals, and also for recommending approval actions to the Flexibility Council. States are in a much stronger position to evaluate the circumstances and merits of local proposals. This would reduce the workload (and cost) at the Federal level, and the time required to make final decisions.

- In turn, States could opt to use sub-state regional bodies as the first level of review and comment as a means to reduce the State's workload. This would be particularly relevant in rural areas which are often served by regional planning agencies such as Rural Development Councils.
- As a means to offset the costs of this state role, States could be allowed to include these costs as indirect costs under the Federal Cash Management Act.

This would amount to minor losses to the Federal Treasury, that would be more than offset by the reduced Federal costs for reviewing local applications.

- The direct role (and cost) for the Flexibility Council would be lessened as more States opt to serve this coordinating function.

One other option to consider in this regard is to permit interstate bodies the opportunity to coordinate appropriate flex plan reviews and recommendations. An example of an interstate body is the Appalachian Regional Commission, and there is legislation today that would create similar regional Economic Development Commissions to succeed the Department of Commerce. These interstate bodies consist of federal and state representation, and are therefore ideal for this role.

Second, we can take the lesson of past experience with the IGA and Joint Funding Simplification Act, by giving the Flexibility Council the authority to designate "lead agency" responsibility for different types of Flex Plans. This would minimize the need for detailing staff to the Council, and place review decisions in agencies with relevant experience and program relationships.

- That would leave the Flexibility Council primarily with an oversight responsibility, including reporting to the Congress and President about the issues and achievements under the law.
- With respect to the Council, the current Community Empowerment Board (CEB) would be an appropriate structure to be assigned this responsibility.

Finally, this bill does not speak to a very important issue, which is the need to simplify application requirements and costs. A major component of this need is to make clear that the Flexibility Plan of an applicant will satisfy the application requirements for all of the Federal programs included in the Plan.

If the Flexibility Plan is simply an additional layer on top of individual program applications, the bill will fail to provide the cost and time savings intended under the law. This provision would also help to stimulate greater inter-agency coordination and cooperation at the Federal level with respect to the standardization of processes and requirements.

PROGRAM WAIVERS

Program waivers are a critical aspect of S. 88. In order to give applicants sufficient flexibility to accomplish the objectives set out in the Flex Plan, it may be necessary to waive certain statutory or regulatory requirements that would otherwise inhibit success. This provision recognizes that "one-size" public laws and regulations cannot be expected to fit all local needs and circumstances, and hence the need for exceptions by waiver.

I would like to make a few observations and suggestions related to this waiver provision.

First, the bill prohibits waivers that would qualitatively reduce the level of services or benefits to any individual or family that are eligible for benefits under one or more of the covered programs.

I would suggest that the language in Section 8 (b)(2) be revised to read as follows: "The Flexibility Council may not waive a requirement . . . unless the Council finds that [waiver] shall not result in a net qualitative reduction in services or benefits for any individual or family, within available federal funding levels, that is eligible for benefits. . . ."

I propose this change because the major thrust of S. 88 is its focus on achieving desired outcomes. In some circumstances, recipients of program benefits may prefer and be better off if the Flex Plan includes certain "trade-offs" that may reduce some benefit levels in favor of raising other types of benefits. This could involve, for example, a reduction in housing assistance in favor of increased health or child-care benefits.

In this example, the level of specific benefits may be altered, but the net level of qualitative benefits would remain the same.

Given that the bill prohibits any increases of funding other than what would otherwise be available, it might be necessary to alter the "mix" of the money available to achieve the most beneficial outcomes.

The addition of the language, ". . . within available federal funding levels . . ." is intended only to clarify that net qualitative benefit levels are to be measured within the context of actual Congressional appropriations.

Finally, the bill prohibits waivers of Federal matching requirements. I would like to suggest that there may be instances when a waiver of matching requirements may be appropriate, either in whole or part, for communities experiencing financial distress, or for very small communities that have very limited fiscal capacities. The



situation in Washington, DC is instructive in this regard, related to the City's problems in matching transportation funding.

For these types of communities, their ability to make use of federal assistance may depend on a lower matching ratio or, in some cases, no matching requirements.

To be truly flexible, the bill should recognize the special fiscal circumstances of distressed or small communities (perhaps within some population parameters), and allow for negotiated matching ratios if justified by fiscal considerations, and the objectives being sought.

COMMUNITY ADVISORY COMMITTEES

Most federal programs require that an applicant for assistance establish some type of special advisory body for review and comment on the program design, operation, and accomplishments.

Such requirements are intended to ensure adequate public participation and input. For larger governments, such requirements are not a significant problem. They already have and regularly use many such mechanisms. If anything, the issue for them will be avoiding redundancy.

But, for smaller communities, the added cost can be significant given the probable size of the assistance and the program objectives being sought. The point that I would like to make here is that applicants should be given the option of using existing citizen participation mechanisms that are in place, provided that they are reasonably representative of the stakeholders targeted by the Flex Plan. This is likely to be the case if the government or organization is already administering an existing federal program.

REPORTS

I would like to conclude by commenting briefly on Section 12 of the legislation.

This section requires GAO to conduct a study of the law's implementation, and report to the Congress within 54 months of the date of enactment. The study is to look at the extent of local government use of the law, the effectiveness of federal programs as part of the flexibility process, and to provide recommendations with respect to local flexibility.

GAO is an experienced and quality research agency. But this agency does not have State and local government officials serving in its leadership to guide the study, and to decide what recommendations most effectively express their view of the law's merits and shortcomings.

I would like to suggest, Mr. Chairman, that this type of evaluation should be an intergovernmental endeavor with involvement by federal, State, and local government representatives. As such, I believe that an organization like ACIR may better serve this purpose.

Finally, I would also like to suggest that the report of this experience be presented to the President as well as the Congress. Again, this process involves and impacts all branches and levels of government.

I appreciate the opportunity to make these comments on S. 88, and will be happy to answer any questions that you may have.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Washington, DC 20410-7000

Ms. SUSAN BEEKMAN
Senior Evaluator, U.S. General Accounting Office, Washington, DC 22002

DEAR MS. BEEKMAN: You have requested the number of staff detailed to the Urban EZ/EC Task Force and the CEB, and suggested that this be provided for different time intervals. Following are the number of staff detailed to the Task Force at three different dates:

July, 1994—67
August, 1995—48
January, 1996—20

The reason for these variations is that functions and organization have changed as the Task Force has evolved. From July through December, 1994, the Task Force was engaged in reviewing the applications. Two hundred and ninety-two applications were received by the Urban Task Force. A very extensive review procedure was established, and a large number of staff was necessary to accomplish this task within a reasonable time frame.

Following the designations, the Task Force was reconfigured on a geographic basis to provide outreach and contacts to the communities designated. This phase lasted from January through August, 1995. In September, the Task Force was recast as a support organization, responding to the waiver (now known as flexibility) and federal funding requests, and proving a source of expertise. Agencies currently represented on the Task Force include: Department of Housing and Urban Development, Department of Transportation, Health and Human Services, Department of Justice, Department of Labor, Environmental Protection Agency, Small Business Administration, General Services Administration, Department of Commerce and the Department of Education.

In addition to the staff provided for the Task Force, the CEB agencies have provided support to the effort. Each agency has a primary representative and one or more alternates on the CEB Working Group. These are the contacts through which requests for information or action, such as waivers and funding requests, are channeled to the regular program operations of the respective agencies.

The CEB itself is staffed by agency representatives assigned to the Office of the Vice President. HUD, EPA and HHS have assigned one full-time employee to the CEB staff. DOT has assigned one full-time employee to work jointly with the CEB and the National Performance Review (NPR). SBA had one full-time employee assigned to the CEB from March to December, 1995.

I hope you will find this responsive to your request. Please let me know if you need further information.

Very sincerely yours,

HOWARD GLASER,
Deputy Assistant Secretary for Operations.

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