

# A COMMISSION REPORT

[Circular No. A-102 Revised]

## UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS

October 24, 1977

**1. Purpose.** This Circular promulgates standards for establishing consistency and uniformity among Federal agencies in the administration of grants to State, local, and federally recognized Indian tribal governments. Also included in the Circular are standards to insure the consistent implementation of sections 202, 203, and 204 of the Intergovernmental Cooperation Act of 1969 (82 Stat. 1101).

**2. Supersession.** The President by Executive Order 11717 transferred the functions covered by OMB Circular No. A-102 dated October 19, 1971, from the Office of Management and Budget to the General Services Administration. OMB Circular No. A-102 was revised and issued as Federal Management Circular 74-7 dated September 12, 1974. On December 31, 1975, the President superseded this order by Executive Order 11853 and transferred the functions covered by this Circular back to the Office of Management and Budget. FMC 74-7 is revised and reissued under its original designation of OMB Circular No. A-102.

**3. Summary of significant changes.** The revised Circular contains changes that bring it into general agreement with the more recent Circular A-110 which covers grants to universities, hospitals, and nonprofit organizations.

The more significant changes include:

(a) An amendment to the basic Circular to make it clear that the provisions of the attachments shall be applied to subgrantees except where they are specifically excluded.

(b) A provision that Federal agencies may accept the bonding policies and requirements of the grantee for construction contracts over \$100,000 provided that the Government's interest is adequately protected.

(c) A revision to the criterion for the valuation of donated real and personal property to provide that the value of such property shall be based on fair market value. The original Circular provided that property should be based on the cost of the property less depreciation or fair market value, whichever was less.

(d) A provision that grantee audits should be made in accordance with generally accepted auditing standards, including Standards for Audits of Governmental Organizations, Programs, Activities and Functions, published by the General Accounting Office.

(e) A provision that Federal agencies to pay within 30 days of receipt of billing when the amount of the bill is not in dispute.

(f) A revision to the criteria for issuance of a letter of credit from \$250,000 to \$120,000.

(g) Deletion of the requirement for grantees to obtain prior approvals for

budget revisions to grants under \$100,000.

(h) Provision that title to real property funded partly or wholly by the Federal Government shall vest in the recipient.

(i) A revision to the criteria governing when a grantee may keep nonexpendable property without reimbursement to the Federal Government when it is no longer needed for any Federal program.

**4. Background.** The standards included in the attachments to this Circular replace the multitude of varying and often conflicting requirements in the same subject area that have been burdensome to State and local governments.

The standards are being promulgated in the same subject area that have been burdensome to State and local governments. It is the policy of the Federal Government to insure that such programs are administered in the most effective and efficient manner possible.

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transfer of funds. (8) States shall not be held accountable for interest earned on grant-in-aid funds, pending their disbursement for program purposes.

### KNOWS THAT AGENCY

Sec. 204. Notwithstanding any other Federal law which provides that a single State agency or multimember board or commission must be established or designated to administer or supervise the administration of any grant-in-aid program, the head of any Federal department or agency administering such program may, upon request of the Governor or other appropriate executive or legislative authority of the State responsible for determining or revising the organizational structure of State government, waive the requirement that such provision apply to a single State agency or multimember board or commission provision upon adequate showing that such provision prevents the State from administering such program in the most effective and efficient manner possible.

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# Fiscal Management of Federal Pass-through Grants: The Need for More Uniform Requirements and Procedures

### DEPOSIT OF GRANTS-IN-AID

Sec. 308. No grant-in-aid to a State shall be required by Federal law or administrative regulation to be deposited in a separate bank account apart from other funds of the State. All Federal grant-in-aid funds made available to the State shall be properly accounted for as follows:

(a) In the accounts of the State if the State agency concerned (hereinafter referred to as the "State agency") is the Federal agency covering the application of the funds, and the State agency is not a grantee of the Federal Government.

(b) In the accounts of the State if the State agency is a grantee of the Federal Government and the funds are to be used for the purpose of the grant-in-aid program.

(c) In the accounts of the State if the State agency is a grantee of the Federal Government and the funds are to be used for the purpose of the grant-in-aid program.

(d) In the accounts of the State if the State agency is a grantee of the Federal Government and the funds are to be used for the purpose of the grant-in-aid program.

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ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Washington, D.C. 20575

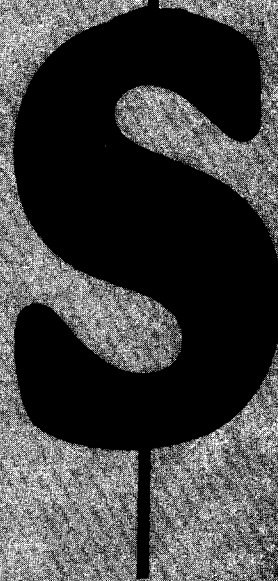
September 1981



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# **Fiscal Management of Federal Pass-through Grants:**

**The Need for More  
Uniform Requirements  
and Procedures**



**ADVISORY  
COMMISSION  
ON  
INTERGOVERNMENTAL  
RELATIONS**



Washington, D.C. 20575  
September 1981

A-102



# Preface

**I**n 1978, the Federal Assistance Monitoring Panel, sponsored by the Commission, requested that an effort be made to sort out administrative requirements associated with federal assistance programs and identify those which are unnecessary and burdensome. In the fall of 1979, the Department of Housing and Urban Development provided the Commission with the financial support for a yearlong project to examine the issues raised by the Monitoring Panel and to recommend ways to standardize and simplify the fiscal management of federal grant programs.

This study focuses on those federal grants that “pass through” the states before reaching the ultimate recipient. It identifies the specific problems of managing federal “pass-through” grants and makes recommendations to improve the intergovernmental administration of such grants.

The report was approved by the Commission on January 15, 1981.

**Abraham D. Beame**  
Chairman



# Acknowledgment

**T**his report was prepared by the Policy Implementation Section of the Commission staff. Major responsibility for the staff work was shared by Paula N. Alford and Hamilton H. Brown. Michael C. Mitchell of the Policy Implementation staff participated in the planning of the project, collection of data, and editing of the report drafts. The research and secretarial services of Katherine W. Rizk and Nalini B. Roy were indispensable.

The Commission staff relied on the expertise and good will of many people to prepare this report. An accurate analysis of the data gathered would not have been possible without the assistance of Jonathan D. Breul, John Lordan, and Thornton J. Parker, III. Rep. William Drapeau in Rhode Island, Ken Golden and Kirk Jonas in Virginia, Dennis Strachota in Wisconsin, and Ellis Fitzpatrick in Massachusetts deserve major credit for making the staff visits to their respective states so profitable and worthwhile.

The Commission wishes to thank the more than 100 federal, state, and local employees mentioned at the conclusion of the report who took considerable time from their respective schedules to be interviewed. Their patience and cooperation is greatly appreciated.

Other persons who provided valuable assistance during the course of the study, participated in the "thinkers' " or "critics' " sessions, or commented on draft chapters included: Don Bennett, Bill Buckley, Madeleine Burgess, Jesse Burkhead, Jack Chris-

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The Commission gratefully acknowledges financial assistance received from the Policy Development and Research Branch, Division of Governmental Capacity Building, U.S. Department of Housing and Urban Development. The completion of this study was possible because of the cooperation and assistance of the individuals and the agency identified above. Full responsibility for the content of the report rests with the Commission and its staff.

**Wayne F. Anderson**  
Executive Director

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# Introduction

## PURPOSE

In 1977 the Federal Assistance Monitoring Panel, sponsored by the Advisory Commission on Intergovernmental Relations (ACIR), was asked by the President to suggest appropriate ways to streamline federal administrative practices. A year later the Monitoring Panel reported that despite concerted efforts by the executive branch to improve intergovernmental administration, too much delay, duplication, and red tape still prevailed, particularly in the area of administrative requirements associated with federal assistance programs. Recognizing that difficulties arose from both federal and nonfederal sources, the Monitoring Panel requested that an attempt be made to sort out the various administrative requirements and identify those that were unnecessary and burdensome.<sup>1</sup> In response to the Monitoring Panel's call for further study, the Policy Development and Research Branch of the Department of Housing and Urban Development provided the Commission with funds to support a yearlong project that would examine the issues inherent in federal attempts to standardize and simplify financial management requirements.

This study addresses a number of the concerns raised by the Federal Assistance Monitoring Panel. The focal point of the research involves certain regulations issued by the Office of Management and Budget (OMB) in Circular A-102, *Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments*.<sup>2</sup> The circular establishes a

number of standard forms and management procedures with which all federal agencies must comply in making grants to state and local governments. In addition, the requirements prescribed in OMB Circular A-102 must accompany federal funds as they are redistributed by state and local governments.

Focusing on those requirements that pass through the states, this study tracks the requirements in OMB Circular A-102 from the national level through the states to the ultimate recipient. The major purposes for the research were (1) to assess the extent to which there is consistent application and understanding of the principles and requirements in Circular A-102; (2) to find out whether or not requirements are “added-on,” deleted, or ignored, and if so, where and why this occurs; and (3) to determine what needs to be done to realize greater consistency in the financial management of federal pass-through funds.

State agencies passed through approximately 20% of the federal funds they received in fiscal years 1971-72 and 1976-77, the two most recent years for which the Department of Commerce has compiled figures. For the same years, the dollar amount climbed from \$7.3 billion to \$12.3 billion, reflecting the rapid growth in federal grant expenditures.<sup>3</sup>

*Chart 1* illustrates the “pass-through” concept. Designed by the Grants Management Advisory Service, the diagram shows the ways in which the federal government provides assistance or support to the general public through grants, and purchases or procures services through intermediary agencies or contractors.<sup>4</sup> This study is concerned with the series of relationships illustrated on the left-hand side of the diagram where the “grantee”—in this study the state agency—is both the recipient and distributor of federal funds. The chart does not distinguish between public sector and nonprofit sector recipients, since both receive federal funds on a grant, contract, or cooperative agreement basis.<sup>5</sup> Because recipients in this study include nonprofit organizations as well as state and local governments, consideration is given in the report to those improvements needed to create more consistent financial management of federal pass-through grants, regardless of the type of recipient.

## BACKGROUND

OMB Circular A-102 was issued on October 19, 1971, to implement portions of the *Intergovernmental Cooperation Act of 1968*, other federal laws, and to “replace the varying and sometimes conflict-

ing requirements that have been burdensome to state and local governments.”<sup>6</sup>

The circular provides standard agency requirements in a number of administrative areas, including applications, accounting, reporting, and auditing. While not specifically stated, the circular is based, in part, on the principle that grantor agencies require less detailed and less frequent financial reports if grantees meet certain management standards before an award is made.<sup>7</sup> The following objectives guided the design of the circular:

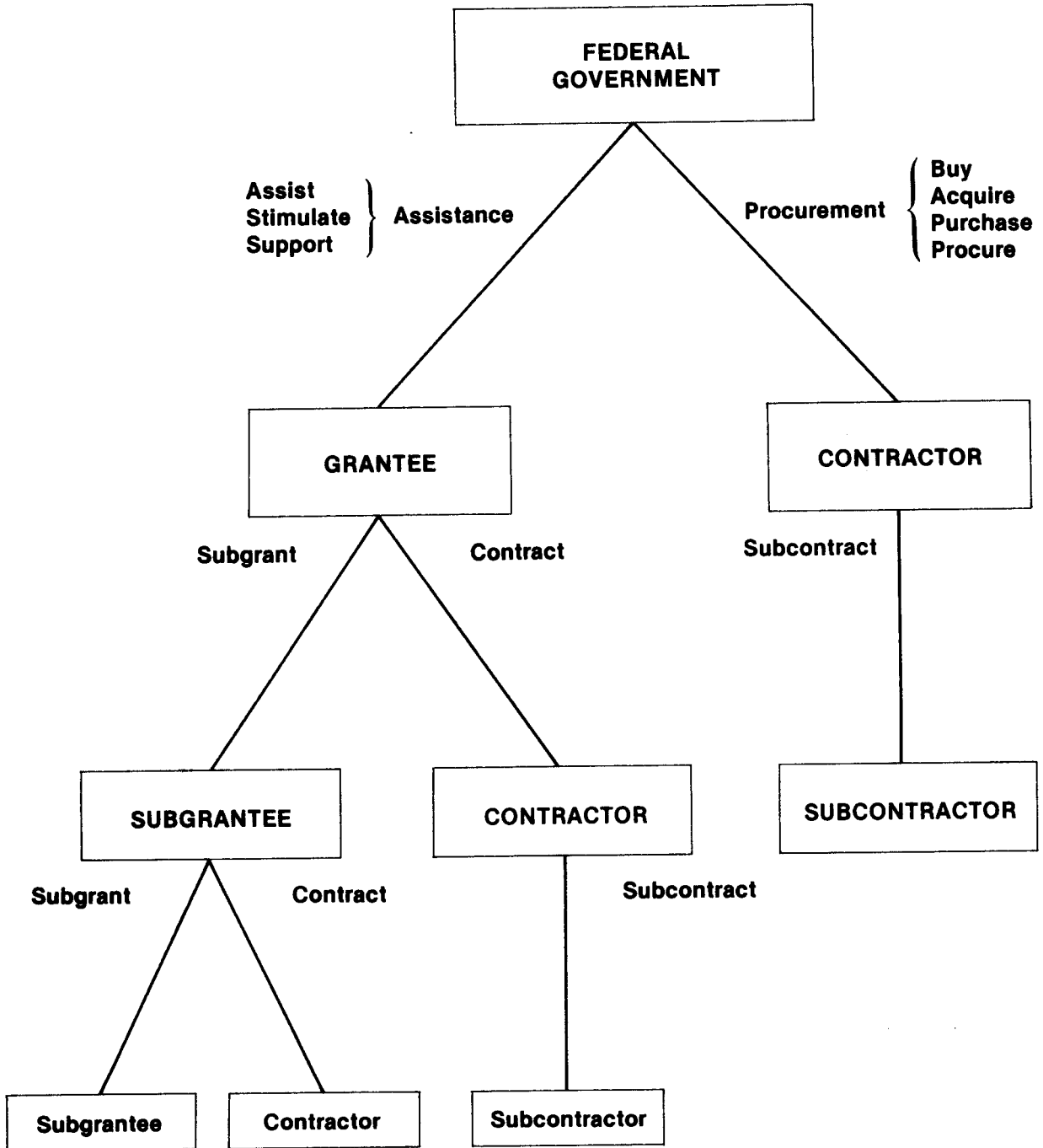
- 1) establishment of standard administrative requirements for federal grants to state and local governments;
- 2) simplification of federal requirements determining the lowest common denominator that would satisfy the information needs of all agencies;
- 3) reduction in the number of pages, number of copies, and frequency of federal grant forms;
- 4) greater reliance on grantees’ management systems through the decentralizing of day-to-day fiscal responsibility for federal grants; and
- 5) emphasis on program performance rather than fiscal control, through the limitation of federal agency information gathering.<sup>8</sup>

A number of the attachments to A-102 address the goals of standardizing, simplifying, and decentralizing federal grants management. Before the circular was issued, the average grant application contained 33 pages requesting 246 items.<sup>9</sup> Federal agencies must now select one of four standard application forms from which only enabling legislation or OMB may grant exceptions. Simplification is a major goal of the reporting forms, of which no more than an original and two copies may be required. Since the standard reporting forms allow for only summary fiscal information, federal agencies are encouraged to monitor performance rather than fiscal procedures. Fiscal standards should be met before a grant is awarded and enforced by conducting a federally approved audit at least every two years.

Circular A-102 and later management circulars were issued as part of the federal response to simplify administrative procedures within the overall grant system. Both the “Creative Federalism” under President Johnson and the “New Federalism” of the Nixon Administration brought about a number of executive and legislative efforts to standardize federal management requirements. One of the efforts, the

Chart 1

# HOW FEDERAL GOVERNMENT AWARDS FUNDS



Source: Grants Management Advisory Service.

Federal Assistance Review (FAR) program, initiated the development of Circular A-102 by examining the requirements of 159 federal programs and gathering the opinions of administrators from all levels of government. Four years after Circular A-102 was issued, the Commission examined OMB's efforts to simplify, standardize, and decentralize federal assistance administrators in *Improving Federal Grants Management* (A-53), part of its 14-volume study of the intergovernmental grants system. The ACIR surveys in A-53 found strong support for the uniform requirements among state budget officers, city and county officials, and public interest groups who represent a large percentage of state and local grant recipients. Federal grant administrators were somewhat less supportive but did attribute a number of improvements to the issuance of OMB Circular A-102.<sup>10</sup> Since the publication of *Improving Federal Grants Management*, the Commission has been on record as favoring OMB's efforts to simplify federal grants management and has recommended ways to improve the system. This current study builds on past Commission efforts and monitors the progress made in realizing previous Commission recommendations.

The original OMB Circular A-102 applied to the relatively straightforward relationship between federal and state or federal and local agencies. It did not address in its language, and perhaps not in theory, the federal role in grants that pass through the states to localities. With nearly 20% of all federal grants to states falling into this category, state agency administrators were uncertain if the standard federal requirements applied to subgrantees. In 1977, Circular A-102 was reissued with an amendment that "the attachments shall be applied to subgrantees except where they are specifically excluded."<sup>11</sup> The addition of the pass-through dimension to the A-102 requirements six years after the circular was first issued has led to some confusion in the application of its provisions. For example, many of the A-102 attachments that are intended to pass through the state to the recipient level retain language that suggests they apply only to federal agencies. The major focus of this study, then, is on A-102 as the tool for the fiscal management of federal pass-through funding—a task for which the circular was not originally written, but which it has come to perform.

## **FISCAL PRINCIPLES IN OMB CIRCULAR A-102**

In theory, the requirements issued by the Office of

Management and Budget in Circular A-102 are adopted by all federal agencies either word for word as they appear in the circular or in modified form. In either instance, the requirements in the circulars are infrequently identified by their OMB titles after they are written into departmental regulations or the fiscal guidance of a particular agency or program. State and local governments, to which these requirements are applied, generally have little knowledge of their origin. Consequently, one needs to understand the financial principles in the circular in order to track its implementation.

Essentially, Circular A-102 is a set of management principles that are explained in a series of attachments labeled A-P. Companion Circulars FMC 74-4, *Cost Principles Applicable to Grants and Contracts with State and Local Governments*, and OMB A-73, *Audit of Federal Operations and Programs*, which are referred to in attachments A-P, provide, along with Circular A-102, the framework for managing federal grants.<sup>12</sup> This study is concerned with a number of the requirements in the circular that, according to OMB, are intended to pass through to subrecipients. These requirements include:

- *Attachment C*: retention of records for a period of three years by recipients and subrecipients.
- *Attachment G*:
  - i) financial management standards;
  - ii) minimizing payment schedules to recipients and subrecipients; and
  - iii) audit schedules of federal, state, and local agencies.
- *Attachment H*: financial reporting requirements.
- *Attachment J*: guidelines for determining method of payment (advance, letter of credit, reimbursement) for recipients and subrecipients.
- *Attachment L*: submission of final report and timing of grant closeout procedures.
- *Attachment M*: standard forms for applying for federal assistance.

In addition to these specific requirements, this study examines other management policies or procedures which have resulted in the gathering of additional fiscal information by federal, state, and local



agencies. In this way, the study addresses three fiscal management issues:

1. *What type of information* should be required from a grantee?
2. *How often* and *how many* copies of the information should be submitted?
3. *In what form* should the information be reported?

## RESEARCH QUESTIONS

In undertaking this research project two general questions have been asked about past and present efforts to design and implement a uniform system of financial management for federal assistance programs. *First, given the complexity of the federal grant system, does Circular A-102 meet the diversity of management, information, and accountability needs for grantor and recipient agencies? Second, have the implementation procedures used by the Office of Management and Budget and other federal and state agencies brought about maximum understanding of and compliance with these regulations?*

With the research centered on the adequacy of Circular A-102 and the process of implementation, Commission staff proceeded to identify appropriate issue areas in which to ask specific questions. After formal consultation with professionals in the field of fiscal management<sup>13</sup> and a review of the pertinent literature, four issue areas were chosen: authority and clarity, information, communication, and enforcement/compliance.

By *authority*, we mean the legal standing of the circular vis-a-vis other federal regulations and in relation to state and local statutes.

1. What authority does Circular A-102 carry in relationship to other federal, state, or local statutes and administrative practices?
2. Do the requirements in Circular A-102 represent the only standards for the financial management of federal pass-through grants, or may agencies add requirements at their discretion?
3. What are the implications for standardizing financial requirements if the above questions are resolved?

By *clarity*, we mean the degree to which the language of the circular conveys the meaning of specific requirements to the administrators who must

comply with them, particularly those requirements that pass through.

1. Is OMB Circular A-102 clear concerning which requirements are intended to pass through and to what extent they are applicable?
2. Does the terminology in the circular adequately convey the intent and meaning of the specific requirements?

By *information*, we mean the issuance, adoption, and explanation of OMB Circular A-102 as part of the guidance of federal and state agencies and the extent to which administrators understand the content of this guidance.

1. Who takes primary responsibility for incorporating OMB Circular A-102 into written guidance?
2. Are the provisions in the circular explained clearly enough to be followed?
3. Is there uniformity in the content and format of the guidance issued by federal, state, and local agencies to incorporate the provisions from A-102?
4. Is there a need to request additional fiscal information other than that required in A-102? If so, why?
5. Do the agencies inform recipients of those financial requirements they are required to pass on? If so, how?
6. Are the fiscal requirements in A-102 or agency guidance manuals incorporating A-102 clearly understood by recipients and subrecipients?

By *communication*, we mean the process by which A-102 is implemented, including the degree of coordination that exists intergovernmentally to implement the circular, the timeliness with which written guidance is received, and the extent to which technical assistance is available to recipients and subrecipients of federal grant awards.

1. Is there coordination between the legislative and executive branches and agencies in the implementation of A-102?
2. Is there uniformity in the process by which federal, state, and local agencies incorporate fiscal requirements?
3. Who is the primary source of information for recipients and subrecipients on financial requirements that apply to a specific grant? What written guidance is most referred to by recipients and subrecipients to administer a grant?

4. Are fiscal guidance and updates or changes to fiscal guidance received in a timely fashion? If not, what are the major reasons for delay?
5. Do recipients and subrecipients have access to fiscal guidance, including OMB Circular A-102 and agency manuals?
6. What kind of technical assistance is available to help understand fiscal requirements? Is this assistance satisfactory?

By *enforcement and compliance*, we mean the extent to which federal, state, and local agencies must adhere to the provisions of the circular and the degree to which present enforcement and compliance procedures are viewed as satisfactory by federal, state, and local officials.

1. How is compliance measured?
2. What are the various methods used by federal, state, and local agencies to ensure compliance? Are the methods used similar?
3. Are agencies satisfied with present enforcement procedures and practices?
4. Are enforcement practices and procedures either excessive or insufficient to ensure compliance?
5. Are additional enforcement or compliance provisions created as a result of state or local statutes and administrative procedures that conflict with OMB Circular A-102?
6. Are sufficient resources available to enforce and/or comply with fiscal requirements?

## METHODOLOGY

Because of financial, time, and resource constraints, our research consisted of case studies of a small number of federal pass-through programs and states. In establishing the criteria for our sample, the principle consideration was to select a representative group of states and programs to allow for the generalization of our findings, conclusions, and recommendations. The programs selected were:

- Special Program for the Aging—Title III, Parts A and B—“Grants for State and Community Programs on Aging.”
- Outdoor Recreation—Acquisition, Development, and Planning (The Land and Water Conservation Fund—LAWCON).
- Civil Defense—State and Local Management.<sup>14</sup>

Because the objective is to make comparisons about the degree and type of financial standardization that exists at the federal, state, and substate levels of government, the programs selected need to share a number of the same characteristics. To ensure that the programs are similar enough in their general applicability and administrative procedures at the federal level, subject to the same general treatment at the state level, and have been in existence long enough to provide information on which to track A-102, each program selected satisfies the following criteria:

1. Circular A-102 clearly applies and has been implemented by the federal agency.
2. Federal funds pass through state agencies to localities.
3. The program is funded in all 50 states.
4. Annual appropriations exceed \$35 million (among the top 25% of federal programs in terms of annual funding).
5. The program has been in existence at least three years.

In addition, programs were sought that represent, to some degree, differences in the type and purpose of assistance provided. With an annual authorization of \$220 million, Title III provides social services for elderly by passing funds from the state through federally mandated area agencies to the local level. The Outdoor Recreation program is known also as the Land and Water Conservation Fund—the 39th largest federal grant, authorized at \$300 million annually. It is primarily a land acquisition and park development program over which the states have considerable discretion. The Civil Defense program provides \$37 million annually to the states to fund local planning and administrative support for Civil Defense and Emergency Preparedness offices. The last two programs require a 50% local match, while Title III has state and local matching requirements and in-kind contributions.

Two general guidelines influenced selection of the states to be examined: the availability of information and diversity in the tracking and fiscal management of federal funds. Because of the nature of our research, states were selected that have undertaken some effort to improve the state system of management and that expressed a willingness to share information and ideas. The States of Massachusetts, Virginia, and Wisconsin were selected on the basis of the following criteria:

- a) geography (fiscal constraints limited selection to states east of the Mississippi);
- b) size;
- c) the amount of control exercised by the state legislature or the Governor over federal grant funds;
- d) the degree of state involvement in local fiscal management; and
- e) the percentage of metropolitan and rural residents.

The sample based upon these criteria enabled us to generalize the results of the research data to other states. While the states selected represent the Midwest, New England, and the South, and are moderate in size, they range from 63% to 86% in urban population.<sup>15</sup> Virginia's highly centralized accounting, auditing, and reporting system contrasts with the greater local fiscal autonomy that exists in Wisconsin and Massachusetts.

The choice of communities was guided by many of the same considerations given to selecting the states. Within the three states, we compared grant administration in urban areas like Milwaukee, WI; Norfolk, VA; and Cambridge, MA; to towns and rural areas like Shawano County, WI; Charlottesville, VA; and Northampton, MA. Because different agencies of the various levels of government in each state administer the programs selected, a representative sample of cities, counties, towns and nonprofit organizations are included in the study. In Wisconsin, counties are heavily involved in administering grants; in Massachusetts, the 351 cities and towns provide almost all local services; in Virginia, cities and counties are entirely separate and so provide essentially the same

services. Subgrantees of county and local governments in Wisconsin and Virginia for Title III funds were generally local nonprofit organizations.

Personal interviews were conducted with a policy and fiscal person in the state, local, areawide, and district agency for each of the programs selected in three different regions of each state sampled. This included an initial group interview in each state with representatives of the legislature, budget office, audit department, and the federal relations office or its equivalent. Interviews in Washington were also conducted with the federal agency office responsible for issuing program and fiscal instructions for each of the three programs, as well as with officials of OMB's Financial Management Branch. Approximately 54 interviews were conducted, using teams of two ACIR staff members. The names and positions of all persons interviewed are listed in *Appendix I*. Approximately 45 questions were asked in each interview, directed at verifying information on the pass through of specific provisions selected from Circular A-102 or obtaining information about the more general issues affecting the type and quality of fiscal management under the grant.

An analysis of the responses gathered during these interviews appears in the following chapters. This analysis supports the study's findings and conclusions concerning the feasibility of standardizing federal fiscal requirements. Before a discussion of the specific issues, however, it is important to understand the general approach that each of the states selected for this study takes towards the fiscal management of federal funds, and the differences and similarities in how the sample programs are organized and administered in the three states.

## FOOTNOTES

<sup>1</sup> Advisory Commission on Intergovernmental Relations, "Streamlining Federal Assistance Administration," final report to the President, Washington, DC, ACIR, December 1978, pp. 1-9.

<sup>2</sup> *Federal Register*, OMB Circular A-102, Washington, DC, U.S. Government Printing Office, September 12, 1977.

<sup>3</sup> ACIR, *Recent Trends in Federal and State Aid to Local Governments*, M-118, Washington, DC, U.S. Government Printing Office, July 1980, Table 10.

<sup>4</sup> Chart developed by the Grants Management Advisory Service of Washington, DC.

<sup>5</sup> OMB Circular A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, Uniform Administrative Requirements" is the companion circular to A-102 for recipients other than state and local governments and federally recognized Indian tribes. Other parallel circulars exist for cost principles and audit standards.

<sup>6</sup> *Federal Register*, p. 45828.

<sup>7</sup> Interview with Jonathan Breul, grant and policy specialist, Division of Grants Policy and Regulation, Department of Health and Human Services, Washington, DC, April 1980.

<sup>8</sup> ACIR, *Improving Federal Grants Management*, A-53, Washington, DC, U.S. Government Printing Office, February 1977, p.106.

<sup>9</sup> *Ibid.*

<sup>10</sup> ACIR, A-53, pp. 111-19.

<sup>11</sup> *Federal Register*, p. 45828.

<sup>12</sup> *Federal Register*, General Services Administration, FMC Circular 74-4, Washington, DC, U.S. Government Printing Office, July 18, 1974. OMB Circular A-73, Washington, DC, U.S. Government Printing Office, September 27, 1973.

<sup>13</sup> The four issue areas used in this study were identified by participants in ACIR's thinkers session on December 3, 1979. Those in attendance are listed in *Appendix I*.

<sup>14</sup> A. Special Programs for the Aging—Title III, Parts A and B—Grants for State and Community Programs on Aging (*Older*

*Americans Act of 1965), 42 USC 3021-25.*

- B. Outdoor Recreation—Acquisition, Development, and Planning (*Land and Water Conservation Fund Act of 1965), 16 USC 1-4.*
- C. Civil Defense—State and Local Management (*Federal*

*Civil Defense Act of 1950), 50 USC 2251-97.*

- <sup>13</sup> Bureau of Census, U.S. Department of Commerce, *Characteristics of the Population 1970*, Vol. 1, Part I, Section 1, Washington, DC, U.S. Government Printing Office, June 1973, p. 32.

# Overview of States and Programs

**T**his chapter examines the states and programs selected for this study. An overview of state fiscal management in Virginia, Wisconsin, and Massachusetts is followed by a summary of the purpose and organization of the Civil Defense, Outdoor Recreation, and Title III programs. The information in this chapter is intended to provide a framework for understanding the more detailed discussion of our findings and to illustrate that the programs and states selected for this study are generally representative of the administration of pass-through grants in all states.

In order to provide an overview of state fiscal management policies, and to compare the administrative procedures of the three states, discussion focuses on application procedures, the appropriation process, tracking of federal funds, and local accounting and auditing requirements.<sup>1</sup>

## STATES

### Virginia

Virginia has a system of executive and legislative checks and balances through which federal funds must be applied for and appropriated. By law, state agency grant applications must be approved by the Governor's office before they are submitted and federal funds must be appropriated by the state legislature. The Governor presently has the authority to approve the acceptance of federal grants made between biennial budgets.

## APPLICATIONS

When research was being conducted for this study, the Virginia Appropriation Act required all state agencies to receive prior written approval of the Governor's office before applying for a federal grant. Acting on behalf of the Governor, the department of planning and budget approved or disapproved agency applications on the basis of fiscal and program guidelines established for the executive budget. Inclusion in the budget indicated that the Governor's approval had been given.

Since July 1, 1980, the grant application process has been decentralized. Agencies are expected to more accurately estimate federal revenues in the biennial appropriations act. If an agency is included in this act, the agency may solicit, accept, and expend up to 110% of the appropriated amounts, before obtaining the Governor's permission to spend more. State agencies are also required to submit notification of intent forms to the department of intergovernmental affairs, the state-designated review agency established by OMB Circular A-95.

## APPROPRIATIONS

The Virginia General Assembly has the constitutional authority to appropriate all funds received by the state. In approving the biennial state budget, the general assembly appropriates all federal funds, generally to the subprogram level, and all state matching funds. Federal grants that are awarded during the legislative interim are reviewed and authorized by the Governor through the executive department of planning and budget. Quarterly reports of the Governor's fiscal actions are submitted to the general assembly, but are not subject to its approval.

## TRACKING OF FEDERAL FUNDS

Virginia has a number of tracking systems to monitor the awarding and spending of federal funds. After concluding that more than \$247 million (20%) of the federal grants made to Virginia in 1978 were not appropriated by the general assembly,<sup>2</sup> the joint legislative audit and review committee (JLARC) suggested many improvements in the existing system as well as the development of several new ones. Many agencies were found to withhold grant award information until after the biennial budget had been ap-

proved, because of greater agency discretion over funds approved by the Governor's Office during the legislative interim.

Federal efforts are underway to improve the notification system, and Virginia has been one of the states participating in the Federal Assistance Award Data System (FAADS) project, OMB's computerized system of updating notification of federal awards to states. The state has also designed the following systems, which are currently in operation, to track federal funding for both state agencies and financial committees of the general assembly.

The Commonwealth Accounting and Reporting System (CARS) is designed to track over 90% of federal money received by state agencies according to the numbering in the *Catalogue of Federal Domestic Assistance*. Monthly reports provide information on appropriations, allotments, expenditures, and revenues. The Personnel Management Information System (PMIS) tracks all state agency positions created by federal funding. A program and budgeting system (PRO/BUD) is being developed to outline the use and effectiveness of federal funds over 6-year cycles.

## ACCOUNTING AND AUDITING PROCEDURES

The auditor of public accounts is required by state law to compile annual comparative cost figures from all cities and counties. Since July 1, 1980, all Virginia counties have been required to report comparative costs on an accrual basis. Cities over 3,500 must comply with this requirement by July 1, 1982. While jurisdictions do not have to establish an accrual bookkeeping system, the state auditor's office strongly recommends such a system and has provided a detailed manual for establishment of accrual accounting. All systems must meet generally accepted accounting procedures. The auditor of public accounts either conducts or requires annual audits of cities receiving state funds. Most counties are audited annually by the auditor of public accounts or by a state-approved CPA.

## Massachusetts

Fiscal management in Massachusetts is greatly influenced by the competing interests of the executive, legislative, and agency branches. While the state legislature has some authority to approve federal grant applications, it does not appropriate federal

funds once an award is made. The Governor's budget includes estimates of federal income, but these figures are for informational purposes only. The traditional rivalry between branches of government has prevented the development of a comprehensive system for fiscal information and control.

## **APPLICATIONS**

State agencies have considerable discretion in seeking out and applying for federal grant awards, although the joint committee on ways and means has binding authority to approve or disapprove applications exceeding \$1 million annually. Summary information on grant applications is also submitted to the budget office of the executive office of administration and finance by all state agencies applying for federal grants. The executive branch has no statutory authority to approve or disapprove federal awards once they are made.

## **APPROPRIATIONS**

While the house and senate ways and means committee must approve agency applications over \$1 million, neither the legislature nor any of its committees has the authority to appropriate federal funds. The annual executive budget includes estimates of federal income for the current and upcoming fiscal years, but for informational purposes only. The current state budget director is expanding the state budget to focus on possible future obligations when the state accepts federal funds.

## **TRACKING OF FEDERAL FUNDS**

Although the state budget office has a manual tracking system of all agency grant applications, it must depend on the treasury department for federally required "notification of awards." The budget director describes this process as inaccurate and incomplete, but currently the executive branch has no alternative.<sup>3</sup> The state legislature tracks awards through the Federal Grant Inventory (FGI) survey that depends on state agencies providing award information voluntarily.

## **ACCOUNTING AND AUDITING PROCEDURES**

The state director of accounts prescribes a uniform system of accounting and auditing for all municipi-

ties, counties, and townships. The State of Massachusetts also requires annual municipal audits that are conducted or reviewed by the director of accounts, department of corporations and taxation.

## **Wisconsin**

As in Virginia, the Governor and legislature in Wisconsin divide the responsibilities for approving applications and appropriating federal funds. Tracking of federal awards is done through the state A-95 agency. Because of the tradition of strong local government in Wisconsin, the state is far less involved in local finance than are the other two states. Cooperation between executive and legislative leadership at the state level falls midway between the tightly structured system in Virginia and the autonomy found in Massachusetts. The state legislature in Wisconsin is divided between the senate and the assembly.

## **APPLICATIONS**

By statute, the Governor must approve all applications for federal grants by state agencies. Grant applications are submitted to the Department of Administration where agency requests are measured against the statutory responsibilities assigned to the agency and the Governor's budget priorities. After examination by the department of administration's policy and planning personnel, a grant application is approved or disapproved. The speaker of the assembly is given copies of the state agency A-95 forms but legislative involvement with applications has been limited to an informal comment procedure.

## **APPROPRIATIONS**

The biennial budget is issued by the division of state executive budget and planning, department of administration. Agency estimates of federal grants for the next biennium are broken out in various degrees of detail. Although the legislature has the authority to appropriate federal funds, the 2-year budget cycle allows for only the broadest estimates of anticipated federal revenues by state agencies. While the legislature appropriates "all money received," there is often no detailed information on proposed funding, and analysis of present and future appropriations occurs principally when the legislature re-

quests it. During the legislative interim, the Governor appropriates federal grant awards, but the legislature's joint committee on finance must appropriate any state matching funds. Disapproval of the state match effectively blocks the federal award.

## **TRACKING OF FEDERAL FUNDS**

The legislature relies on the federal A-95 notification procedures to learn of federal awards to state agencies. The department of administration distributes quarterly reports of federal income and expenditures broken down according to project classification. Since there is no intensive legislative or executive oversight of federal grants, tracking is not a priority.

## **ACCOUNTING AND AUDITING PROCEDURES**

While uniform reporting is required of all counties and municipalities, the state does not require post audits or mandate uniform local accounting systems. The bureau of municipal audit, department of revenue, provides auditing and accounting services at the request of local governments. A number of state agencies maintain an audit staff to meet federal or state aid requirements. As an example, the state department of health and social services audits many county social service programs.

## **PROGRAMS<sup>4</sup>**

### **Title III Grants for State and Community Programs**

In 1965 the *Older Americans Act* was enacted "to assist states and local communities to develop comprehensive and coordinated systems for the delivery of services to older persons."<sup>5</sup> In 1978, the act was amended to consolidate under Title III the activities of social services, nutrition services, and multipurpose senior centers. Annual appropriations of \$220 million are distributed to all states, territories, and the District of Columbia on a formula basis. At the federal level the program is administered by the Administration on Aging, Office of Human Development Services, Department of Health and Human Services.

Title III legislation establishes how the program is

to be administered at the state and substate level. Funds are awarded for the purpose of planning and providing services through a central state agency on aging and a network of substate area agencies. The state agency is required to submit a comprehensive 3-year plan based on plans submitted by the area agencies. During the 3-year cycle, annual updates are required from both the state agency and area agencies. A match of 10% to 25% in cash or in-kind services is required of state and area agencies receiving Title III funds. The federal legislation sets two other conditions for Title III expenditures at the area agency level: (1) administrative costs may not exceed 8.5% of the total grant and (2) at least 50% of an area agency's annual funding must be spent on access services, in-home services, or legal services.

While the state Title III office is strictly an administrative office, area agencies provide services directly, or more frequently, "subcontract" for elderly services. Within each state, area agencies are set up to serve approximately the same number of clients. For funding purposes, service areas coincide with city or county boundaries, although the concentration of elderly determines whether or not one or more jurisdictions is served. Area agencies frequently provide the following services: transportation for the elderly, legal services, congregate meals, home delivered meals, senior center facilities, and homemaker and home health aid services. State Title III agencies receive federal funding through a letter of credit arrangement approved annually by the Administration on Aging. Area agencies receive an advance at the beginning of each fiscal year and submit monthly requests for reimbursement of expenditures.

Federal regulations covering Title III funds are provided to state agencies in the *Administration of Grants* regulations (45 CFR 74), issued by the Department of Health and Human Services, and in the newly issued regulations from the Administration on Aging, *Grants for State and Community Programs on Aging*.<sup>6</sup> State agencies are not required to follow the standard application procedures, since Title III is a formula grant, but monthly fiscal and quarterly fiscal and program reports must be submitted to the federal agency.

Title III is the most complex of the three programs examined because of the organizational structure and priority spending levels established in the enabling legislation. While Civil Defense and LAWCON funds are subgranted from state agencies to local governments, Title III funds frequently pass through three or four subgrantees before reaching the service



provider. In a number of instances, this study tracked federal funds through the federal agency, state agency, area agency, and county agency before reaching a nonprofit service provider.

## **Land and Water Conservation Fund Grants**

The Land and Water Conservation Fund Grants (LAWCON) program provides federal funds for planning, acquisition and development of outdoor recreation areas and facilities. At the federal level the program is administered by the Heritage Conservation and Recreation Service (HCRS), an agency within the Department of the Interior. Approximately \$300 million is distributed annually among the 50 states, the District of Columbia, and the territories, according to a formula based primarily on population and need. A central state agency designated by the Governor uses part of the funding to prepare the federally required State Comprehensive Outdoor Recreation Plan (SCORP), and the remainder is distributed through project grants for state and local activities.

Decisions to fund local projects are based on the priorities established in the state plan and on the ability of communities to provide the 50% local share that is required. While most projects are local, states may participate in the LAWCON program by providing the required 50% match for eligible projects. Frequently, funded projects include the acquisition and the construction of campgrounds, picnic areas, inner city parks, tennis courts, bike trails, and support facilities such as roads and water supplies. Approved funding must be obligated over a 3-year period and projects must be completed within five years. All facilities must be open to the public and not limited to special groups.

State agencies to which LAWCON funds are allocated receive a grants manual from HCRS that sets forth the purposes, procedures, requirements, and forms associated with the program. The LAWCON grant does not require submission of federal monthly or quarterly reports. State agencies are required to submit an annual report assessing program goals and the progress made towards completion of individual projects. Most state agencies receive federal payments through the use of a letter of credit by which funds are withdrawn from regional disbursing centers by submitting a single page U.S. Treasury Department form. Most local recipients of LAWCON funds pay for the entire cost of an acquisition

or construction project before submitting a request, supported with source documentation, for a 50% reimbursement from the state agency. In some cases, particularly for large acquisition projects, state agencies will advance funds to local participants.

## **Civil Defense Personnel and Administration Grants**

The Personnel and Administration Grants for Civil Defense are allocated on a formula basis to "develop effective civil defense organizations in the states and their political subdivisions." The annual \$37 million appropriation is administered at the federal level by the Defense Civil Preparedness Agency that recently has been transferred from the Department of Defense to the Federal Emergency Management Agency (FEMA).

The Governor of each state designates an appropriate state agency to draw up the federally required State Civil Defense Plan (CDP) and to subgrant funds to participating jurisdictions. Local participants apply for funding on a competitive basis and must supply 50% of the program's cost. A local plan that becomes an integral part of the state plan is a principle requirement for grant eligibility. Most communities use personnel and administration funds to prepare for tornadoes, floods and other natural disasters, as well as plans to deal with an enemy attack. Actual expenses at the state and local level are used primarily for personnel, office space, telephone, and travel.

State Civil Defense agencies in this study receive federal funding by a letter of credit approved annually by FEMA. In most states, localities receive quarterly reimbursement checks from the state office after submitting the required forms and copies of source documentation.

All recipients of personnel and administration grants receive the federal manual, *CPG 1-3*, from the Civil Defense Office of FEMA. Only this program, of the three examined, has designed a guidance manual in which both state and local grant recipients use the same guidelines and forms to satisfy federal requirements.

Since the feasibility of standardizing federal requirements is a major focus of this study, the uniformity of state and local Civil Defense procedures is of particular interest. Because this grant is distributed on a formula basis, the standard federal application forms are not required. Most communities that receive Civil Defense funding simply renew their grant

for the following year by submitting an update of the local plan, a proposed budget for the year including

verification of required local funding, and a personnel sheet listing local staff.

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## FOOTNOTES

- <sup>1</sup> Information on the three states selected for this study was compiled from interviews with state legislative and executive branch officials (see *Appendix I*), and from the following documents; National Conference of State Legislatures, *A Legislator's Guide to Oversight of Federal Funds*, NCSL, Denver, CO, June 1980; NCSL and Municipal Finance Officers Association, *Watching and Counting*, Chicago, IL, MFOA, October 1977; and ACIR, "State Regulation of Local Accounting, Auditing, and Financial Reporting," Model Legislation No. 4.101, Washington, DC, US Government Printing Office, Summer 1978.
- <sup>2</sup> Joint Legislative Audit and Review Commission, *Special Study: Federal Funds*, interim report, Richmond, VA, Commonwealth

of Virginia, December 1979, p. iii.

- <sup>3</sup> Interview with George Hertz, state budget director, Boston, MA, March 1980.
- <sup>4</sup> Information on the three programs selected for this study has been compiled from interviews with federal administrators, from federal agency program manuals, and from Office of Management and Budget, *Catalogue of Federal Domestic Assistance*, Washington, DC, U.S. Government Printing Office, 1979. Program numbers are Civil Defense—12.315, Title III—13.633, and LAWCON—15.400.
- <sup>5</sup> *Federal Register*, Department of Health, Education, and Welfare, "Grants for State and Community Programs on Aging," Washington, DC, U.S. Government Printing Office, March 31, 1980.
- <sup>6</sup> *Ibid.*

## Findings and Conclusions

**D**uring the interviews for this study conducted with federal, state, and local officials, specific questions were asked pertaining to the *authority and clarity* of OMB Circular A-102, the fiscal *information* provided in agency guidance manuals, the quality and extent of *communication* between grantor and grantee agencies, and *enforcement and compliance* procedures used by all agencies to ensure fiscal responsibility. The answers to those questions are summarized in this chapter. Major findings are highlighted in each issue area followed by reference to the interviews which support the findings.<sup>1</sup> Specific conclusions follow the findings in each issue area, with the last section of this chapter devoted to major conclusions concerning the feasibility of standardizing fiscal requirements and the extent to which uniform management practices can be realized.

### FINDINGS:

#### AUTHORITY AND CLARITY

Virtually every issue examined in this study is influenced by the legal authority of the circular. When the circular was originally issued in 1971, the authority issue centered on OMB's right to establish uniform requirements that federal agencies could not exceed. In 1977, a number of these standards were extended to all subgrants made with federal funds, shifting the

focus to whether or not federal regulations that pass through take precedence over state and local statutes. The authority and pass-through issues are interdependent, and in this section the problems encountered at each level of government where the circular applies are analyzed. Resolution of these issues largely influences findings in the areas of information, communication, and compliance/enforcement. It is necessary to begin by examining the adequacy of the circular in providing clear and consistent information on what legal authority it carries in relationship to other federal and nonfederal laws.

**1. The legal authority of Circular A-102 is unresolved even within the Office of Management and Budget. Agencies have implemented the circular in various ways because there has been no authoritative determination concerning if and when federal regulations take precedence over state and local statutes.**

The authority for the Office of Management and Budget to establish principles for the financial management of federal assistance is traced to the constitutional powers of the executive branch, the *Budget and Accounting Act of 1921*, and other federal statutes.<sup>2</sup> Issued as federal circulars by OMB, these principles become the basis for the departmental and agency regulations to which they apply.

According to Circular A-102, the legal basis for issuing these specific regulations is found, in part, in the *Intergovernmental Cooperation Act of 1968* which outlines policies for "administrative requirements to be imposed on states as a condition to receiving federal grants."<sup>3</sup> Whether or not these requirements take precedence over all nonfederal statutes is not resolved in the circular, and has brought mixed responses within OMB. The OMB General Counsel's Office is of the opinion that the federal government may not restrict state statutes that exceed but do not contradict federal requirements.<sup>4</sup> Officials in the Financial Management Branch of OMB maintain that many of the provisions of the circular represent the only standards allowable in managing federal grants.<sup>5</sup>

Just as OMB has the legal power to establish principles with which federal agencies must comply, these agencies have the authority to impose federal "terms and conditions" in making grants to state and local governments. The courts have ruled that federal minimum requirements are not coercive since state and local governments are free to accept or reject the grants to which the requirements are attached.<sup>6</sup> The

"authority" problem for federal agencies is in clarifying the relationship between the "terms and conditions" that pass through and the existing statutes and procedures of state and local governments. Federal agencies have not resolved the issue because the circular does not clearly address the problem, and OMB has not taken a formal position on its interpretation.

In the absence of a definitive ruling from OMB, federal administrative requirements are being interpreted as the minimum standards for pass-through funding by some agencies and as the only standards by other agencies. The current grants manual for the Land and Water Conservation programs states under *General Responsibility* in the "Administration" section:

The bureau believes its primary role in project administration to be concerned with results, leaving to the states the determination of means to achieve these results. Thus, the rules established in this part are minimal, being limited to those considered necessary for the bureau to fulfill its obligations.<sup>7</sup>

However, HEW (now HHS), in amending the *Administration of Grants* regulations (45 CFR 74) on August 2, 1978, considers and rejects the above position.

HEW's proposed amendments intentionally did not require states and other grantees to administer subgrants strictly in accordance with the same standards that federal agencies follow in administering grants. To do so, HEW felt, would be an unwarranted intrusion into the affairs of state and other grantees. . . .

After extensive consultation with OMB on this important and difficult issue, HEW concluded that the comment was valid. [Note: an earlier comment stated that "the interest of subgrantees lies in having the same rights as do grantees."] Therefore, these amendments have been changed to apply the OMB standards to the administration of subgrants, with only those few exceptions that were intended by OMB.<sup>8</sup>

The lack of any clear policy determining the authority of federal agencies to pass through the provisions of Circular A-102 has far-reaching administrative consequences for recipients and subrecipients of pass-through grants. This problem is compounded by

unclear and vague language in the wording of the circular.

**2. The circular is not clear as to which federal requirements must pass through to subgrantees. Although the revised circular is intended to cover grants at all levels of government, a number of the provisions retain language that applies only to federal agencies. In addition, the circular does not specify which set of requirements applies when federal funds are subgranted from the public to the nonprofit sector or back again.**

The authority issue would remain largely academic were it not for the federal requirements that are intended to pass through. When federal funds are passed through, there are three ways that state agencies may apply federal administrative requirements to subrecipients. (See *Figure 1.*) First, state agencies may apply federal standards only to federal pass-through funds, regardless of existing state statutes and administrative requirements. Second, state agencies may apply all federal requirements to pass-through funds, as well as any state statutes and administrative requirements that exceed or complement federal standards. Third, state agencies may pass through federal funds without imposing any of the standards required of them by federal agencies, relying instead on existing state statutes and administrative requirements to manage subgrants.

Currently, uneven implementation persists because no clear determination has been made in the language of Circular A-102 concerning what the federal/state authority relationship should be. The September 12, 1977, revision of Circular A-102 states that "except where they are excluded, the provisions of the attachments of this circular shall be applied to subgrantees performing substantive work under grants that are passed through or awarded by the primary grantee if such subgrantees are states, local governments or federally recognized Indian tribal governments. . . ." This statement appears to establish firmly the passing through of all federal requirements as often as the funds are subgranted to units of government. When one reads the entire circular the meaning is no longer clear because the intention that the requirements apply to grantees and subgrantees is not reflected in the language or the individual provisions. The following examples illustrate how the body of the circular continues to read as if it was intended only for federal agencies. Most of the individual requirements are conditioned in terms of

what federal agencies may and may not do in relation to state and local governments.

*Retention of Records*—Federal grantor agencies shall not impose any record retention requirements upon the grantees other than those described. . . .

*Procurement Standards*—No additional requirements shall be imposed by the federal agencies upon the grantees unless specifically required by federal law or executive orders.

*Budget Revision Procedures*—This attachment sets forth criteria and procedures to be followed by federal grantor agencies in requiring grantees to report deviations from the budget.<sup>10</sup>

This problem is further compounded when it is necessary to refer to several parts of the circular to understand the intent of a particular requirement. In order to determine when a specific method of payment should be passed through, one must review Attachments G and J, A-102. With only a general statement at the beginning of the circular applying the provisions to all subgrantees, it is difficult to sort out to what extent the provisions in each of these statements apply to subgrantees. For example, Attachment G states:

With advances made by letter of credit method, the grantee shall make drawdowns from the U.S. Treasury as close as possible to the time of making disbursements. Advances made by primary recipient organizations [those who receive payments directly from the federal government] to secondary recipients shall conform to the same standards of timing and amount as apply to advances by federal agencies to primary recipient organizations.<sup>11</sup>

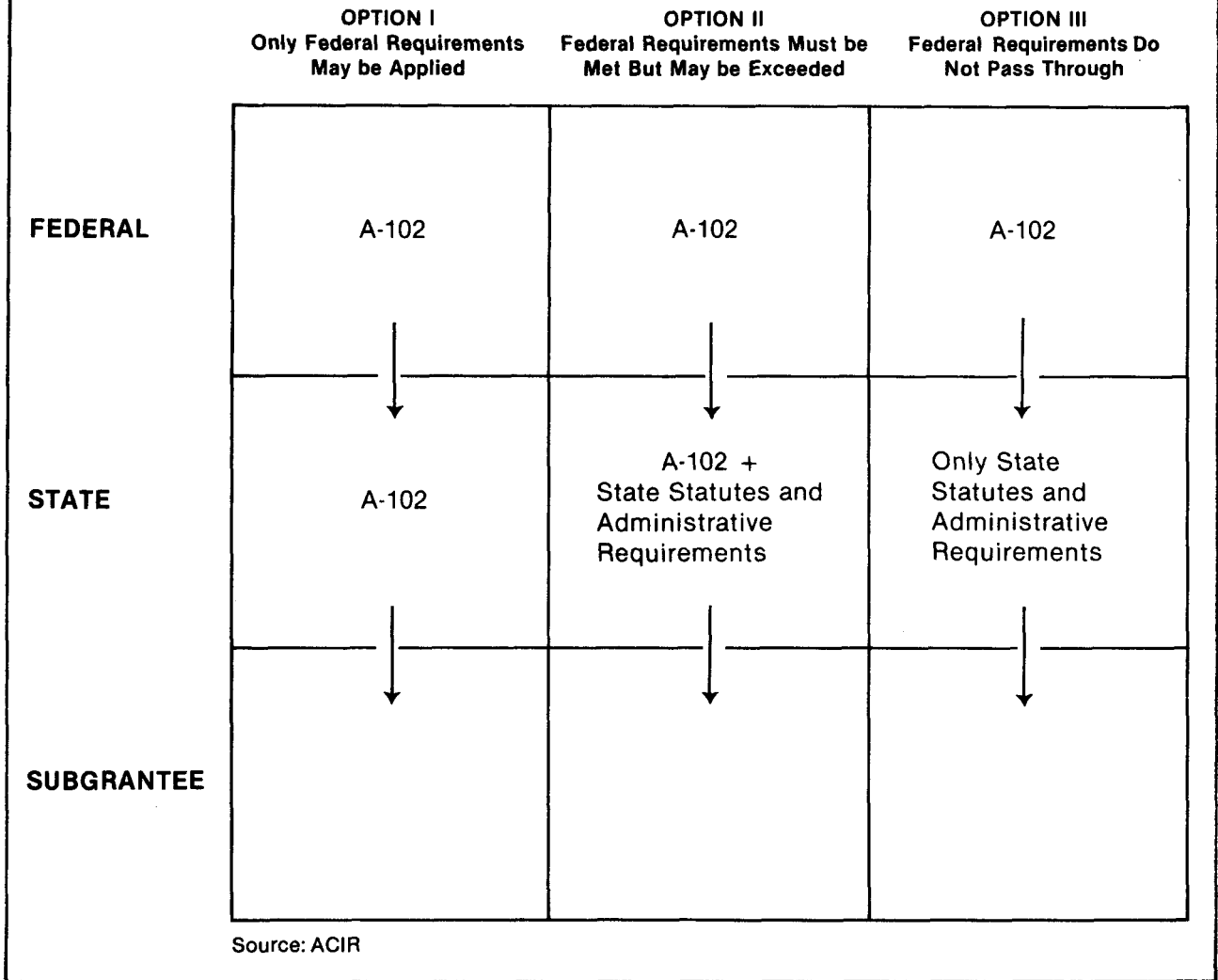
Attachment J4 states:

The method of advancing funds by Treasury check shall be used, in accordance with the provisions of Treasury Circular 1075, when the grantee meets all of the requirements specified in paragraph 3 above except those in 3a.<sup>12</sup>

How do these separate provisions pass through to

Figure 1

## HOW DO FEDERAL REQUIREMENTS PASS THROUGH?



subrecipients? Are primary recipients required to establish a method for advance payment to subrecipients according to the requirements in Treasury Circular (TC) 1075? If the primary recipient is supposed to make drawdowns from the U.S. Treasury as close as possible to the time of disbursement, is the primary recipient required to set up a similar system for subgrantees at the state level according to the provisions in TC 1075? It is left up to the individual federal and/or state agency's discretion to obtain the information referred to in the circular and sort out what the provisions mean and how they apply. Inevitably this results in varying and inconsistent interpretations. As the circular is adopted into federal

agency guidance, its individual requirements are spaced even further apart. Without a pass-through clause written into the provisions themselves, they read as if they do not pass through.

In rewriting the *Administration of Grants (45 CFR 74)*, HEW resolved the clarity issue by inserting appropriate terminology when a provision was intended for subgrantees:

Use of the term "recipient". . . in a provision shall be taken as referring equally to grantees and subgrantees. Similarly, use of the term "awarding party" . . . shall be taken as referring equally to granting agencies and to grantees awarding subgrants.<sup>13</sup>

Figure 2

## ACCOUNTABILITY REQUIREMENTS

### ORIGINAL CIRCULAR

#### Federal Agency

A-102 limits fiscal information.



#### State Agency

No limits on agency requirements or documentation; only federal management and audit requirements pass through.



#### Subgrantee

No limits on requirements that subgrantee may add to those imposed by state; only federal management and audit requirements pass through.



#### Recipient

Responsible for source documentation outlined in federal management and audit standards as well as any requirements imposed by state or substate grantor agencies.

### REVISED CIRCULAR

#### State Agency

A-102 limits fiscal information.



#### State Agency

A-102 limits fiscal information.



#### Subgrantee

A-102 limits fiscal information.



#### Recipient

Responsible for source documentation outlined in federal management and audit standards; required to provide only summary information to grantor agency.

The conflict between the intention of the current pass-through requirement and the language of the specific attachments may be traced to the original circular. The original version of *Uniform Administrative Requirements* applied only to "federal agencies responsible for administering programs that involve grants to state and local governments."<sup>14</sup> When the "applicability and scope" of the circular were extended in 1977, to include subgrantees, the individual attachments were not rewritten to reflect this change.

### Summary

An unclear explanation of the degree of authority Circular A-102 carries in relation to state and local statutes and a lack of clarity concerning the extent to which specific provisions in the circular are supposed to pass through results in uneven and fragmented administration of pass-through grants. There is inconsistent use and application of the principles and requirements in the circular by grants managers at all levels of government.

## INFORMATION

The information section examines the content of federal and state guidance and the degree to which the A-102 requirements have been incorporated. Agencies at all levels of government were asked whether additional requirements occurred and whether they were necessary. Federal, state, and local agencies were asked about their understanding of the fiscal requirements, the quality of the information received, and the degree of uniformity with which they gathered required information. Findings are presented in three major areas: add-ons, clarity of guidance, and diversity of forms.

**3. Add-on requirements occur in the guidance issued by federal, state, and substate agencies and involve both fiscal and program information. Federal agency add-ons occur when Congress requests additional information or when there are divergent or inconsistent interpretations of requirements in Circular A-102. Additional nonfederal fiscal requirements occur most often as a result of state and local statutes or an agency's belief that the financial responsibility assigned by the federal agency justifies more documentation. The circular exerts little control over program requirements which are regarded as excessive by reporting agencies at all levels of government.**

### ADD-ONS

One of the major purposes of this study is to locate the sources of add-on requirements. The conclusions reached by the ACIR Federal Assistance Monitoring Panel indicate that while add-ons do occur, there is no consensus as to their origin.<sup>15</sup> Our research, however, suggests that the occurrence and effect of add-on requirements is broadly based, that add-on requirements appear in the guidance issued by federal, state, and substate agencies, and involve both fiscal and program information. Whether or not they represent violations of the spirit or the letter of the regulations in Circular A-102 depends largely on one's understanding of the authority and pass-through issues described in the previous section.

Following are a number of cases in which agencies are gathering more detailed or more frequent fiscal information than is outlined in the circular. Not all of the requirements violate the mandate of the circular and many are seen to be valid and essential by the agency imposing them. In examining where and

why add-ons occur, this study attempts to distinguish between those that cause excessive paperwork and duplication of effort and those that serve a valid purpose.

### Federal

The Civil Defense Planning and Administration grants manual was first issued in 1958. While most of the OMB requirements have been incorporated into the manual, it retains a good deal of the language and structure of the original version.

Of the three programs examined, only Civil Defense indicates the kind of supporting documentation that state offices must gather from local grantees before expenditures may be reimbursed. Under section 2.15 6, "Claims of Political Subdivisions," the manual states:

...each participating political subdivision shall claim its actual and identifiable allowable expenditures by submission to the state on DCPA Form 234-3, "State and Local Management Expenses". . . . Information shown on DCPA Form 234-3 shall be supported by submission to the state of duplicate copies (Photostat, Xerox, etc.) of original title, payrolls and other substantiating documentation in accordance with generally accepted accounting principles.<sup>16</sup>

While the states are only required to submit standard forms to the federal agency in requesting payments, the manual continues, "DCPA reserves the right to require the submission of duplicate documentation in the form of photographic reproduction on copies of all payrolls, invoices, and other records and papers as DCPA specifies."<sup>17</sup>

The submission of source documentation from the state would certainly exceed the reporting requirements established in Circular A-102. Similarly, the federal requirement for the gathering of local supporting documentation runs counter to the principle expressed in A-102 of "greater reliance on grantees' management systems," where only the final recipient should maintain detailed day-to-day records of a program's administration.

While a few of the local Civil Defense managers feel that the documentation required is excessive for the amount of money received, submitting vouchers for a limited number of items has not created excessive paperwork for most localities. The example is important not so much for its effect on subgrantees,



but, because nine years after Circular A-102 was issued, this study found one of three federal agencies was still not in compliance with a fundamental provision of the circular. Because Civil Defense regulations were issued before the circular was extended to subgrantees, and these regulations have not been reviewed by OMB, they have retained a requirement for excessive documentation that is potentially very burdensome.

This study found other add-ons where the intent of the circular is not specific enough to restrain federal agencies from collecting information. Circular A-102 limits the collection of any grant application or form to one original and two copies. The intention of the circular is to strictly limit the number of forms required to apply for federal forms. The circular, however, does not explicitly limit the collection of any information that may *accompany* the application forms in Circular A-102. The grants manual for the Land and Water Conservation program requires ten copies of the comprehensive state plan for the federal regional office as well as “copies of plan documents to those federal, state, and local agencies having recreation responsibilities within the state.”<sup>18</sup> The State Comprehensive Outdoor Recreation Plan is legislatively required but, under present requirements, the number of copies for federal administrators and for other state-based recreation programs is strictly an agency decision. While the Heritage Conservation and Recreation Service (HCRS) permits states to charge “a reasonable fee for copies of the plan,”<sup>19</sup> the broad-based distribution required by HCRS far exceeds the OMB standards. In 1978 the Federal Assistance Monitoring Panel concluded that such requests “place great burdens on aid recipients because they require extensive staff time and cause high reproduction costs.”<sup>20</sup>

Congressional legislative requirements also generate add-ons. When first passed, Title III legislation included a priority spending provision requiring the documentation and reporting of expenditures in three major service categories. Before the program was revised in 1978, Congress directed GAO to conduct an impact study of the requirement. GAO concluded that reporting in the priority areas was unnecessary since area agencies were already spending at or above the level required in the legislation, and would do so whether there were requirements or not.<sup>21</sup> Although the new legislation passed requiring priority reporting, the Administration on Aging shared GAO’s concern over the time and cost involved in detailed recordkeeping and reporting at the

state and substate level when areas like social services and plan administration were separated into three additional categories.<sup>22</sup> To summarize, federal add-ons were identified in all three programs and involved agency requirements for excessive supporting documentation, agency requirements for multiple copies of an application document, and a Congressional mandate of questionable administrative value.

Most pertinent to this study are those add-ons that occur as a result of divergent and inconsistent interpretations by federal agencies of the requirements in OMB Circular A-102. The agency guidance manuals for all three programs are based on departmental interpretations of Circular A-102. Title III programs are required to use the *Administration of Grants regulations (45 CFR 74)* that cover all grants made by HHS. The *Grants Manual* for the Land and Water Conservation Fund was written after the Department of the Interior issued an interpretation of Circular A-102 to its various agencies. Similarly, the guidance for the Civil Defense Planning and Administration grants was based on the Department of Defense understanding of the OMB requirements.

Some of the add-ons may be traced to federal agency interpretation of the authority and pass-through issues unresolved in the content of the circular. OMB Circular A-102 states:

the letter of credit funding method shall be used by grantor agencies where all of the following conditions exist [in summary form]:

- a) 12 month or more relationship; advances are greater than \$120,000;
- b) establishment of procedures minimizing time elapse between transfer of funds and their disbursement;
- c) grantee’s financial system meets standards of Attachment G.<sup>23</sup>

The blanket clause at the beginning of the circular implies that this provision should pass through to subgrantees. Because it is not clear to what extent this requirement passes through, however, the Department of Health and Human Services (HHS), in its effort to apply the provisions to subgrantees practically, states in *45 CFR 74*:

Grantees shall observe the requirements of this subpart [which includes the above letter of credit clause] in making (or withholding) payments to subgrantees with the following exceptions:

- a) advance payment by check may be used instead of letter of credit.<sup>24</sup>

At first glance, although this provision deviates from the intent of the circular, it should not necessarily create add-ons. Where advance method of payment is used, however, state agencies, to ensure their accountability for funds received, impose more reporting requirements on subgrantees than if the letter of credit method of payment was applied. All Title III areawide agencies visited during this study receive their money through an advance in accordance with 45 CFR 74 although they are entitled to a letter of credit funding according to the standards in Circular A-102. All areawide agencies must meet more stringent reporting requirements than the state agencies awarding their grants that are on a letter-of-credit method of payment. Unless the standards are specific and clear at their point of origin, add-ons are inevitable.

Confusion also occurs because federal agencies use different sections of the attachments to A-102 in writing their manuals. For example, the procurement standards in Circular A-102 are intended to cover the substantial amount of federal funds that are subcontracted by recipients of federal grants. The HHS and Civil Defense manuals present conflicting views of the standards, even though both quote directly from Attachment P in the circular:

No additional procurement standards or requirements shall be imposed by awarding parties upon recipients unless specifically required by federal statutes or executive orders. *Administration of Grants*, HEW.<sup>25</sup> Grantees may use their own procurement regulations which reflect applicable state and local laws, rules, and regulations provided that procurements made with federal grant funds adhere to the standards set forth as follows: *CPG 1-3*, Civil Defense Agency.<sup>26</sup>

Again, the wording in the circular allows for too much variation in the application of procurement standards. Inconsistent interpretation and application of the provisions paves the way for further add-ons and overlap between programs, as state and sub-state agencies attempt to reconcile the requirements with their own rules and procedures.

## State

State agencies tend to add-on requirements be-

cause they do not know when they have satisfied the fiscal responsibility they have been assigned by the federal agency. Under revised Circular A-102 state agencies are still accountable for misspent federal funds, yet the pass-through provisions are supposed to place the same constraints on their gathering of fiscal information as were previously placed on federal agencies. *Figure 2* illustrates this difference between the original and the revised circular. In practice very few constraints are placed on state agencies. The reasons for this include the fact that:

1. Pass-through requirements are not explained clearly or specifically enough.
2. No provision has been made to pay for audits that would eliminate state agencies' need for additional information.
3. State agencies are not advised when they have satisfied federal requirements.
4. No effort has been made to curtail state agency compliance with stricter state fiscal rules or procedures.

The previous section highlighted the impact of divergent and inconsistent interpretations by agencies of the pass-through provision in Circular A-102. While the Wisconsin Bureau on Aging has designed a thorough and clearly presented manual, it contains a number of additional fiscal and program requirements. For example, the bureau requires monthly cash status reports from Wisconsin's area agencies that list 32 separate categories of expenditures.<sup>27</sup> The standard federal report forms have only 12 categories. State administrators for the bureau say the form was carefully negotiated with area agency directors and was the least complicated means of satisfying both federal and state legislative requirements. But the fact remains that add-ons occur because of the autonomy granted the state agency in administering Title III funds and the state agencies need to ensure their accountability for Title III funds.

State agencies also add requirements to ensure adequate source documentation where there may be insufficient funds to pay for audits. This problem is most dramatically illustrated by the Outdoor Recreation programs in Virginia, Massachusetts, and Wisconsin—each of which collects supporting documentation before reimbursement. All three offices maintain desk audit capability at the state level with requirements for copies of cancelled checks (front and back), contracts, bidding proposals, etc., to be submitted by grantees. These requirements are not included in the *Land and Water Conservation Act*

and certainly not in the federal guidelines. The problem is caused in part by an unclear explanation of the requirements for source documentation. Although printed verbatim from OMB Circular A-102, the HCRS manual is unclear on the point of whether or not state agencies should have source documentation available. An administrator in Virginia's Commission on Outdoor Recreation stated that the current level of information is required because there is no federal definition of "source documentation." He added that "we have never lost a penny to the federal auditors."<sup>28</sup> Because state agencies are not sure when they have satisfied the financial responsibility assigned to them and because of insufficient funds for audits (see *Finding 12*), agencies frequently request much of the information an auditor may require. State agencies are likely to constrain the level of information required from grantees if they have sufficient funds to conduct audits, or at a minimum, greater assurance by the federal agencies that this information is not necessary.

Other add-ons by state agencies occur in their effort to reconcile federal agency guidance with state fiscal rules or procedures. Four state agencies, of the nine interviewed, pointed out that stricter state requirements are imposed in addition to the federal guidelines provided for subgrantees. The Wisconsin Department of Natural Resources imposes the more stringent record keeping standards mandated by the Wisconsin State Legislature. The Massachusetts Division of Conservation Services follows the state's stricter bidding and contract procedures. The Virginia Office on Aging adds those requirements established by the Virginia General Assembly, which apply to all federal grants. The Massachusetts Department of Elder Affairs gathers more detailed fiscal information than is required by federal forms to satisfy requests from the state legislature. As long as state agencies are held accountable for the day-to-day management of federal funds in a state environment where no effort is made to monitor and/or coordinate federal and state fiscal requirements, add-ons of this nature are inevitable.

### **Subrecipients**

Substate research examined program administration in nine area agencies, three district offices, and 27 local or nonprofit agencies. While many federal requirements are known and complied with at the substate level, there is little understanding of the limitation placed on the gathering of fiscal informa-

tion. The diversity of organizations administering federal grant funds at the substate level results in a variety of fiscal and programmatic add-ons. Principally, grantors make additions to ensure proper management or because of local statutes involving matching funds. But "sub" subrecipients are also subjected to duplicative and repetitive requirements where funds for the same federal program are awarded to them by several substate agencies.

Although the *Administration of Grants* regulations (45 CFR 74) are intended to limit financial reporting, additional fiscal requirements occur in state agencies that coordinate the federal aging program at the substate level. The Cambridge/Somerville Home Care Corp., requires copies of receipts and time sheets on personnel providing inkind services from subrecipients. The current administrators justify the requirement of receipts because of the less-than-adequate past performance of the agency and its grantees. Time sheets are necessary, since inkind services are required by the state; but there is no guidance on how they are to be documented.

The Shawano County, WI, Office on Aging provides most of the information required by the state to the county as well. In addition to the state-required annual plan and monthly reporting requirements, the Shawano agency prepared a 200-page annual plan for the county that required a 28-page amendment when supplemental state funds were received. The Fairfax County Area Agency on Aging in Fairfax, VA, and the Milwaukee and Dane County Offices on Aging in Wisconsin also must duplicate a considerable amount of information required in the state annual plan concerning program and budgetary information for their county boards.

The Norfolk, VA, Office of Civil Preparedness sends 14 copies of its annual communications plan to other district Civil Defense offices in addition to the three required by the state. Local fiscal requirements involve keeping a duplicate set of books for the city and state required reports.

Two of the nonprofit agencies visited are also subjected to add-ons of a slightly different nature. The Homemaker Health Aid Service of the National Capital Area United Way, Inc., receives 19 contracts for Title III funds from three to four neighboring counties as well as the District of Columbia. While the organization has no problems responding to any single piece of guidance, the process of meeting the fiscal requirements for 19 separate contracts on a monthly and quarterly basis is very time consuming. Each contract requests similar fiscal information but

in a slightly different fashion and form.

The Highland Valley Elder Service Center in Northampton, MA, also manages Title III funds coming from four different areawide agencies. All of the agencies require the same basic information at the same time, but expenditures must be broken down into separate budget categories for each areawide agency and reported in different forms.

While most of the instances cited here are examples of fiscal add-ons, many of the responses to our questions about add-ons involve program information as well. Circular A-102 makes a clear distinction between the two and establishes fiscal limits through the use of standard application and reporting forms and other provisions cited earlier. Program requirements are left to the discretion of the grantor agency, although the frequency of such reports is supposed to coincide with the schedule of fiscal reports. Almost without exception, state and local agencies express concern over the amount and detail of information that is gathered about programs and program participants. There are several instances where the data were not adequately processed because of personnel shortages by the grantor agency. While this area is beyond the scope of the study, the gathering of program information, particularly if it involves service unit costs, is inevitably tied to requests for fiscal data. The failure of Circular A-102 to place constraints on the monitoring of program performance contributes substantially to fiscal and program add-ons by state and substate agencies.

**4. State agencies find the information on pass through regulations in federal agency manuals to be more clear and specific than OMB Circular A-102, but none of the federal guidance is considered sufficiently detailed to inform subgrantees of their fiscal responsibilities.**

State agencies find that federal grants manuals are more understandable than Circular A-102 in explaining the obligations they have as grantees. The individual federal requirements are rewritten as they apply to the specific program and are placed together with similar requirements imposed by enabling legislation or by the agency itself. While preferring federal agency guidance to the circular for their own information, state administrators find it necessary to reinterpret federal regulations for subrecipients. Those who prepare state guidance for subgrantees contend that federal manuals are too complicated on the one hand and not specific enough on the other.

All three state agencies for aging expressed reservations about the adequacy of AA's program and fiscal guidance, including *45 CFR 74*, which is used by both state and area agencies. One state administrator said that all the information was there if one could find it, while another said he is never certain if the agency is in compliance. A third state agency stated that federal guidance never anticipates the difficulties that occur at the state or substate level.

The Virginia Commission on Outdoor Recreation indicated that federal guidance is unclear on what constitutes appropriate documentation from grantees, as well as when a grant or a contract should be used in providing local services. Similarly the Wisconsin Department of Natural Resources found the HCRS manual far too general in the provisions covering construction grants and contracts. The Massachusetts Division of Conservation Services did not find adequate information on the applicability of federal acquisition funds to costs incurred under the *Uniform Relocation Act*.

The Wisconsin Division of Emergency Government said that while the federal manual (*CPG 1-3*) is helpful in some areas, it is extremely vague in others. In place of the single manual, agency administrators would prefer five separate manuals for each of the programs covered, containing more specific fiscal information, particularly with respect to allowable costs. Civil Defense administrators in Virginia also felt that more specific instructions were needed in the area of allowable costs.

The question of allowable costs is of particular concern to local grantees, since state Civil Defense and Outdoor Recreation programs use reimbursement as the principle method of payment. Even if states follow the general cost principles required by Circular A-102 and the federal agency guidance, this does not provide the specific assurances local administrators desire. Many Civil Defense and local recreation directors expressed reluctance to spend local funds when reimbursement was not guaranteed in writing, and cited examples of disallowed costs.

**5. While the standard A-102 reporting forms have limited the amount of financial data gathered by federal agencies, the variety of forms and procedures requesting similar information increases substantially at the state level. The number of forms and procedures serving similar purposes further multiplies if substate organizations administer grants to local recipients. While state and local administrators are in favor of adopting more uniform fiscal procedures**

**and forms, they do not feel these standards should be issued by the federal government.**

Our research indicates that Circular A-102 has been successful in standardizing and simplifying the fiscal information gathered by federal agencies. The circular establishes four reporting forms that agencies have latitude in adapting for individual program needs. This study found the federal agencies to be consistent in requiring the same forms on the same schedules within each of the programs. The Outdoor Recreation program uses the reporting form prescribed in A-102 for drawing down funds from a letter of credit. The Administration on Aging requires that state agencies submit quarterly financial status reports and monthly federal cash transaction reports. The Civil Defense agency has never adopted the A-102 reporting forms, but the quarterly forms required from state agencies follow, in substance, the intention of the circular.

The only state agency that expressed difficulties with federal forms was the Virginia Agency on Aging, which receives 19 different grants from four separate federal agencies. In satisfying grant requirements, the agency must fill out, for different grants, each of the four standard monthly or quarterly reporting forms, as well as the forms for two different letter of credit arrangements.

At the state level there is no uniformity and simplification of agency forms similar to that achieved through A-102. As an example, the Commonwealth of Virginia has 107 separate agencies that must take into account federal, state, and agency needs when designing forms to gather fiscal information. There is considerable diversity in the forms used in Virginia, Wisconsin, and Massachusetts in two of the three programs sampled for this study. Title III agencies use neither the federal forms nor forms similar to those used by other state agencies in gathering fiscal information from subgrantees. Similarly, all three state Land and Water Conservation programs design their own forms. The only change from the federal Civil Defense requirements occurs in Wisconsin where monthly, rather than quarterly, reports are required. In this program, all states use the federal forms for subgrantees.

The number of forms used to request similar information multiplies once more if substate agencies award grants to local recipients. In both Massachusetts and Virginia, the area agencies that oversee local Title III programs are permitted to draw up their own reporting forms. There are currently 21

area agencies in Massachusetts and 25 in Virginia, and none of them uses the same forms for grantees. In contrast, the Wisconsin Title III program not only establishes monthly and quarterly forms for its area agencies, but provides standard forms for all subgrantees as well.

In Northampton, MA, area agencies from four adjoining counties subcontract with the Western Massachusetts Legal Services agency to provide legal assistance for the elderly. Neither the state nor the area agencies has attempted to negotiate standard reporting forms, and the accountant for the legal services agency says she must fill out four entirely different forms that provide essentially the same information to each of the agencies from which a contract is received.

In several instances subrecipients must report to their own unit of government as well as to the state agency. The Shawano County Office on Aging and the Milwaukee County Office on Aging in Wisconsin must fill out two different fiscal reporting forms each month for the state and county—one on a cash basis and one on an accrual basis. The dual accounting and reporting systems add considerably to the time and cost of administering the grant. The Wisconsin Bureau on Aging, however, is changing over to a fiscal year that corresponds with the majority of counties.

While subrecipients of LAWCON and Civil Defense grants did not have to prepare multiple and repetitious forms per se, several of the managers interviewed complained of having to meet state fiscal procedures in addition to city or county fiscal procedures. This was particularly a problem for the administrators of LAWCON funds in Norfolk, VA, and Warwick, RI, (a pretest site). In developing a "LAWCON" park, both cities used contractors. They were required to process all vouchers and other related paperwork for the city's finance records and then make numerous trips through city records to pull out vouchers, make copies, and aggregate the data on state forms. Both cities expressed a strong desire to have state agencies rely more on the forms and vouchers that are already part of the city's financial records.

State and local administrators interviewed for this study recognized the problems created by the variety of forms and procedures required to ensure fiscal accountability. Support for efforts to simplify and standardize was expressed in all three states and among all three programs. Responding to the question of whether more uniformity was desirable, local

agencies were nearly unanimous in their support. Subrecipients also expressed considerable interest in having the state accept their own organizations' fiscal procedures and requirements. Both state and local officials, however, were reluctant to give the federal government the sole authority to regulate. State administrators wish to preserve the right to gather information for state purposes, while most local administrators appeared more willing to entrust the establishment of standard requirements and procedures to the state rather than to the federal government.

## Summary

As federal and state agencies incorporate financial management requirements into their guidance documents, the ambiguities in the content and language of OMB Circular A-102 lead to varying interpretations of what financial information is required, how it should be formatted, and how often it should be submitted. Agency managers do not adopt similar procedures and provisions in their guidance manuals because they do not have clear and precise knowledge as to what fiscal information they need to have to ensure their accountability. This results in add-ons, fragmentation, elimination, and reinterpretation of the requirements in Circular A-102. The problem is most noticeable at the state level, where a set of uniform administrative requirements similar to A-102 does not exist. Consequently, there is a lack of consistency in the written guidance issued and adopted by federal, state, and substate agencies.

## COMMUNICATION

Our research in the area of communication examines the process through which agencies are informed of federal administrative requirements. Our questions were addressed to federal, state, and local administrators in the areas of implementing fiscal guidance, the timeliness with which it was received, the amount of intergovernmental coordination and the adequacy of technical assistance. Since the circular was revised in 1977, communication has become a major concern for those state and local agencies that receive federal funds. The addition of the pass through requirement in the revised Circular A-102 extended federal influence to all grants made with federal funds and created the need for a large

degree of intergovernmental communication. Our findings indicate that a formal system does not exist and the level of adequacy in providing technical assistance varies widely.

**6. Insufficient communication between federal agencies and OMB, the lack of any central coordination or monitoring of state agency guidance, and the tendency of subrecipients to accept existing rules and procedures contribute to uneven implementation of federal administrative requirements.**

Our research shows that when agencies have drawn up guidance that incorporates the A-102 administrative requirements, there has been little or no formal contact with the Office of Management and Budget. HCRS addressed most of its questions to the general counsel of the Department of the Interior, while the Civil Defense agency relied on the opinion of its own general counsel.

On its own initiative, the Division of Grants Policy and Regulation in the Department of Health and Human Services consulted a number of times with OMB's Financial Management Branch in preparing HHS's *Administration of Grants (45 CFR 74)*. The accuracy and thoroughness of those regulations testify to the need for this type of formal communication. There is little if any formal review of guidance manuals or regulations to ensure that there is proper understanding and adoption of the pass-through requirements in OMB Circular A-102. For example, the new AA administrative regulations for Title III aging programs were written entirely by agency personnel. Similarly, the Civil Defense manual, *CPG 1-3*, has never been reviewed and is still not in compliance with OMB Circular A-102.

In spite of communication problems, federal agencies enjoy more uniformity in the development of administrative requirements than state agencies. The two major reasons for this are the existence of the Office of Management and Budget and the *Federal Register*. Despite the need for more OMB involvement and technical assistance in coordinating the development of federal agency regulations, the agency is a central office which provides training for all departments to follow in the area of fiscal guidance. The publication of federal agency regulations in a similar format in the *Federal Register* also contributes substantially to creating more consistent application of requirements and forms among federal agencies.

Unlike OMB, at the federal level, most states do

not have a central authority to issue guidance and monitor state agencies' requests for fiscal information. There is no central publication to communicate the intention of federal requirements to state agencies or provide them with a uniform format for the development and review of their guidelines. A number of states have legislative committees to review all state agency regulations; but the role of the states involved in this study was advisory at best. As a result, state agencies operate independently to prepare their guidance manuals. If a guidance manual had been developed among the agencies visited, each one had done so on its own. A state administrator in Wisconsin, in the process of designing a manual, described the process as frustrating at best. Because Circular A-102 is not specific enough for use in a manual, agencies adopt state procedures under the assumption that they comply with federal standards. Yet, because there is no central source of information, agency personnel frequently must piece together information from a variety of sources. Although grants managers in Wisconsin tried to write a uniform guidance manual in the last year, they ran into the problem of too many people with expertise in program areas and not enough people well versed in fiscal procedures and requirements.

Consequently, there is considerable variation in the type, content, format, reporting schedules and forms, and fiscal requirements in state agency guidance. The Wisconsin and Massachusetts state LAWCON offices have set up an adequate guidance system by reproducing essential federal requirements in summary or Xerox form. Virginia's Commission of Outdoor Recreation has distilled the 3-inch thick HCRS manual into a 20-page booklet. The Massachusetts Department of Elder Affairs periodically sends out information in memo form based on the much more lengthy federal publications.

Our research identified two specific instances where state and local efforts built a reasonable management system out of relative confusion. The administrators of the Title III program in Wisconsin were faced with coordinating the stringent HHS regulations with state legislative requirements, and with a tradition of strong independent county control of local programs. The bureau of aging undertook a yearlong "negotiating process" in which requirements and needs of all parties were weighed, discussed, and decided on. Not every agency is satisfied, but there is genuine appreciation for the effort and a good deal of support for the forms and procedures that everyone had a part in writing. Similarly, the

Virginia Office on Aging negotiated a guidance manual with the 25 area agencies that provides a number of management options depending on the complexity of the program.

Although "interprogram" uniformity may be realized under the present system, lack of "intra-agency" coordination at the state level results in subrecipients that receive funds from a number of state agencies having to contend with different sets of procedures and requirements. Where the grants involved originate in different state offices, little can be done to coordinate the requirements. The Dane County Aging Program in Madison, WI, and the Elder Care Line in Milwaukee, WI, are subrecipients of grants awarded by two separate state agencies, one of which is a Title III grant. Both offices noted considerable differences in their reporting requirements for each grant—the Title XX grant awarded to the Elder Care Line creating some of the most burdensome requirements imaginable, while the grant awarded to Dane County by the state's department of transportation had practically no requirements. Similar large differences in state agency requirements were noted by the administrator of the McFarland Public School System in McFarland, WI, who has received LAWCON, Title III, and Title V educational funds.

Where funds are used for similar purposes or where different reporting requirements are imposed by grantor agencies for the same program funds, there is more opportunity for subrecipients to negotiate and coordinate with grantor agencies. Although many complaints were expressed, most subrecipients simply accepted existing procedures and requirements. Some subrecipients, however, were attempting to negotiate or coordinate with grantor agencies to change rules and forms or to find alternative ways to satisfy the requirements.

One recipient simplified her management system by negotiating changes with grantor agencies. As a subgrantee of two area agencies, Cambridge/Somerville Legal Services was required to fill out two monthly reporting forms in addition to a similar report for its own board of directors. The accountant succeeded in having both area agencies accept the legal services form in place of the two separate forms previously required.

Norfolk, VA's Park and Recreation Office is undertaking the most notable endeavor in this area. It is in the process of negotiating one application form between two state agencies funding the same project. Regrettably, this process has taken two years and an

agreement is not final.

Look Park, in Northampton, MA, is a privately endowed recreational area that is open to the public. While the park was eligible for a Land and Water Conservation matching grant because of its public use, its private board of directors could not directly provide the matching funds. After considerable consultation between park officials, city officials, and the state LAWCON agency, Look Park made an unobligated gift of half the proposed construction cost to the City Council of Northampton. The city then paid for the entire project and, three weeks after its completion, received a 50% reimbursement from the state division of conservation services—thus recovering the full cost of the project.

**7. The executive and legislative branches of state government are inadequately informed of federal grant awards. The required notification by the U.S. Treasury Department remains at a level that is useless for state planning purposes. States have no alternative systems for gathering current and complete information of federal grants awarded to state agencies. The difference between federal and nonfederal fiscal years creates problems in planning state and local budgets for Title III programs. Local program plans, which include budgeting information, must be submitted before local hearings have begun.**

Elected state officials have become increasingly involved in tracking and appropriating federal funds that are awarded to state agencies. In 1979, 38 state legislatures exercised some degree of authority over the appropriation of federal funds.<sup>29</sup> In both Virginia and Wisconsin, federal grant awards are included in the executive budget and are subject to appropriation by the legislature. The Massachusetts executive budget includes estimates of federal awards but for informational purposes only.

State officials are unanimous in their belief that accurate and timely information on federal awards is necessary for responsible management of these funds. Although Treasury Circular 1082 requires that a central state information agency receive notification of all federal awards made to agencies within the state, the percentage of notification is often so low that states find the information of no value. The director of the state budget office in Massachusetts reported that many of the 1082 notification forms were never sent to the designated central state agency and many of the those that did arrive were illegible.<sup>30</sup> Because of similar problems, all three states have

alternative information systems on federal awards at some stage of development, but current, accurate information for state and local budgeting is not available.

The difference between the federal and nonfederal fiscal years necessitates the drawing up of state and local budgets before the level of federal funding is assured. Like most states, Virginia, Massachusetts, and Wisconsin operate on a July-June fiscal year, while annual federal appropriations begin on October 1. The problems of projecting federal income are compounded for agencies in Wisconsin and Virginia that draw up biennial budgets. The schedule for Virginia's budget preparation calls for agency estimates of federal grant awards to be submitted a full 14 months before federal appropriations are final and nearly three years before the end of the biennial budget cycle. The Joint Legislative Audit and Review Committee (JLARC) study reported that for 1979 at least eight state agencies underestimated federal income by 100% or more, while 12 agencies overestimated by 50% or more.<sup>31</sup> These figures suggest the difficulties encountered when state agencies are required to plan two or three years ahead.

Different federal and state fiscal years also result in state agencies receiving approval on grants and notification of funding in a haphazard fashion. One of the state officials interviewed during our general session in Madison, WI, provided us with the details creating this confusion. Even though an official in this agency did not submit the grant application until January 1980, the grant was approved by the federal agency at the end of 1979. Federal funds were obligated in May of 1980 but notification of these funds was not received until July—via an undated letter. Different fiscal years, combined with the time it takes to process federal grant awards, results in large periods of time where there is inadequate information on grant applications.

While different fiscal years caused difficulties for two out of three state Title III offices, the problem was most pronounced at the substate level. Four of the areawide agencies receive direct federal aid as well as federal funds that are passed through the state. They keep separate books for each of the grants to account for the different fiscal years. The Western Massachusetts Legal Services Agency, a grantee of Highland Valley, and three other area agencies, maintains records that follow four different fiscal years for a federal grant from the Legal Services Corp., a grant from CETA, and the different schedules for area agencies. Other recipients may



have to keep separate books because their fiscal year is different from the state as well as the federal fiscal years. The Madison and Milwaukee Emergency Preparedness Offices keep two sets of books to account for their budget cycles which run on a calendar-year basis and for the state's July-June budget cycle.

All three of the programs in our study have local matching requirements. Local agencies which receive Title III grants must submit program plans and budgets to assure that local funding will continue before budget hearings have even been scheduled. Depending on the sophistication of the local budget department, the effects of this range from duplication of effort and use of inaccurate information to added expenses. The Shawano County Office on Aging in Shawano, WI, submits its budget and plan before its allocation is known, because the county fiscal year is the calendar year while the state operates on a July-June cycle. As a recipient of a grant that lapses each year, Title III funds that are not expended by the end of the county fiscal year are returned to the county's general fund and the aging program must charge expenses for the rest of the state fiscal year to the next year's budget. In effect, this means the actual budget cycle lags by six months. This situation is presently being remedied by switching to a nonlapsable grant. Local recipients in Massachusetts say they could not afford to accept additional Title III funds, because although the contracts require the same level of services year after year, payments are never adjusted upward to account for inflation. Local government and other funding sources have been forced to pick up the deficit when anticipated federal funding is not appropriated.

**8. In many cases, changes and updates in federal requirements are not received in time for states to adequately comply with them. OMB and Congressional statutory requirements often take effect upon issuance or enactment. Federal agencies then issue retroactive requirements that are further delayed while awaiting departmental interpretations. Federal assistance manuals are infrequently rewritten and after a number of years become a series of disjointed updates, rather than a systematic administrative guide. This causes delays or changes in the guidance issued by state agencies which create administrative problems for state and substate agencies.**

Federal agency manuals tend to be issued late, updated slowly, and seldom revised. This judgment was expressed time and time again in our interviews with

state administrators. While most are fairly satisfied with information received, the sporadic nature with which updates and revisions are issued places unnecessary pressure on state agencies and subrecipients to comply.

On October 18, 1978, three separately funded programs for the elderly were consolidated into Title III of the *Older Americans Act*. The purpose was "to provide more effective coordination and use of community resources in planning and providing services to older Americans."<sup>32</sup> State agencies were well aware of the legislation and the significant management changes that consolidation would bring about at the state agency and area agency levels. The final rules were not published in the *Federal Register* until March 13, 1980—nearly 1-1/2 years after the amendments were enacted. All three state agencies voiced strong concern over the delays in receiving written instructions.

While the Civil Defense manual for planning and administering grants has incorporated most of the federal administrative requirements from Circular A-102, large portions of the guidance are substantially the same as when it was first issued in 1958. A number of administrators were concerned that, as the emphasis for local programs has shifted to non-nuclear emergency preparedness, performance standards, still reflect the fallout shelter mentality. On September 16, 1978, the Civil Defense programs were transferred from the Department of Defense to the newly created Federal Emergency Management Agency (FEMA). The Civil Defense Manual has not been revised or reissued in the 1-1/2 years since the agency became part of FEMA, and officials in the Wisconsin Division of Emergency Government stated that they felt as though the programs at the state level were operating without any valid federal guidance. In the absence of federal regulations, the division drafted and circulated a state guidance manual for local programs based on past requirements and the best information available from FEMA. Similar concerns were expressed by a regular Civil Defense coordinator in Virginia. Although FEMA has recently issued a directive that the Civil Defense manual, *CPG 1-3*, would continue to apply until new guidance was issued, state managers are hesitant in issuing guidance that may require considerable revision.

The grants manual for the Land and Water Conservation programs was revised in 1973 to reflect administrative requirements of the original Circular A-102. Since that time a number of revisions, printed on pink paper, have been sent to state administrative

agencies. The division of conservation services in Massachusetts believes that when more than 25% of the regulations have been updated, the entire manual should be rewritten to coordinate the new material. With the current manual half full of pink slips, administrators in Massachusetts and Wisconsin strongly support the revision by HCRS that is now underway—the first one in eight years.

While OMB requirements generally become effective when published, the time it takes federal agencies to implement the changes causes considerable scrambling by state agencies to comply or create additional costs for state agencies that must comply with retroactive regulations. Federal LAWCON officials stated that they must wait for departmental interpretations before issuing administrative rule changes, and notification of the states is delayed another 6-8 weeks if the agency chooses to have the Government Printing Office print the regulations. The Massachusetts LAWCON agency states that the *Uniform Relocation Act* regulations arrived 6-8 months after enactment, while the Wisconsin LAWCON agency has had to comply with retroactive policies and procedures. The bureau at one time received a notice to bury all powerlines on LAWCON-funded projects; and, since it arrived late, the powerlines on a number of completed projects had to be buried with partial use of state and local funds. All of the state Title III agencies complained that changes in federal administrative requirements frequently arrived with little time for compliance. The Virginia office also advised the federal regional office that it would not respond to requests unless they were made by letter. There appear to have been no major changes and a few updates to the Civil Defense guidance since the program was transferred to FEMA. None of the three state agencies provided examples of late or retroactive federal regulations.

The Department of Health and Human Services was the only federal agency to enact a policy directed at eliminating this problem. HHS states that the terms of an agreement shall not be changed during a grant or contract period so that any new regulation does not go into effect until the next grant cycle.<sup>33</sup>

Subgrantees were more concerned about the frequency with which forms and requirements changed than with their late arrival. Only five subrecipients—three of which were the areawide agencies in Massachusetts—complained about not receiving guidance in a timely fashion. Many of the Title III recipients, however, felt that changes were either received too often or not on a regular basis. While LAWCON

subrecipients were generally well informed on changes or updates, one subrecipient did take issue with receiving notification on updates or changes by phone with no advance warning. Two subrecipients of Civil Defense grants also felt there were too many changes in the state requirements, provided both verbally and in writing.

**9. In the area of technical assistance, state agency administrators have mixed views as to the helpfulness of federal regional offices or the central office. Federal regional offices are the primary source of assistance, but many state managers indicate that responses are incomplete, merely a restatement of wording in the guidance manual, or are not provided until the state has committed itself to an incorrect action. The quality of assistance provided by the national office is also inconsistent. Where state managers know a specific person to contact at the regional or federal level, they tend to get their questions answered.**

For each of the grants examined in this study, state agencies are assigned to a federal regional office (FRO) that offers clarification and technical assistance for specific grants. State agency evaluation of FRO technical assistance is decidedly mixed. None of the Title III state offices was satisfied with the level of information provided to it. One state administrator felt that the regional office only repeats what it is told by the national office. The FRO is “too wrapped up in making various rational alternatives work.” Also, the FRO’s hands are partially tied; for instance, the FRO can approve the state plan but cannot disapprove it.<sup>34</sup> The Massachusetts Department of Elder Affairs said that 90% of its questions are handled by the FRO, but there are delays in getting responses. While staff members of the Wisconsin Bureau on Aging have been satisfied with the technical assistance they received in the past, they have had no contact with grants personnel since grants administration responsibilities were transferred from the regional agency on aging office to the regional office of HHS. This reorganization has eliminated the specific contact person they had in the past—a person who provided training sessions and answered technical questions. If they have questions now, they usually just “work it out in this office.”

Two out of three state LAWCON administrators were well satisfied with the quality and timeliness of information they received from regional offices. The grants chief for the Virginia Commission on Outdoor Recreation named three individuals on whom he

could depend for accurate assistance. The director of the Massachusetts Bureau of Conservation Services said the FRO was extremely helpful and that one of the auditors had helped establish the bookkeeping system for the state program.

The Wisconsin Department of Natural Resources was not as complimentary. In contrast to Virginia and Massachusetts, this office manages LAWCON funds in a highly decentralized fashion, awarding funds annually for 300 projects. Staff members were of the opinion that most states opt for a few, large, simple programs because of the administrative hassles involved with small projects. When they asked the FRO for assistance on federal relocation requirements, they were told they would have to go to Congress. It took two years to reach an agreement on reimbursement rates for truck mileage. In their opinion, the quality of technical assistance depends largely on the attitude of those people who are providing it.

Civil Defense administrators were also divided in their assessment of FRO technical assistance. The fiscal officer of the Virginia Office of Emergency and Energy Services has had good cooperation from a contact person in the regional office. The Wisconsin Division of Emergency Government has had a number of problems with the regional office—problems which include the withholding of disaster relief checks that the state processed in 3-5 days because the forms were not properly filled out and documented. Wisconsin personnel were inclined to believe that the 5-6 weeks needed to satisfy regional requirements contradicted the entire purpose for providing disaster benefits. Often they cannot get the proper information needed to fill out their forms. When they send the information to the FRO, it is sent back with red lines through it with no explanation of the mistakes. Calls to the FRO asking it to change the procedures have been partially successful. The Massachusetts Office of Civil Defense has been generally satisfied with the level of technical assistance available, although a number of audit exemptions granted by the regional office were later overruled by FEMA.

In a number of instances, the state agency seeks assistance from federal offices. Where state managers know a specific person to call, they tend to get their questions answered accurately and quickly. When the Virginia Office of Emergency and Energy Services needs to get excessive requirements rescinded, it calls a contact person in OMB. The Virginia Office on Aging calls a specific person in AA if the question is really important. Other state of-

fices received little help from the central office. Ten percent of the requests made by the Massachusetts Department of Elder Affairs are handled by the national office. In one instance, it took months to resolve whether or not fire extinguishers were an allowable cost. Because of the problems with the FRO, the Wisconsin Division of Emergency Services sometimes has to wait for responses from the FEMA General Counsel's office in Washington, DC. Another state agency has received little help from the national office for the past three years, because the attitude in Washington has been "this is the way it is, so don't bother us."

In every instance where a state manager expressed satisfaction with the quality of technical assistance, the state administrator cited a specific person who could be counted on to provide accurate information. Although it is impossible to quantify the human element in a research study of federal administrative requirements, the single most important factor for state satisfaction with federal assistance seems to be the presence of a reliable contact person who is assessable at the regional office.

**10. Responses varied greatly concerning the quality of technical assistance available to subrecipients, with some subrecipients feeling they do not receive enough and others indicating that they could not be more satisfied with the help they receive. Subrecipients who were most satisfied with the quality of technical assistance emphasized the specialized help they received from a state-appointed district representative in meeting all requirements and preparing all forms.**

Federal agency guidance manuals, if present at all, are seldom referred to by substate managers. With the exception of the Civil Defense program, substate managers rely almost exclusively on state, rather than federal, sources for written instructions on program management. The Virginia Office on Aging provides a state manual drawn up with area agency input that includes state interpretations of federal regulations but not the HHS regulations themselves. The primary source of information for Title III area agencies in Wisconsin is the new state manual negotiated between all recipients of Title III funds which includes the HHS Administration of Grants regulations. Only one of the agencies interviewed in Massachusetts, however, had a copy of the federal regulations, and it was not used.

State LAWCON agencies in Virginia, Wisconsin, and Massachusetts summarized federal requirements in brief state agency publications. In explaining how the massive federal HCRS manual could be reduced to a few pages, one state administrator said 90% is not needed by localities and he sends grantees "only what won't scare them."<sup>35</sup> Another state LAWCON official cited the cost of reproducing and mailing information that is not applicable to subrecipients as the reason for minimal state written guidance. The Civil Defense manual is provided to all state and local recipients by the federal Civil Defense Agency and is the primary written source of information for all recipients.

Substate agencies rely on state, areawide, or district personnel to provide them with adequate technical assistance. Unless established by federal legislation, the degree of substate communication and technical assistance is provided at the state agency's discretion. The most important variables in providing high quality technical assistance seem to be:

- 1) setting up a system or network to provide the necessary help;
- 2) ensuring that grants managers are well trained;
- 3) providing specific rather than general assistance; and
- 4) establishing good rapport between agencies.

The more structured a network is for providing technical assistance, the more satisfied subrecipients seemed to be. The Massachusetts Civil Defense program employs four area directors and 11 sector directors for planning and administering grants. Local program directors in Lowell, Cambridge, and Northampton were unanimous in their appreciation of the assistance provided them. Subrecipients were extremely satisfied with the trained network of state representatives and district officers with the Wisconsin LAWCON program. Local Virginia LAWCON recipients spoke very favorably about the prompt and helpful assistance available from the four or five agency employees with whom they had spoken in the state office. The Massachusetts Bureau of Conservation Services provides all technical assistance through state office personnel who assist local directors of funded projects from the preapplication stage to the final inspection. Two of three local recipients remarked that the state office was understaffed but were generous in their appreciation of the agency director, whom they felt had looked out for the state program when federal funds were being cut.

For the most part, subrecipients of Title III funds in Virginia and Wisconsin were satisfied with the help they received. The Virginia Office on Aging has 12 persons who provide technical assistance to grantees, as well as 2-1/2 who work exclusively on contract questions. The Wisconsin Bureau of Aging has 26 staff persons, all of whom provide some degree of technical assistance to area agencies and county recipients. Area agencies are quite satisfied with the present system of periodic areawide meetings and regional policy committees.

"Sub" subrecipients in several programs, however, expressed more concern about the quality of the assistance provided them. The Norfolk, VA, Senior Center, a recipient of Title III funds from the areawide agency, wishes there were more training sessions and written information. The manager does not know who the state director is and has never seen any federal guidance other than one *Federal Register* notice. A local recipient in Wisconsin said that while monthly areawide meetings are held, they are too general. That office doesn't hear about mistakes until they've occurred. The Dane County Aging Program in Wisconsin also expressed reservations about technical assistance, but has the professional expertise to manage on its own. The Elder Care Line in Milwaukee felt the quality of help was good, but, in this instance, the county office—which is also the areawide agency—had designed its own forms for grantees which were less complicated and shorter than the state forms. The Elder Care Line does not even have a copy of the state manual; instead, the two offices meet biweekly to discuss specific problems.

Similarly, other substate administrators felt that more accessible technical assistance would substantially improve the management of their own programs. Unlike the agencies in Virginia and Wisconsin that held regularly scheduled meetings with area agency personnel, the Massachusetts Title III agency provides most of its technical assistance by telephone. The one area agency director who was satisfied with the level of assistance always contacted an individual in the agency who provided quick and reliable information. Although the Civil Defense program provides satisfactory technical assistance through the state office and area directors, one local Civil Defense manager felt there was little opportunity for specialized training sessions. While one very good training session had been set up by a coordinator in the FRO, after the coordinator left there were no more training sessions. Although there is a

system to provide technical assistance, it tends to be too generally oriented with insufficient opportunity for consultation or advice.

It became very apparent in the course of our research that the type and quality of technical assistance needed depends on the nature of the program. In some cases, a network of people in the state agency is sufficient; in others, a more decentralized approach works best. Universally, however, subrecipients desire practical, specialized help or training, and favor having one person whom they can call to get that help. Moreover, technical assistance is especially important to localities with less sophisticated management systems and less experience in the administration of federal grants. There is no question that certain localities would not have received federal reimbursement from the state of Wisconsin's LAWCON program without professional assistance.

The town of Brussels (population 1,000) recently built a park using considerable volunteer help from farmers, funding from a local service organization, and a grant from the state LAWCON agency. The district representative in Green Bay filled out most of the application and reporting forms for Brussels and helped with a major part of the planning. The Green Bay district funds approximately 30 LAWCON grants of approximately \$25,000, all of which are provided technical assistance by the district representative. The Madison district representative actively assists communities in securing funds by meeting with the local park commissions. Once a project has been approved, he assists in establishing proper bookkeeping and reporting procedures. The statewide system of district representatives for the Wisconsin LAWCON program has made small community-based projects a possibility for many areas that had not applied for other federal grants. The network of state representatives in Wisconsin provided the most thorough system of technical assistance we encountered in any of the programs. Recipients acknowledged that without the help of these professional managers many communities would not have met the administrative requirements and some would not even have known that the grants were available.

## Summary

Several communication problems contribute to a lack of standardization and simplification in the implementation of federal fiscal requirements. These include: uneven implementation of OMB Circular A-

102 by federal agencies; receipt of only partial information on federal grant awards by state agencies; administrative problems caused by delays in implementing updates and changes to fiscal guidance; and varying degrees of success in obtaining adequate technical assistance.

## ENFORCEMENT/COMPLIANCE

For this issue area, state and local personnel were questioned about the requirements with which they were supposed to comply and the measures taken to assure that requirements were met. Specific questions were asked about the method of payment used, how long records are retained, when final reports are due, and audit requirements. Our findings on each provision, except audit requirements, are discussed in *Finding 11*. A separate finding follows to discuss the very complicated issue of audit requirements. State and local compliance is measured against the interpretation of the circular provided by OMB. Since it is a major finding of this study that federal purposes are not clearly stated in the circular, or in federal and state guidance, intentional and unintentional violations are distinguished.

**11. Although state agencies are in general compliance with federal requirements imposed directly on them, these agencies frequently do not pass through the federal standards. The reasons for non-compliance include variations in federal agency interpretation of Circular A-102, stricter state and local statutes, practical administrative and financial considerations, and misunderstanding of specific federal requirements. Local recipients generally do not distinguish between federal and state administrative standards and judge themselves to be in compliance with grant requirements if payments are received and if auditors find their program and fiscal management policies to be sound.**

Federal agencies are primarily concerned with the requirements that state agencies must satisfy directly, and not with those requirements the states must pass through. In all three programs, federal agencies receive required application and reporting forms according to federal schedules. Federal Title III and Civil Defense administrators reported no compliance problems with the states included in this study. Of the nine state agencies surveyed, the only compliance problem with federal regulations was reported by the Massachusetts LAWCON agency for which HCRS

ruled the payment of taxes on an acquisition project an unallowable cost. Another state administrator submits quarterly reports on a cash rather than the required accrual basis, but he is not certain if the federal agency checks the forms or knows the difference.

While federal agencies understand the principle that OMB fiscal requirements are supposed to pass through, compliance and enforcement procedures are minimal. All three agency manuals clearly indicate that federal management standards and audit requirements apply to all grantees, but the passing through of other requirements depends on the agency's understanding of the authority and clarity issue. Officials at the Land and Water Conservation Fund and the Civil Defense program said that while states were aware of federal pass-through requirements, there is no review of state agency guidance to ensure compliance. Federal Title III administrators, on the other hand, have begun a major effort to inform state agencies that the A-102 requirements in the HHS *Administration of Grants* regulations apply at the substate level, but once more there is no formal process to assure state compliance. In summary, federal agencies enforce compliance with those regulations that are imposed directly on state agencies; but once information on pass-through requirements has been provided to the state agencies, responsibility for implementation is transferred entirely to them. No federal agency reported suspending a state grant because federal requirements were not passed through.

Even though federal enforcement of pass-through requirements is minimal, this study found only a few instances where state agencies intentionally did not pass through the requirements. Most state agencies do not pass through a requirement because of stricter state or local statutes, a lack of knowledge that a requirement should pass through, or practical administrative and financial considerations. What follows is a summary of the extent to which each provision is passed through and, where it is not, the major reasons for this occurrence.

## RECORDS RETENTION

The 3-year federal requirement for retention of records is generally equaled or exceeded by state and local statutes. In practice, a number of state and local agencies retain their records indefinitely, based on information other than the requirement in Circular A-102.

Circular A-102 places a 3-year limit on the retention of "financial records, supporting documentation, statistical records, and all other records pertinent to a grant. . .", and restricts federal agencies from imposing more stringent standards. Because of the general pass-through provision, state agencies, in principle, may not impose stricter requirements on federal funds. In practice, the 5-year retention of record standards in Virginia and Massachusetts is imposed on federal funds subgranted by the state, and local standards are observed by recipients if they are stricter still. One Civil Defense administrator remarked that local records are as close as one can get to immortality, and, of the nine local Civil Defense recipients interviewed for this study, four keep their records "forever" or "permanently," while two others have records dating back to the early 1960s.

All of the areawide agencies receiving Title III grants retain their records for three years at a minimum. Although two agencies had set an arbitrary time limit, they were not aware of any rule. All Title III subrecipients retain their records a minimum of five years or since the office was established. Subrecipients based their decision on a variety of sources, but few of them cited the circular or agency guidance as a basis for their decision. Similarly, while two LAWCON subrecipients cited the 3-year rule, all retain their records longer. One subrecipient indicated all records were kept permanently because "the basement wasn't full yet."

It seems unlikely that the federal government would make a concerted effort to tell state and local agencies they could not retain records longer than three years; but if Circular A-102 is supposed to be the "rule of thumb," the provision should be clarified. Substate managers, in particular, are not aware of the federal rule. It was the experience of the research team that most of the agencies visited had stricter rules.

An equally important issue centers on how long records must be kept for federal audit purposes. OMB established the 3-year retention of records requirement based on the assumption that a federally approved audit would be conducted within every two years. When audit schedules are met, no records would be dispensed with until after they had been audited. (The circular also forbids the destruction of records of an ongoing or disputed audit.) This study has found that federal audit requirements are not generally being met unless they are funded by the federal government.

The following commentary, quoted from OMB's

explanation of the new Attachment P to Circular A-102, points up the ambiguity that now exists in the federal standards:

Comment. One commenter said the attachment requires an audit every two years, and asked whether that meant that only every other year's transactions should be audited.

Response. It is the intent of the circular that audits cover the period since the previous audit. If this is a 2-year period, the audit should cover both years.<sup>36</sup>

If, as this study has found, federally approved audits are being performed as infrequently as every 4-5 years, are recipients of federal funds responsible for retaining back program records until that audit is performed?

## LETTER OF CREDIT

State agencies using the letter-of-credit method receive payments in seven days or less, with minimal paperwork required. Although many substate grantees meet federal letter-of-credit standards, this method of payment is not used below the state level. Substate agencies on the reimbursement method rarely receive payments from the state within the federally required 30 days.

Eight out of nine state agencies in this study receive federal funds by the letter-of-credit method, the quickest and simplest means to advance funds to a recipient agency. Once a grant has been approved, state agencies submit a single-page standard form to draw down federal funds. With one exception, payments are received within 5-7 days. As mentioned earlier in this report, federal agencies differ as to whether or not this provision passes through to subrecipients, even though the letter of credit is used to pay the states. HHS allows state agencies to use the advance method in place of a letter of credit. This complicates matters for recipients, although Circular A-102 says "the letter of credit funding method shall be used by grantor agencies where all of the following conditions exist. . . ."<sup>37</sup> These conditions—\$120,000 annually in federal grants, adoption of federal management standards, and the ability to minimize time between the receipt and transfer of funds—are met by nine area agencies and five LAWCON recipients, among the 27 local grantees. Despite the option allowed for state agencies by HHS, Circular A-102 states unequivocally that:

Advances made by primary organizations (those which receive payments directly from the federal government) to secondary recipients shall conform substantially to the same standards of timing and amount as apply to advances by federal agencies to primary recipients.<sup>38</sup>

While the wording in the HCRS manual is ambiguous, a careful reading indicates that state agencies should use the letter-of-credit method of payment where subgrantees meet the federal standards. The Civil Defense manual permits only localities to apply for reimbursement. To summarize, Title III allows advance payments rather than letters of credit, Civil Defense allows only reimbursements, and state LAWCON agencies, with one exception, use reimbursements even when the conditions for a letter of credit are met.

Although the circular stresses "procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the grantee,"<sup>39</sup> local recipients receive funds from 4-10 times slower than state agencies. Circular A-102 states that "when the reimbursement method is used the federal agencies shall make payment within 30 days after receipt of the billing," and, according to OMB, this provision does pass through. The 30-day limit is almost never met by state LAWCON and Civil Defense agencies. In Massachusetts and Virginia, recipients of Civil Defense grants are allowed to submit quarterly reimbursement requests. Even though some expenditures have been made by the localities three months before submission of the reimbursement claim, payments from the state of Massachusetts take 4-5 weeks to arrive and payments in Virginia 4-8 weeks. While Wisconsin allows monthly reimbursement requests, payments are received 6-9 weeks later.

Receipt of reimbursement checks by local recipients of state LAWCON grants varied from several weeks to several months. In Wisconsin and Massachusetts, recipients have been encouraged to submit billings only when a project is completed because of a state shortage of personnel to review claims. A number of communities expended funds for which reimbursement was not even requested until a project was completed—nearly a year after expenditures were first made. Six out of nine LAWCON grantees reported delays of 2-6 months in receiving funds back from the state.

Title III area agencies receive advances of from 8%

to 25% of annual funding at the beginning of the year and then may request monthly reimbursements to bring funding up to its original level. In most cases this system has worked satisfactorily and the 30-day limit for receipt of payment has been observed. Only two of nine areawide agencies said that payment takes longer than 30 days. Only one subrecipient indicated that payment takes up to six weeks. Several stated that, while there were serious delays in the past, there had been considerable improvement in the past two years.

Reasons for the delay in making timely reimbursement appear to depend on the time it takes the state comptroller to process checks or the state's desire to collect interest for as long as possible on federal funds.

## FINAL REPORTS

As intended in OMB Circular A-102, this provision only applies to LAWCON projects examined in this study. Final reports for LAWCON projects generally are not submitted within the federally required 90 days. Final quarterly reports for Title III and Civil Defense grants, however, are generally submitted within the federally required 30 days.

OMB Circular A-102 states that:

Federal agencies shall require grantees to submit the Financial Status Report . . . no later than 30 days after the end of each specified reporting period for quarterly and semiannual reports and 90 days for annual and final reports. Extensions to reporting due dates may be granted upon request of recipient.<sup>40</sup>

All three federal agencies incorporated this provision into agency guidance manuals. DCPA (Civil Defense) requires billings within 30 days following the end of the period covered. HHS (Title III) requires quarterly and semiannual reports 30 days after the reporting period, and annual reports 90 days after the end of the year. HCRS (LAWCON) requires all reports 90 days after the completion of the project. Of the three federal agencies, however, only HCRS includes a provision which states that an extension may be granted upon request by the state.

While all state LAWCON agencies are aware of the 90-day rule for final reports, they do not strictly enforce the rule because HCRS does not strictly adhere to it with them. While subrecipients in Massachusetts are aware of the time limit, final reports are

rarely submitted within 90 days. District officials in Wisconsin try to get final reports in within a year after the project is completed, but one locality visited did not submit a final report until two years after completion of the project. Subrecipients in Virginia were generally not aware of any time limit for submission of final reports.

Title III funds are awarded on a continuing basis so there are no final reports, except at the state level. Only the Massachusetts Department of Elder Affairs did not submit a final report within 90 days. Most subrecipients interpreted a final report to be their final monthly or quarterly report form. Only two out of nine areawide agencies took longer than 30 days to submit their quarterly report. Most subrecipients submitted a report within 30 days, with only two subrecipients taking 90 days to send in their report. One of the two subrecipients in violation said that it tried to submit timely reports but the state agency kept changing the fiscal year.

Civil Defense state and local agencies were all timely in submitting their final quarterly billing. Only one subrecipient indicated that it occasionally took two months to prepare the final billing, and that there was no pressure from the state agency in these instances. Where this study came across policy concerning due dates for final reports, neither federal, state, nor substate agencies strictly enforced the federal regulation. The reason for this can be traced back to the language of Circular A-102 which allows agencies to extend the deadline. It seems that deadlines for quarterly reports were enforced more consistently and met by recipients of Title III and Civil Defense grants because no exceptions are made to the rule as it appears in the federal agency guidance manuals.

**12. Lack of coordination among federal, state, and local audit requirements has resulted in the auditing of some recipients of federal funds too frequently while others are audited only occasionally. With no generally accepted objectives and standards, audits conducted by one level of government are rarely used to satisfy the requirements of another. In every instance where federal agencies either pay for or conduct audits, the requirements in Circular A-102 are met. In the absence of federal funding for audits, a number of state agencies gather source documentation that provides them with desk audit capability.**

Circular A-102 establishes audit requirements that



are designed to assure grantee fiscal accountability but also to eliminate excessive auditing by each level of government that handles federal funds. In setting the conditions for what an audit should and should not accomplish, the circular encourages federal agencies to accept state and local audits that meet federally required standards. Federally approved audits should be conducted by "qualified individuals capable of unbiased opinions" as to whether the "terms and conditions" of the grant have been met. These examinations should be conducted "usually annually, but not less frequently than every two years," in accordance with "generally accepted auditing standards including the standards published by the General Accounting Office. . . ." The circular continues that "examinations should be conducted on an organizationwide basis to test the fiscal integrity of financial transactions," and "it is not intended that each grant awarded to the recipient be examined."<sup>41</sup>

By establishing federal audit standards that apply to all federal grants, OMB intends to make it possible for a single audit to satisfy a number of audit requests. For instance, an annual city audit that follows federal guidelines should satisfy both state agency and federal agency requirements for a federally approved audit. As another example, a nonprofit organization receiving several federal grants should be able to submit copies of a single audit to all grantor agencies since an audit of each individual program is not required.

Research for this study was conducted before the issuance of the new OMB audit standards in Attachment P of Circular A-102. While the "single audit concept" is more clearly explained and structured in the new attachment, the principles are much the same as those in Attachment G of Circular A-102, which have been required of grantees since 1977.

In practice, audits performed by one level of government are rarely required or accepted by another. While a number of state and substate agencies are audited according to federal standards and schedules, many are audited twice a year or more, and many are never required to submit audits of any kind. Of the nine state agencies in this study, only two were not audited according to federal standards within the required two-year period. The LAWCON program in Virginia reported a federal audit by HCRS every 3-4 years, while the LAWCON agency in Massachusetts is audited by the state at federal expense every 2-1/2 years. All other state agencies interviewed were audited according to federal standards. In addition to federal audits, however, four of

the state agencies were subject to annual state audits. This figure represents a substantial amount of duplication; at the state level, acceptance of state audits by the federal government is not practiced.

There is also considerable duplication and/or lack of enforcement of federal standards with respect to audits performed at the substate level. While subrecipients may be audited as part of a statutorily required local city or county audit, not one of the managers with the Civil Defense or LAWCON programs had to submit a copy of the local audit to the state grantor agency. Therefore, federal audit requirements are theoretically being met only in those instances where the state or federal government conducts the audits. None of the local Civil Defense offices has been audited by the state agency and only three federal audits of local Civil Defense funds have been performed. Interestingly, all three audits were performed in nearby Virginia—once in Norfolk and twice in Fairfax County, all by federal contract with the state Auditor of Public Accounts.

Of the nine local recipients of LAWCON funds, only Cambridge, MA, Fairfax County, VA, and Green Bay, WI, reported federal or state audits in the last 15 years. The Office of the District Representative in Green Bay, WI, was audited by a federal auditor who is reported to have been more concerned "over dotted i's and crossed t's than if the tennis courts were built on prime farmland."<sup>42</sup>

Title III subrecipients are somewhat more in compliance with federal audit standards, but there is still duplication of audits in some instances and several subrecipients are not required to submit copies of local audits. All nine areawide agencies are audited at least every two years. All subrecipients are audited at least once every year by some source. But here the similarity ends. Although all of the Legal Service agencies in Massachusetts are audited annually, they are all under contract arrangements, and are therefore not required to submit audits. County offices on aging and their subrecipients in Wisconsin are audited annually by the county, but only two offices have ever been audited according to state standards. Half of the agencies felt the county audit was very general and did not thoroughly review every expenditure. In Virginia both Title III subgrantees are required to submit annual audits to area agencies.

While all Title III subrecipients are audited every two years, it is unclear in a number of instances whether or not those audits meet federal standards for they are not submitted and reviewed regularly. Because there are no generally accepted audit stan-

dards or guidelines, we also found a couple of instances where subrecipients are "overaudited." The Milwaukee County Office on Aging doesn't really know how many audits are performed: "there are so many for so many purposes." The office is audited annually by an outside auditor to meet state requirements. Its books are checked several times a year by county auditors and a full county audit is conducted annually. It had also been recently informed of a pending GAO audit and had received notice from "some other federal agency concerning a pending audit with respect to some new audit procedures."<sup>43</sup>

The most frequently audited agency in this study was undeniably the Homemaker Health Aid Service in Washington, DC. As a subgrantee of a number of Capital Area jurisdictions, this agency has been audited by the District of Columbia, the federal Administration on Aging, Montgomery County in Maryland, Arlington and Fairfax Counties in Virginia, in addition to an annual independent audit required by United Way of America. The agency director says each audit has a different emphasis and one does not satisfy the requirements of another.

Why is there duplication of and inconsistency in the way in which audits are performed at the state and substate level? Two reasons have been illustrated: there is no coordination among federal, state, and local auditors so that the same standards can be used, and where local audits are performed there is no review of those audits to verify that they meet federal standards. Federal and state Civil Defense and LAWCON administrators maintain that the absence of funds for federal audits has made the collection of source documentation necessary. Unlike Title III, Civil Defense and LAWCON program funds may not be used by state offices to conduct local audits, nor may grants to local governments be used to contract for audits. Civil Defense and LAWCON administrators do not feel that the federally required audit conducted on an organizationwide basis is sufficient, because federal agencies hold the agency responsible for substantiating costs incurred by subgrantees. Federal auditors for these two programs agreed that the only ways to accomplish this objective are regular audits of specific local program records or thorough source documentation before a reimbursement is granted.<sup>44</sup> Administrators in all three state LAWCON programs agree.

The Director of the Massachusetts Division of Conservation Services says that his audit staff is sufficient only to review supporting documentation sub-

mitted to the states, and even if auditors were available, current travel limitations imposed by the state would prevent state official personnel from making onsite visits. In the absence of an audit that would verify local costs charged to the state LAWCON grant, the state director sees no alternative for satisfying agency accountability. The Grants Chief for the Virginia Commission on Outdoor Recreation says that states need this level of documentation since HCRS holds them responsible for misappropriated funds. State Civil Defense and LAWCON agencies maintain they are adequately protected when payments are based on actual records and project inspections. If the present system of requiring source documentation was replaced by submission of a local organizationwide audit, specific information on grant expenditures would no longer be available. The problem, then, is not merely the absence of federally funded audits, but whether or not the proposed audits under Attachment P would adequately replace the current system of cost verification.

## Summary

The failure of federal and state agencies to enforce or pass through specific provisions in Circular A-102, the lack of any generally accepted audit standards and schedules, the inconsistency with which subrecipients are audited, and an unclear policy for payment of audits all contribute to a lack of consistency in the fiscal management of federal pass-through funds. Until there is greater understanding by managers of the requirements with which they are supposed to comply, uniformity in fiscal management practices will not be realized.

## CONCLUSIONS

This chapter illustrates and documents those findings that have some bearing on the feasibility of standardizing fiscal requirements. The overriding purpose of the research is to determine if there is consistency in the fiscal management of federal pass through grants, and, if not, what problems are preventing realization of uniform practices and procedures. The problems in the preceding chapter are intended to illustrate additional measures that are needed in standardizing fiscal requirements. The principle of uniformity is supported by grants managers at all levels of government and the development and implementation of Circular A-102 is generally

acclaimed as a positive and necessary step towards improvement. OMB's initiative in promoting the use of the principles in the circular is recognized and supported. If the circular's basic goals of standardization and simplification are to be realized, however, the problems outlined in the report will have to be remedied. In summary this study found that:

- The language in Circular A-102 does not make clear which federal requirements are intended to pass through to subrecipients.
- Federal administrative requirements are implemented inconsistently, in part because there has been no authoritative determination when and if federal regulations take precedence over state and local statutes.
- Little, if any, review of federal and state agency guidance exists to determine if uniform requirements and procedures are being followed.
- Federal, state, and substate agencies add on program and fiscal requirements, frequently because they are uncertain of the degree to which they are held accountable.
- Troublesome delays exist in the adoption and issuance of updates and changes in federal administrative procedures.
- Insufficient communication exists between grantor and grantee agencies concerning the intention of federal management requirements and what constitutes compliance.
- In many cases technical assistance is unavailable to agencies which are held accountable for federal funds but have limited fiscal capabilities or insufficient knowledge of federal requirements.
- Federal audit standards are rarely complied with below the state level, unless the federal government assumes the cost for these audits.

Two conclusions have been drawn by the Commission staff, based on the research findings of this study.

1. **Partial uniformity presently exists in the management of federal pass-through grants. Standardization of fiscal requirements and procedures has not been realized at all levels of government.**

OMB Circular A-102 was issued in 1971 for the purpose of encouraging uniformity in the fiscal practices and procedures of federal agencies in a number of areas, including applications, accounting, reporting, and auditing. In 1977, the Office of Management and Budget revised Circular A-102 to apply to all subrecipients as well as to recipients of federal grants, taking into account those federal grants that pass through state agencies. This study found that, while Circular A-102 is a constructive and desirable management tool, it has not produced the uniform administrative practices originally intended for federal agencies or for the administration of federal pass-through grants. The fundamental reason for this is the lack of clear and consistent administrative guidelines and procedures that are understood and enforced by grants managers at all levels of government. There is, however, greater uniformity in the requirements and forms issued in federal agency regulations than in the guidance issued at the state or substate level. The reasons for this phenomenon stem from problems associated with applying Circular A-102 not only to the initial recipients of federal grants awards, but to all grantees and subgrantees who ultimately receive funds from federal grants.

It was not until three years ago that Circular A-102 was revised to apply to all federal grants that pass through the states. Since it has taken ten years to bring the federal agencies into basic compliance, it may be too soon to expect full understanding or implementation of the circular by recipients and subrecipients. This study found, however, that there are fundamental problems in the development and structure of A-102 that will not be resolved with time. The application of the circular's provision to pass-through grants is hampered by the absence of a clear explanation of the extent to which certain provisions apply to subgrantees. When the circular was revised to apply to pass-through grants, a statement was included in the introduction requiring that "except where they are excluded, the provisions of the attachments of this circular shall be applied to subgrantees . . . if such subgrantees are states, local governments, or federally recognized Indian tribal governments. . . ." The interpretation and application of the individual attachments is left up to federal and state agency managers who are held accountable for ensuring that their respective recipients and subrecipients of federal grants are in compliance.

This task is a difficult one. An interagency task force required approximately two years to design a set of uniform administrative requirements that

would apply to federal agencies—a group of organizations with relatively homogeneous fiscal procedures in comparison to all grantees. With the scope and application of the circular revised to include the array of recipients and subrecipients that manage pass-through grants, many more variables must be taken into consideration. Some federal, state, and local statutes are more stringent than, or conflict with, the A-102 provisions. For example, state law may require different audit schedules and/or audit standards than those prescribed in Circular A-102.

Other federal circulars—such as Circular A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other NonProfit Organizations*.<sup>46</sup>—overlap with A-102. If a grant is awarded to a state agency, which in turn awards a grant to a nonprofit organization, which subgrants to a local government, A-102 applies to the state and local governments and A-110 applies to the nonprofit organization. Although a number of the requirements of both circulars are similar, a few of them are different. More importantly, because some federal, state, and substate agencies are not aware of the provisions in either circular and others are left to sort out and apply the requirements in A-102 according to their best interpretation, it is inevitable that different requirements will be applied and add-ons will occur. For instance, subrecipients are subject to fiscal requirements that differ from those in A-102, because state agencies rely on varying federal information sources in developing administrative requirements that adequately ensure their fiscal accountability.

These considerations—together with other findings of this study that reveal insufficient review of federal agency regulations to ensure that the A-102 requirements are followed, and inadequate negotiation and coordination among agencies concerning information that should be collected—result in partial and fragmented application of the administrative requirements in Circular A-102. Standardization at the federal level has realized some success, partially because efforts of this nature have been underway for ten years and the application of uniform requirements at the federal level is a more manageable goal. With insufficient explanation of the requirements, relatively new procedures, and no focal point in the state similar to the U.S. Office of Management and Budget, state managers respond by determining only what works for their individual program. As a result, the administrative requirements in Circular A-102 vary somewhat as they are given to state agencies by the federal agencies, then multiply, or divide as

they pass through the state and substate agencies. By the time such “uniform” administrative requirements reach the ultimate recipient, there is only partial consistency in the type of information, the format for its collection, or the provisions that are applied to a recipient.

2. **Uniformity is feasible only if a system for the management of fiscal requirements is developed that includes (a) clear lines of authority, (b) a set of fiscal policies and procedures that distinguish the accountability of federal, state, and local administrators, and (c) applies to all such administrators.**

When program managers speak of uniformity in fiscal management procedures, they refer to the need for greater consistency in the guidelines and procedures applicable to their particular program, or, in the case of subgrantees, to the need for less duplication in the requirements they must meet to receive funds from a variety of agencies. Where policies and procedures for a specific program are unclear, state managers must negotiate and consult with subrecipients to impose uniformity on a fragmented system. Uniformity in fiscal management procedures for federal grants, then, means the realization of more consistent and generally accepted fiscal procedures and principles that are used by grants managers at all levels of government and throughout all agencies at each level of government.

The use of more consistent and generally accepted fiscal procedures does not imply, however, that one standard set of rules and procedures promulgated by the federal government should or can necessarily apply to all grant recipients and subrecipients. In developing a more uniform administrative system, consideration must be given to existing federal, state, and local statutes, as well as to the development of better management practices that are based on the practical needs of those involved in administering federal grants. For example, it would not be feasible to require compliance with the federal rule on retention of records where stricter state or local statutes exist. In the area of audits, unless there is a change in present federal management practices to determine who will pay for audits on federal grants, state agencies will continue to collect additional information to ensure their accountability. Similarly, better technical assistance needs to be provided to interpret the requirements in Circular A-102 if they are to serve as the guiding principles in managing federal grants.

With certain modifications and changes, Circular A-102 could serve as the primary written guidance in realizing the objectives of uniformity and consistency in the fiscal management of federal pass-through grants. The A-102 record to date, in encouraging to some extent standard federal policies and procedures, illustrates its potential value in providing basic administrative guidelines for use by all levels of government. It is important to note, however, that

A-102—but one of a number of federal administrative circulars—can only address the need for uniformity in written guidance as it pertains to state and local governments or federally recognized Indian tribes. Improvements in other OMB Circulars, as well as in agency guidance, will be necessary if there is to be a systematic, intergovernmental approach towards the creation of a more uniform management structure.

## FOOTNOTES

- <sup>1</sup> *Appendix 2* summarizes the responses of all Title III subrecipients in Wisconsin to the first third of the local questionnaire used for this study. Similar charts were made for all three programs at all levels of government before the research staff began work on the findings, conclusions, and recommendations. *Appendix 1* lists the person, title, agency, place, and date of all federal, state, and local interviews, and *Appendix 3* reproduces the three questionnaires used in our research. Footnotes have not been used in the chapter where an agency or person is specifically identified, since a number of interviews are cited more than once and the appendix fully identifies the source of the information.
- <sup>2</sup> 31 USC 76, Section 18, 18a, p. 1203.
- <sup>3</sup> *Federal Register*, OMB Circular A-102, Washington, DC, U.S. Government Printing Office, September 12, 1977, p. 45828.
- <sup>4</sup> Telephone conversation with Cecilia Wirtz, Assistant General Counsel, Office of Management and Budget, Washington, DC, July 1980.
- <sup>5</sup> Interviews with John Lordan and Palmer Marcantonio, Financial Management Branch, Office of Management and Budget, Washington, DC, February and April 1980.
- <sup>6</sup> Office of Management and Budget, *Managing Federal Assistance in the 1980's*, Washington, DC, U.S. Government Printing Office, June 1980, p. A-7-34; and *Wheeler v. Barrera*, 417 US 402,427 (1974) cited in National Conference of State Legislators, *A Legislator's Guide to Oversight of Federal Funds*, Denver, CO, NCSL, June 1980, pp. 50,55.
- <sup>7</sup> Heritage Conservation and Recreation Service, Department of Interior, *Land and Water Conservation Fund Grant Manual*, Washington, DC, U.S. Government Printing Office, December 1973, Part 675.1.1.
- <sup>8</sup> *Federal Register*, Department of Health, Education, and Welfare, "Grants Administration," Washington, DC, U.S. Government Printing Office, August 2, 1978.
- <sup>9</sup> *Federal Register*, September 12, 1977, p. 34076.
- <sup>10</sup> *Ibid.*, Attachments C, N, and K. Requirements for subgrants to nonprofit organizations are covered in a companion to A-102, OMB Circular A-110. When federal money passes from a grant recipient covered by A-102 to a grant recipient covered by A-110 and/or back again, there is no explanation as to which requirements apply to each or any of the organizations.
- <sup>11</sup> *Ibid.*
- <sup>12</sup> *Ibid.*
- <sup>13</sup> *Federal Register*, August 2, 1978, p. 34076.
- <sup>14</sup> General Services Administration, FMC 74-7, Washington, DC GSA, September 13, 1974, p.3.
- <sup>15</sup> Advisory Commission on Intergovernmental Relations, "Streamlining Federal Assistance Administration," Interim report to the President, Washington, DC, ACIR, September 8, 1978, pp. 13-40.
- <sup>16</sup> Defense Civil Preparedness Agency, Department of Defense, "Change 1 to CPG 1-3," Washington, DC, DOD, May 15, 1977, section 2.15.
- <sup>17</sup> *Ibid.*
- <sup>18</sup> Heritage Conservation and Recreation Service, Part 630.1.6.
- <sup>19</sup> *Ibid.*
- <sup>20</sup> ACIR, "Streamlining Federal Assistance Administration," p.18.
- <sup>21</sup> General Accounting Office, "1975 Amendments to the Older Americans Act: Little Affect on Spending for Priority Spending," prepared at the request of the Senate Special Committee on Aging, Washington, DC, GAO, March 6, 1978.
- <sup>22</sup> Telephone conversation with Robert Stovenour, Director, Division of Management and Budget, Administration on Aging, Office of Human Development Services, Department of Health and Human Services, Washington, DC, September 1980.
- <sup>23</sup> OMB Circular A-102, September 12, 1977, attachment J.
- <sup>24</sup> HEW, *Administration of Grants*, 45 CFR 74 part 97.
- <sup>25</sup> *Ibid.*, part 160 b.
- <sup>26</sup> Defense Civil Preparedness Agency, Department of Defense, *CPG 1-3 - Interim Version*, Washington, DC DOD, March 1976, p. 155.
- <sup>27</sup> Department of Health and Human Services, Division of Human Services, Bureau of Aging, *Contract Administrators Handbook for Aging Programs in Wisconsin*, State of Wisconsin, Madison, WI, April 1980, Form 113.
- <sup>28</sup> Interview with Chuck Reed, Grants Chief, Virginia Commission on Outdoor Recreation, Richmond, VA, May 1980.
- <sup>29</sup> NCSL, *A Legislator's Guide*, p.9.
- <sup>30</sup> Interview with George Hertz, State Budget Director, Boston, MA, March 1980.
- <sup>31</sup> Joint Legislative and Audit Review Commission, *Special Study: Federal Funds* Interim Report, Richmond, VA, Commonwealth of Virginia, December 10, 1979, Appendix III.
- <sup>32</sup> *Federal Register*, Department of Health, Education, and Welfare, "Grants for State and Community Programs on Aging," Washington, DC, U.S. Government Printing Office, March 31, 1980, p. 21126.
- <sup>33</sup> *Federal Register*, August 2, 1978, p. 34080
- <sup>34</sup> Interview with Eugene Domenici, Director of Operations, Virginia Office on Aging, Richmond, VA, May 1980.
- <sup>35</sup> Interview with Joel Lerner, Director, Division of Conservation Resources, Boston, MA, June 1980.
- <sup>36</sup> *Federal Register*, OMB Circular A-102 attachment P, Washington, DC, U.S. Government Printing Office, October 22, 1979, pp. 60958-59.
- <sup>37</sup> *Federal Register*, September 12, 1977, Attachment J.
- <sup>38</sup> *Ibid.*, Attachment G.
- <sup>39</sup> *Ibid.*
- <sup>40</sup> *Ibid.*, Attachment H.
- <sup>41</sup> *Ibid.*, Attachment G.
- <sup>42</sup> Interview with Jeff Pagels, District Representative, Bureau of Natural Resources, Milwaukee, WI, June 6, 1980.
- <sup>43</sup> Interview with Dan Potrzebowski, Accountant, Milwaukee County Office on Aging, Milwaukee, WI, June 5, 1980.
- <sup>44</sup> Telephone conversations with L.E. Rathbun, Assistant Inspec-

tor General for Audit, FEMA, Washington, DC, September 1980 and Don Bair, Accountant, Grants and Contracts Division, HCRS, Washington, DC, September 1980.

<sup>45</sup> *Federal Register*, September 12, 1977.

<sup>46</sup> *Federal Register*, OMB Circular A-110, Washington, DC, U.S. Government Printing Office, July 30, 1976.

## Recommendations

The following recommendations are elements of an overall management strategy that is designed to improve the fiscal management of federal pass through grants in accordance with a revised OMB Circular A-102. The five recommendations provide specific action steps to realize these improvements. *Recommendations 1 and 2* outline the ways in which the Office of Management and Budget should clarify the intent and meaning of the provisions in Circular A-102 and more effectively communicate that information. *Recommendation 3* highlights the need for greater awareness of Circular A-102 on the part of the Congress to help simplify the management of administrative requirements at the federal level. *Recommendation 4* details those changes that are needed in federal agencies to reduce administrative confusion and fragmentation. *Recommendation 5* describes actions that should be taken by the states to minimize the differences between federal and state fiscal requirements and to create more uniformity in the administrative requirements issued by state agencies.

### RECOMMENDATION 1

**The Commission recommends that the Office of Management and Budget rewrite Circular A-102 in consultation with state and local officials so that it might be adopted without change into federal agency guidance manuals. The circular should be revised to realize the objectives of:**

- a) **establishing the federal standards as the only fiscal management requirements except where exceeded by federal, state, or local statutes;**
- b) **defining more clearly the terms and concepts of the circular, including those provisions that pass through and those that do not;**
- c) **writing the circular in more easily understood language and organizing it in a more consistent format; and**
- d) **providing more explanation as to who is responsible for conducting audits according to generally accepted auditing standards and how those audits will be paid for.**

In the 1977 report, *Improving Federal Grants Management*, The Commission recommended that the Office of Management and Budget reexamine OMB Circular A-102 for the purposes of determining those additional areas of administrative requirements that should be standardized and whether or not existing standardized requirements should be modified.<sup>1</sup> Since that time, Circular A-102 has become considerably more complicated because the provisions of the circular have been extended to apply to federal pass-through grants. This recommendation outlines those specific steps that OMB should take to promote greater consistency in implementation efforts. The following discussion also points to those areas where OMB might consider modification in the application of the circular's requirements, to allow for flexibility in compliance while maintaining an overall management approach that advocates uniform administrative practices.

### **Federal Standards as the Only Fiscal Standards**

Under this approach, Circular A-102 would apply to those grants that pass through the states and similar fiscal principles would be followed by federal, state, and local managers administering federal grants. OMB should be given the legal authority to adopt this policy (see *Recommendation 3*), and this should be formally acknowledged in the introduction to Circular A-102. Where existing federal, state, and/or local statutes have prescribed a fiscal requirement that is more stringent than in the circular, the statutorily based requirement should take precedence.

This policy would help eliminate the ambiguity

that presently exists at the federal level where administrative requirements are interpreted as the minimum standards for pass-through funding by some agencies and as the only standards by others. This study found that, in practice, most of the federal requirements are less restrictive than those imposed by state or local grants managers. Consequently, the application of the federal standards as the only standards would, in effect, require all grants managers to use the same basic principles while allowing for deviations if a more stringent administrative requirement existed in federal, state, or local statute. This policy would establish a consistent, if not uniform, application of the requirements in Circular A-102 to those federal grants that pass through the states. It would help eliminate the tendency of grants managers to add on requirements to ensure their fiscal accountability because there is no single authoritative source on the fiscal management of federal grants. In addition, it would streamline the administrative requirements imposed on grant recipients by multiple federal and state agencies who are in the position of applying all such requirements known to be in existence because they are unclear as to which ones take precedence.

If managers at all levels of government were required to use the same principles and basic fiscal requirements in administering federal grants, there would be far less duplication, fragmentation, and adding on of requirements in the fiscal management of federal pass-through grants.

### **Defining Terms and Concepts More Clearly**

Those involved in redrafting the circular should provide more explanation concerning the extent to which the individual attachments pass through, and more precise definitions of those terms which lend themselves to differing interpretations. In this study, recipients differed on their interpretations of the following terms: allowable costs, indirect costs, final reports, letters of credit, in-kind contributions, and generally accepted audit standards. Also, recipients differed on their interpretations of the wording of some of the requirements and whether or not certain of them should be passed through. Agencies did not know if they were required to use the letter of credit method of payment for all subrecipients and "sub" subrecipients who meet the requirements of Attachment G, A-102. If they were aware of the require-



ment, grantees did not know whether they were required to hold onto their records for as long as ten years if a federal audit had not been conducted. An excellent description of the extent to which federal requirements do or do not pass through may be found in the regulations issued in the Department of Health and Human Services' *Administration of Grants* regulations. Each of the individual provisions governing the administration of federal grants clearly stipulates to what extent the provisions apply, no matter how many times federal money changes hands.

In revising Circular A-102, special consideration should be given to the need for some flexibility in applying the more complex attachments. Jurisdictions with limited fiscal capacity and management expertise might experience difficulties in compliance and require technical assistance. The need for this sensitivity is underscored by two Congressional laws, the *Regulatory Flexibility Act* (PL 96-354) and the *Federal Grant and Cooperative Agreement Act of 1977* (PL 95-224).<sup>2</sup> The *Regulatory Flexibility Act* extends throughout the federal government the Presidential mandate to ensure that new and existing rules "will be applied whenever possible in a flexible manner, taking into account the size and nature of regulated businesses and organizations while fulfilling the societal and economic goals of the underlying statutes." In distinguishing between procurement and assistance relationships, the *Federal Grant and Cooperative Agreement Act of 1977* defines the meaning of and relationship between federal contracts, grants, and cooperative agreements. Implicit in an interpretation of these definitions is the opportunity for federal agencies to enter into different relationships with recipients, depending on the extent to which the federal government needs to be involved in the administration of a grant. In revising Circular A-102, attention should be given to a more flexible wording of those attachments—such as procurement and property management standards—that may be affected by these laws.

Those involved in redrafting the circular should also consider the possibility of issuing one set of administrative requirements for all recipients of pass-through grants. In the research for this study, interviews were conducted with recipients of Title III funds who are nonprofit organizations and technically not subject to the provisions of OMB Circular A-102. They are subject, however, to the requirements in the HHS *Administration of Grants* regulations. Because HHS has incorporated Circular A-102 and A-110 into one set of regulations, all of its recipient

organizations are subject to the same set of fiscal requirements. While this study cannot gauge the relative merits of this effort based on the programs examined, it does seem to be an issue which warrants further consideration.

### **Writing the Circular in More Easily Understood Language, Using a More Consistent Format**

Although the basic concepts and provisions in the circular are part of the everyday management operations, they are presented in a manner which intimidates or confuses those managers who are supposed to rely on them. Any revision of the circular should strive to use understandable language and avoid the cross referencing that is needed to digest it. For example, to determine when to use a certain method of payment and what procedures to follow requires drawing together selected information from Attachments G, H, and I—none of which is clear on the extent to which its contents pass through. Information that is referenced in one attachment should be repeated in all of the attachments where it applies. This would sacrifice the present brevity of the circular, but would result in a more consistent and understandable explanation of the oftentimes complicated attachments. It would be helpful to include in the effort to redraft the circular those federal and state agency managers who must implement these requirements. They have the most thorough understanding of how these requirements are implemented and could, perhaps, help explain them in the most simple and concise fashion.

The circular should be printed in larger type in handbook form; the *Federal Register* format does not provide for easy reading or comprehension. Where reference is made to other federal guidance, the circular assumes that managers have ready access to this information. This study found that this was not the case. Grants managers in many instances are not aware of the principles in Circular A-102, much less the federal standards for auditing or determining costs. An explanation of, or, if possible, a copy of FMC 74-4, *Cost Principles Applicable to Grants and Contracts with State and Local Governments* and *GAO Standards for Audit of Governmental Organizations, Programs, Activities, and Functions*, should be included as part of the circular.<sup>3</sup>

## Performance and Payment for Audits

In an effort to improve coordination of audits and to rely more on federally approved audits performed by grantee institutions, the Office of Management and Budget has replaced portions of Attachment G of Circular A-102 with Attachment P, "Audit Requirements." Because the implementation of this attachment corresponded with the beginning of this study, it was too early to examine the impact of Attachment P. Until changes are made to improve the implementation, dissemination, and explanation of Circular A-102, however, it seems likely that Attachment P will suffer from the same problems found during an examination of Attachment G. Unless there are generally accepted audit standards or guidelines that are *used* by auditors of federal funds, subrecipients will continue to be overaudited or not audited at all. Many subrecipients were either audited too frequently for a variety of purposes—none of them similar enough to encourage auditors to rely on the findings of other audits—or they were not required to submit copies of audits to the federal or state agency. Instead, a number of state agencies maintain desk-audit capability by requiring the submission of copies of all source documentation under a grant. State agency managers collect this level of documentation both because the federal agency holds them accountable for the misappropriation of funds and because no provision has been made to pay for audits performed on federal grants. This recommendation calls upon OMB to assign complete responsibility to one source for performance of audits, make provision for the payment of those audits, and closely monitor the adequacy of audits performed under Attachment P. (See *Recommendations 2 and 3* for further information.)

### RECOMMENDATION 2

**To improve the overall implementation of, and compliance with, the principles and procedures in Circular A-102 by federal and state agencies, the Commission recommends that the Office of Management and Budget should:**

- a) **develop administrative procedures to monitor federal agency compliance with A-102, limit federal agency add-ons to those required by statute, and ensure timely updates to federal agency guidance;**

- b) **provide for more training of federal departmental personnel to help them understand the meaning and intent of the fiscal requirements in A-102;**
- c) **improve the distribution of Circular A-102;**
- d) **provide for more training of federal and state auditors and require the use of the same set of standards; and**
- e) **improve notification procedures through the development and implementation of the Federal Assistance Award Data System.**

Since the inception of Circular A-102, the Office of Management and Budget has undertaken numerous efforts to increase the awareness of grants managers as to its contents, to study and update specific requirements to make the circular more effective, and to monitor federal agency compliance. This recommendation focuses on some additional improvements OMB could make in its efforts to implement and enforce Circular A-102—particularly those provisions that apply to federal pass-through grants.

### Monitoring Federal Compliance, Add-Ons, and Timeliness of Updates

Making OMB Circular A-102 into a usable and consistent set of administrative requirements is only the first step toward creating a uniform management system for the fiscal management of federal grants. Stronger measures need to be adopted for monitoring federal agency compliance with the circular. OMB, where Circular A-102 originated, should take the lead in improving compliance with the circular; but OMB's responsibilities should be limited to those improvements that could realistically be made if adequate resources were available to perform the management functions assigned to the office.

In addition to requiring the publication of federal agency regulations in the *Federal Register*, OMB staff should review federal agency guidance manuals to ensure that the attachments from Circular A-102 have been properly incorporated and applied to grant recipients and the intent and principles of A-102 are not violated. The word "review" does not mean OMB should conduct a complete and thorough reading of each and every agency program manual. The OMB staff should review only those manuals that are referred to them by federal departmental personnel when a question of compliance arises (see *Recom-*

*mendation 4(c)*). This review process would ensure that federal agencies update their guidance in a timely fashion to incorporate changes to the circular and curtail the number of changes that are sent out by federal agencies. Existing agency manuals should be reviewed in time for agencies to send them out six months in advance of the start of the reporting period.

### **Training of Federal Department Personnel**

One of the major reasons federal agency managers interpret or add on requirements when incorporating Circular A-102 into their regulations stems from their dependence on departmental level interpretation. Where departmental personnel take the initiative to confer with OMB, agency guidance more accurately reflects the philosophy and requirements of the circular. The importance of adequate training on the intent and meaning of the requirements in Circular A-102 cannot be overemphasized. The findings of this study suggest that even if grants managers have access to the circular, or to federal agency guidance implementing its requirements, there is a relatively good chance the information will not be read. Managers rely heavily on information from other managers to answer questions that may arise. In the case of financial management requirements, this study noted insufficient federal-level personnel who are prepared to resolve policy problems relating to the circular.

The Financial Priorities Program, designed to direct top management attention to needed improvements in agency financial systems, provides an excellent foundation for training programs. In the development of this program, a number of priorities were decided upon by OMB, in consultation with the Congress and the General Accounting Office.<sup>4</sup> As part of the program's objective to seek full implementation of federal cost principles and standard administrative requirements, OMB should hold periodic workshops in conjunction with the Comptroller General to explain the intent and purpose of Circular A-102 for federal departmental personnel. The training sessions should include the assistance policy staff for each of the approximately 16 federal departments in existence. The federal departments would, in turn, be responsible for training agency and field personnel (see *Recommendation 4(a)*). Initial training sessions provided by OMB would stimulate those federal departments without the expertise or interest necessary

to properly implement Circular A-102 and train their personnel accordingly.

### **Improve Distribution of Circular A-102**

Communication efforts should be facilitated by providing greater access to copies of the circular and related information. Many grants managers, particularly at the state and substate level, are either not familiar with or are not even aware of A-102. Many have not received federal agency manuals. Availability of the circular in the publications room at OMB or at the Government Printing Office is made known only after an original copy has been received. The circular should be made available in an expanded, easy to read format through federal field offices, state agencies, and other regional organizations.

### **Provide for More Training of Federal/State Auditors and Require Use of the Same Set of Standards**

The major problems associated with the performance of audits on federal pass-through grants were described in *Recommendation 1*—the lack of any generally accepted audit standards, resulting in the performance of too many audits or no audits at all; and insufficient funds to conduct audits. While Attachment P is directed at limiting the number of audits performed by relying on an organizationwide audit by a grantee institution under a cognizant federal agency, it needs to be supported by management efforts to promote the use of the same standards at the federal level. The effective implementation of Attachment P depends heavily on the extent to which the concept is explained and understood and the use of similar standards by all auditors. A standard audit guide to replace the more than 100 in existence is an important step. The Office of Management and Budget, together with the General Accounting Office, should follow up this effort by providing training sessions for federal and state auditors to explain the use of the audit guidelines when audits are performed on grantees subject to Circular A-102. These training sessions should be established as an ongoing function (see *Recommendation 3*).

### **Improve Notification Procedures on Federal Grant Awards**

State managers complain that the Treasury De-

partment's notification of federal grant awards is useless for state planning and budgeting purposes. This issue bears on the circular because state agency managers need to have current information on their federal grant awards to meet the requirements of the circular, as well as to determine the type and amount of information to collect from subrecipients who are required to be in compliance with A-102. OMB should continue efforts to improve upon the Treasury Department's notification procedures through the development and implementation of the Federal Assistance Award Data System.<sup>5</sup> Care must be taken, however, to ensure that the states are not further burdened with unnecessary requests for information in preparing the data base for this system. Information on the notification of federal grant awards is a federal responsibility and not one which should be imposed ultimately on the states by requiring federal agencies to collect information above and beyond the amount they presently gather from the states.

### RECOMMENDATION 3

**To provide the Office of Management and Budget with the statutory authority needed to promote more uniform and consistent application of the requirements in Circular A-102, and to create a greater awareness of the existing requirements on the part of those involved in drafting program legislation, the Commission recommends that Congress:**

- a) **adopt grant reform legislation similar to the *Federal Assistance Improvement Act of 1981* which would**
  - 1) **provide for improved coordination of audits and prescribe appropriate means for reimbursement,**
  - 2) **standardize and streamline administrative requirements, and**
  - 3) **consolidate federal programs which create unnecessary requirements for recipients; and**
- b) **expand its involvement in the *Financial Priorities Program* to include efforts to make legislators more aware of existing administrative requirements which may become complicated by or conflict with requirements in enabling program legislation.**

### **Adoption of Grant Reform Legislation Similar to the Federal Assistance Improvement Act**

In 1977, the Commission recommended that Con-

gress provide specific statutory authorization for existing and future circulars issued by the Office of Management and Budget in order to achieve standardization, simplification, and other improvements of grants management.<sup>6</sup> There are still questions concerning the legal authority of the Office of Management and Budget to establish administrative standards that cannot be exceeded by federal agencies. If the circular is to be extended to apply to all federal pass-through grants, it is essential that OMB be granted the authority to impose uniform administrative requirements that will apply without exception to the administration of federal assistance grants. The problems raised in this study pertaining to federal agency tendencies to reinterpret or change the requirements in OMB Circular A-102—the lack of any clear and consistent explanation of these requirements to state and substate agencies, and the proliferation of agency requests for information to ensure that they have satisfied their fiscal accountability would be partially resolved if the authority were granted to OMB to issue requirements that would be adopted without change into federal assistance agency guidance manuals.

Congress should move to adopt any pending or proposed grant reform legislation which provides OMB with specific statutory authorization to issue administrative circulars. An example is the *Federal Assistance Improvement Act of 1981* (S 807, Title II, Section 203 (a)), which states:

. . . Within one year from the date of enactment of this title, the Director of the Office of Management and Budget in consultation with the Comptroller General of the United States, shall consistent with applicable law, develop, establish, and maintain for use by all federal agencies standard accounting, auditing, and financial management policies, procedures, and requirements for the administration, accounting, and financial auditing of grants, contracts, cooperative agreements, and other forms of federal assistance to state and local governments, nonprofit organizations, and federally recognized Indian tribes. . . . The Director of the Office of Management and Budget shall issue directives to carry out the standard policies, procedures, and requirements established pursuant to subsection (a). Any directive shall be binding on all federal departments and agencies. Such directives

shall prescribe effective means to coordinate federal, state, and local audits of grant programs.

Title II of the *Federal Assistance Improvement Act* also illustrates how Congress should address some of the problems involving audits. Section 204 directs the Office of Management and Budget to prescribe effective means to coordinate federal, state, and local audits of grant programs. The authority granted OMB in this section, combined with better methods for implementing and disseminating the information in Circular A-102—including Attachment P on audit requirements—and the development of an ongoing training program for federal and state auditors (*Recommendations 1(d) and 2(d)*) are needed improvements to achieve greater consistency in the performance of audits on recipients and subrecipients of federal assistance awards.

The last major problem in the area of audits raised by this study is the lack of any provision for payment of audits conducted on federal grant awards. *Recommendation 1(d)* suggests that the Office of Management and Budget determine how audits on federal money will be paid for. Title II of the *Federal Assistance Improvement Act*, Section 204(e) requires that:

The Director of the Office of Management and Budget shall prescribe appropriate means for the reimbursement of independent auditors for actual expenses incurred for such parts of audits as performed on behalf of the federal government, including provisions for

- 1) reimbursement for such expenses, either directly or through the recipient jurisdiction; and
- 2) equitable financial settlements when such audits fail to meet the standard policies, procedures, and requirements developed pursuant to Section 203.

To assist in making improvements in the financial management and auditing of federal grants and in support of past Commission recommendations, Congress should also take steps to standardize, streamline, and consolidate federal grant programs. Any pending or proposed legislation adopting the principles and language of Title I—“Consolidation of Federal Assistance Programs”—of the *Federal Assistance Improvement Act* should be adopted by Congress. Any further legislation introducing portions or

all of the *Federal Assistance Improvement Act* or the principles of the bill should be favorably considered by the U.S. Senate and U.S. House of Representatives. In particular, the findings and conclusions of this study are in complete support of those provisions granting OMB statutory authorization to issue administrative requirements and providing for payment and proper coordination of audits on federal grants.

## **Expansion of Congressional Awareness of Existing Administrative Requirements**

To ensure their accountability, federal agencies must satisfy all Congressional and OMB requirements. Program requirements detailed by legislators in enabling legislation tend to cause considerable expansion in the reporting information required by federal agencies. For example, if legislators create a variety of program categories in the enabling legislation, federal and state agencies must report such administrative expenses as travel, salaries, overhead, and equipment on a monthly and quarterly basis for each program category prescribed in the legislation. Administrative changes to existing legislation are made during the fiscal year, causing the required changes in reporting requirements or forms to generate even greater problems for federal and state agencies. Then either the add-ons multiply or federal requirements are ignored as state agencies attempt to reconcile federal agency and state executive branch requests for information. Similarly, substate agencies must satisfy the requirements imposed by one or more state or federal agencies, as well as provide information to any local authority with a legislative or administrative role in the management of a grant.

Congress could help eliminate federal agencies' unnecessary requests for fiscal information if those involved in drafting legislation paid more attention to the impact program requirements might have on the federal agencies' need to collect fiscal information. The drafting of program enabling legislation that is sensitive to and consistent with existing administrative requirements, together with a revised Circular A-102 that can be adopted into federal agency guidance manuals without changes, would streamline and simplify the reporting and fiscal information that is required of all grant recipients and subrecipients by federal agencies.

As a partner in the Financial Priorities Program, the Senate and House Appropriations Committees have taken an interest in such issues as internal con-

trols, resolution of audits, debt collection, cash management, accounting systems, and grant accountability.<sup>7</sup> All of the Congressional interest to date, however, has been directed toward improving federal agency performance or accountability in these areas. This recommendation suggests that the Committees on Appropriations, as part of their interest in improving financial management practices, expand their involvement in the Financial Priorities Program to include the sensitivity of legislators and committee staff to the issues raised above.<sup>8</sup> Other committees that might become involved in the education of Congressional legislators include the House Committee on Government Operations and the Senate Committee on Governmental Affairs. These committees, with the assistance of the Office of Management and Budget and the General Accounting Office, should make a more concerted effort to explain the intent and meaning of the requirements in A-102 to Congressional members and staff and to illustrate the impact that administrative program requirements have on the proliferation of additional requirements by federal and state agencies. The responsibility for problems associated with waste and unnecessary paperwork should not be left to federal agencies.

#### **RECOMMENDATION 4**

**To help realize more consistent implementation of the requirements in Circular A-102 and a reduction in the amount of information gathered in the administration of federal pass-through grants, the Commission recommends that each federal department:**

- a) provide adequate training for all agency and field office grants managers on the intent, meaning, and application of the federal fiscal requirements;**
- b) ensure that there is adequate capacity and authority in the federal regional offices and the federal agency to resolve questions on administrative procedures and requirements;**
- c) review all agency guidance manuals to ensure that Circular A-102 has been incorporated properly; and**
- d) require that a section be included in all pass-through agreements that specifies what fiscal information is required.**

#### **Providing Comprehensive Training**

Adequate training of federal grants managers is

perhaps the most important element in the successful application of uniform administrative requirements. Even if the written instructions are disseminated widely, state grants managers rely on personal contacts for most of their information. Under the present system, state agency managers are only partially successful in getting their questions answered by regional or national office personnel. While there seems to be sufficient expertise on the implementation of program requirements, there are gaps in the knowledge of federal grants managers on the application of fiscal requirements and procedures.

To the credit of those involved over the years in administering Circular A-102, training sessions have been conducted for state and local officials. When A-102 was administered by the General Services Administration, some 2,000 state and local officials were trained during two-day sessions on the principles contained in the circular and their application. The integrated and systematic management of administrative rules and procedures might best be realized, however, by each level of government assuming the responsibility for improving its own internal management practices. Federal departments, federal agencies, and the Office of Management and Budget should work closely together to ensure proper implementation and explanation of federal fiscal requirements.

Each federal department should design a training program for all grants managers and hold training sessions on a regular basis. These sessions should promote greater understanding of Circular A-102 so that federal agency personnel can quickly and accurately answer questions that may arise. The first annual conference on grants management, sponsored by the Department of Health and Human Services in March 1980, is a positive first step in this direction.<sup>9</sup>

#### **Making Federal Expertise Accessible and Granting Authority to Provide Assistance**

State managers are most satisfied with the help they receive when there is a specific person in the federal regional office whom they can contact to answer technical questions. In these instances, however, federal regional offices are viewed by state agency managers as a good source of information rather than an authoritative source of information. In applying federal administrative requirements, state agency managers are sensitive to the fact that any interpretation they receive might be changed at a

later date. State managers sometimes have to seek answers to questions from remote sources such as an assistant secretary's office, the general counsel's office, or through Congress.

The goal of the training sessions conducted by each federal department should be to ensure that there is at least one person among existing personnel in the federal regional office and one person among existing personnel in each agency program office who can answer questions concerning the fiscal procedures that apply to grants awarded by that department. The Secretary of each department should then assign to these individuals the final authority to decide how federal fiscal procedures apply to those grants for which they are responsible.

### **Review of Assistance Agency Guidance Manuals**

*Recommendation 2(a)* indicates that the Office of Management and Budget needs to adopt stronger measures for monitoring federal agency compliance with A-102 by reviewing federal agency guidance manuals. Changes or reinterpretations of the wording in the circular's attachments by federal agencies result in the issuance of different regulations to grant recipients and, subsequently, to subrecipients. The revision of Circular A-102 to permit its incorporation into federal agency guidance manuals without change would help to remedy this problem. Still, federal agency guidance would need to be reviewed to ensure that the precise wording of the circular is passed on intact. Under the present system, where federal agencies have the administrative flexibility to modify or set aside the provisions of the circular, a review of agency manuals is even more important.

While the Office of Management and Budget should have the ultimate responsibility for seeing to it that the circular is properly complied with, a federal department shares responsibility with OMB for those federal grants administered by that department. This recommendation suggests that each federal department review all agency grant manuals on an as-needed basis to ensure that the requirements and procedures of Circular A-102 are adopted in a manner consistent with OMB's intent and purpose. Those agency manuals that are questionable in their application of Circular A-102 should then be referred to the Office of Management and Budget, which should have the ultimate authority to bring about compliance as described in *Recommendation 2(a)*. Manuals should be reviewed in time for agencies to send

them out six months in advance of the start of the reporting period.

### **Section in Each Grant Agreement Specifying Fiscal Information Required**

The primary purpose for this recommendation is the elimination of the present tendency of state agency managers to collect additional fiscal information to satisfy their accountability to federal agencies. Even if A-102 were revised following the suggestions outlined in *Recommendation 1*, a number of the fiscal principles are general enough to allow for federal and state agencies to collect additional information to be certain that they are prepared for any eventuality during an audit. Departmental personnel should be responsible for making sure that program personnel insert a clause in the terms and conditions of each grant specifying the *nature* and *amount* of fiscal information that will be required for reporting and auditing purposes. The specification of the fiscal information which will be required under the terms and conditions of the grant would help reverse the present trend at the state level to keep information on hand, whether it is requested by the federal agency or not.

### **RECOMMENDATION 5**

**Recognizing the need for greater uniformity in the fiscal requirements and procedures adopted by state agencies and for more consistency in the implementation of those requirements at the substate level, the Commission recommends that no state agency in the administration of pass-through grants be permitted to impose financial requirements other than federal standards, except those resulting from or delegated by an act of the state legislature. Further, the Commission recommends that, in each state, the governor or legislature designate an existing office to:**

- a) identify and provide to all state agencies the uniform administrative requirements and procedures that must pass through to subrecipients of federal funds;**
- b) review and approve state agency guidance manuals to ensure that agency requirements are reconciled with federal administrative requirements;**
- c) determine to what extent state and local audit needs may be met through compliance with the provisions of Attachment P of Circular A-102;**

- d) suggest consistent state requirements and procedures for subrecipients in those areas where federal regulations do not pass through or in areas where states may be allowed some discretion; and
- e) prepare a guide book that would accompany state agency guidance, informing subgrantees of their rights and responsibilities as recipients of federal grants.

With federal administrative requirements now applicable to all subgrants involving federal funds made by state governments, development of a management system to implement, distribute, and enforce uniform administrative standards is necessary. Although the general pass-through requirement was added to Circular A-102 in late 1977, state procedures to promote uniformity are in their formative stages at best.

When Circular A-102 applied to grants made only by federal agencies, uniformity was achieved, in theory, by permitting additional requirements solely by provision of the enabling legislation. Now that federal requirements pass through the states, it is recommended that the same principle apply. Federal standards would prevail unless more stringent requirements were imposed by state statute. In this way, individual agencies would be precluded from imposing requirements at their own discretion, while states would reserve the right to gather additional information deemed necessary by the legislature.

The second part of the recommendation deals with a central state office to assure conformity with federal standards and consistency among state agency requirements. The options that were rejected help explain the position taken by this report. The most certain means by which to achieve complete standardization would be to impose OMB standards only on all grants and subgrants involving federal funds. This position was strongly resisted by state administrators. Although case law does not exist, this approach most certainly would be challenged as a violation of states' rights. Another option would be for state law and administrative procedures to take precedence over federal administrative requirements. This position is unacceptable because a number of the A-102 requirements have a statutory basis, and there is case law establishing the right of federal agencies to impose minimum administrative standards as a condition for awarding a grant.

The principle of uniformity may best be realized at the state and substate level by a single interpretation of federal requirements and by consistent treatment

of subrecipients by state agencies. The major responsibilities of a state administrative procedures office would be to make certain that applicable federal regulations are passed through, and that, where agencies are allowed some discretion, similar recipients are subject to the same requirements.

### **Uniform Pass-Through Requirements**

The implementation of this recommendation depends primarily on the federal ability to produce a single set of standards. For example, efforts by the Texas ACIR to note the similarities and differences between OMB Circular A-102, HHS requirements in 45 CFR Part 74, and other federal regulations have proven difficult. The inconsistencies reported in the findings of this study were confirmed by researchers in Texas.<sup>10</sup> One state agency should be assigned responsibility for assuring that information on federal administrative standards is provided to subrecipients; but the content should come from, or be approved by, the Office of Management and Budget.

### **Conformity to Federal Law**

Even if state law is brought into conformity with federal requirements, agency manuals must be reviewed to make certain that, they accurately reflect federal intentions. In 1977, the State of South Carolina passed a law requiring that whenever possible, state regulations be rewritten to reflect changes in federal statutes. The Department of Grants and Contracts of the Office of the State Auditor has reported numerous agency violations of this principle since it was enacted.<sup>11</sup>

The 1977 Commission report, *Improving Federal Grants Management (A-53)*, recommended "that the states examine their legislative and administrative policies . . . with the view toward resolving in cooperation with the Office of Management and Budget any conflict between those policies and practices and the provisions of federal grant management circulars."<sup>12</sup> This study supports the earlier Commission recommendation and offers a means by which the states may enforce such an effort.

### **Reconcile Audit Needs**

A great deal of confusion and noncompliance exists with respect to federal audit standards. The problems most frequently encountered are the state agen-



cies' practice of collecting source documentation in place of an onsite audit or audits simply not being required at all. Attachment P of Circular A-102 states clearly that independent, organizationwide audits that meet federal requirements may be substituted in place of individual program audits. The state office reviewing administrative procedures should reconcile federal and state audit requirements and notify state agencies what constitutes compliance. During the course of this study, state administrators expressed reservations about the adequacy and the potential cost of complying with Attachment P. While cost considerations may be resolved if S. 807 is passed, OMB, with substantial state input, should closely monitor the adequacy of the audits performed under Attachment P.

### Consistent State Requirements for Subrecipients

Lack of uniformity at the substate level occurs not only from add-ons but also from inconsistency in areas where federal regulations do not apply and where states are allowed some degree of discretion. With considerable guidance from the state ACIR, there is now draft legislation before the Texas State Legislature to establish an office of grant administration in the executive branch.<sup>13</sup> One of its functions would be to monitor agency guidance to assure that both federal and state administrative policies are consistent. In each state, these responsibilities should be assigned to a central state office. This study found virtually no attempt to develop standard forms at the

state level, although their absence contributed substantially to the time spent on local application and reporting procedures, and in some cases necessitated dual accounting systems. Similarly, there is little consistency in state agency audit requirements where federal standards allow some latitude. This study has recommended that states might be permitted some discretion in imposing requirements on smaller, less fiscally capable recipients. The administrative office would then be responsible for assuring that, while not all recipients should be treated exactly alike, similar recipients should be treated with consistency.

### Guidebook on Rights and Responsibilities

Federal administrative requirements specify both responsibilities and rights to recipients of federal funds. State agencies frequently assign the responsibilities (burdensome auditing and reporting requirements) but ignore recipients' rights (indirect cost rates, prompt payment of reimbursable costs). Part of the information provided to all recipients of federal grants should be a listing of both the federal and state provisions that must be met, as well as the procedures for challenging unjust treatment. The proposed OMB circular on procedures for resolving disputes provides the first step in formalizing recipient rights and should include procedures for subrecipients of pass-through grants.<sup>14</sup> In addition, recipients should be able to appeal to the state administrative office when individual agency rules or procedures seem burdensome or unreasonable.

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#### FOOTNOTES

<sup>1</sup> ACIR, *Improving Federal Grants Management*, A-53, Washington, DC, U.S. Government Printing Office, February, 1977, p. 279.

<sup>2</sup> *Regulatory Flexibility Act*. PL 96-354, 94 Stat 1164. *Federal Grant and Cooperative Agreement Act of 1977*, PL 95-224, 92 Stat 3.

<sup>3</sup> *Federal Register*, General Services Administration, FMC Circular 74-4, Washington, DC, U.S. Government Printing Office, July 18, 1974. OMB Circular A-73, Washington, DC, U.S. Government Printing Office, September 27, 1973.

<sup>4</sup> Office of Management and Budget. *Special Analyses—Budget of the United States Government, 1981*, Washington, DC, U.S. Government Printing Office, pp. 353-54.

<sup>5</sup> FAADS is a computer base, central collection of selected uniform information on federal financial assistance transactions developed by the Federal Assistance Information Branch, OMB, Washington, DC.

<sup>6</sup> ACIR, A-53, p. 277.

<sup>7</sup> Senate Report 96-829, *Supplemental Appropriations and Re-scission Bill*, 1980, pp. 8-17.

<sup>8</sup> OMB, *Special Analyses: Budget of the United States Government*.

<sup>9</sup> First HHS Departmental Conference for Grants Professionals, Division of Grants Policy and Regulations Development, OGP, March 26, 1980, Washington, DC.

<sup>10</sup> Texas Advisory Commission on Intergovernmental Relations, *State Administration of Grants-in-Aid to Localities: Improved Procedures for Texas*, Austin, TX, February 1977.

<sup>11</sup> Discussions with George F. Oliver, Director of Grant Services, Office of the State Auditor, Columbia, SC, January, 1981.

<sup>12</sup> ACIR, A-53, p. 280.

<sup>13</sup> Discussions with Jay Stanford, Executive Director, Texas Advisory Commission on Intergovernmental Relations, Austin, TX, November 1980, January 1981.

<sup>14</sup> OMB, Dispute Resolution Task Force, Assistance Policy Branch, *Proposed Standards and Guidelines for Dispute Resolution in Federal Assistance Programs*, Washington, DC, OMB.



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9th and Grace Streets  
Richmond, VA 23219  
*Date Interviewed: May 9, 1980*

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Program Supervisor  
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Gary Burke  
State Comptroller's Office  
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### TITLE III

**State**

Jim Coen, Director of Administration and Finance  
Eugene Domenici, Director of Operations  
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Richmond, VA 23219  
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**Areawide**

Mary Hatchell, Director for Programs  
Bill Rice, Assistant Director for Finance  
SEVAMP, Norfolk  
Suite 145  
16 Koger Executive Center  
Norfolk, VA 23502  
*Date Interviewed: May 29, 1980*

Donna Foster, Director  
Carolyn Carter, Deputy Director  
Ed Barnette, Department of Finance  
Fairfax County Area Agency on Aging  
The Massey Building  
4100 Chain Bridge Road  
Fairfax, VA 22030  
*Date Interviewed: June 23, 1980*

James Elmore, Director  
Jefferson Area Board for the Aging  
415 8th Street NE  
Charlottesville, VA 22901  
*Date Interviewed: May 29, 1980*

#### **Local**

Barbara Quaele, Director  
Norfolk Senior Center, Inc.  
1210 Colonial Ave.  
The John Knox Towers  
Norfolk, VA 23517  
*Date Interviewed: May 30, 1980*

Miriam Felder, Executive Director  
Homemaker Health Aid Service  
National Capital Area United Way, Inc.  
1234 Massachusetts Ave., NW  
Washington, DC 20005  
*Date Interviewed: July 3, 1980*

### **CIVIL DEFENSE**

#### **State**

Doug Haynes, Fiscal Officer  
Office of Emergency and Energy Services  
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Richmond, VA 23225  
*Date Interviewed: May 8, 1980*

#### **Local**

Linda Peacock, Director of Emergency Services  
William Whitehead, Regional Coordinator  
City Hall, Room 225  
Charlottesville, VA 22902  
*Date Interviewed: May 28, 1980*

Dave Watkins, Deputy Coordinator of Emergency Services  
Ed Long, Senior Budget Analyst, Office of Management and Budget  
4100 Chain Bridge Road  
Fairfax, VA 22030  
*Date Interviewed: June 23, 1980*

Robert Smith, Director  
James Tribble, Regional Coordinator  
Region III, Virginia Office of Emergency Energy Services  
Office of Civil Preparedness  
Mrs. Simpson (Principal Bureau Secretary)  
Office of Emergency Energy Services  
310 Turner Road  
Richmond, VA 23235  
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Norfolk, VA 23510)  
*Date Interviewed: May 29, 1980*

### **LAWCON**

#### **State**

Charles Reed, Grants Chief  
Commission on Outdoor Recreation  
8th and Franklin Streets  
Richmond, VA 23219  
*Date Interviewed: May 9, 1980*

#### **Local**

Shurl Montgomery, Director, Parks and Recreation  
Stan Stein, Office of Finance  
Tim Priegel, Planner  
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Norfolk, VA 23510  
*Date Interviewed: May 29, 1980*

Joseph Downs, Director  
Fairfax County Park Authority  
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Eugene German, Director  
Department of Parks and Recreation  
City Hall  
Charlottesville, VA 22902  
*Date Interviewed: August 5, 1980*

## **Wisconsin**

**REPRESENTATIVES FROM  
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Terry Rhodes  
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*Date Interviewed: June 2, 1980*

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*Date Interviewed: June 2, 1980*

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Madison, WI 53702  
*Date Interviewed: June 2, 1980*

Sylvan Leabman  
Administrator for State and Local Finance  
Wisconsin Department of Revenue  
201 E. Washington Avenue  
Madison, WI 53702  
*Date Interviewed: June 3, 1980*

### **TITLE III**

#### **State**

Tina Nye, Director  
Betsy Rota, Fiscal Specialist  
Department of Health and Social Services  
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Bureau of Aging  
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Madison, WI 53702  
*Date Interviewed: June 4, 1980*

#### **Areawide**

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Dan Petrobowski, Accountant  
Robin Mayrl, Assistant Director  
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Fenwick Building  
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James Kellerman, Director  
Carol Whitbeck, Fiscal Officer  
Area Agency on Aging  
District 4  
1221 Bellevue Avenue  
Green Bay, WI 54302  
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Arthur Hendrick, Director  
Area Agency on Aging  
District 1  
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#### **Local**

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Marquita Fox, Director  
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*Date Interviewed: June 4, 1980*

Todd Honeyager, Director  
Elder Care Line  
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Milwaukee, WI 53205  
*Date Interviewed: June 6, 1980*

### **CIVIL DEFENSE**

#### **State**

Gordon Reese, Deputy Administrator  
Jack Gourlie, Administrative Assistant, Financial Assistance  
Department of Local Affairs and Development

Division of Emergency Government  
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**Local**

Dan Gracz, Director  
Milwaukee Civil Preparedness Office Coordinator  
City of Milwaukee Government Administration  
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Milwaukee, WI 53222  
*Date Interviewed: June 5, 1980*

Ed Kroll, Director  
Stanley Grimstad, Area Director  
Division of Emergency Government  
4845 East Washington Avenue  
Madison, WI 53704  
*Date Interviewed: June 4, 1980*

Cpt. William Evans, Director  
Emergency Operating Center  
Courthouse  
Green Bay, WI 54301  
*Date Interviewed: June 6, 1980*

**LAWCON**

**State**

Paul Guthrie, Director of Intergovernmental  
Programs  
Duane Hofstetter, Chief of Recreation Aids Section,  
Bureau of Aid Programs  
Eric Jensen, Director of Bureau of Aid Programs  
Josette Coyle, Account Specialist, Bureau of Finance  
Office of Intergovernmental Programs  
Department of Natural Resources  
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Madison, WI 53702  
*Date Interviewed: June 3, 1980*

**District**

Jeff Pagels  
District Representative  
Department of Natural Resources  
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P.O. Box 3600  
Green Bay, WI 54303  
*Date Interviewed: June 6, 1980*

Larry Friedig, Community Service Specialist  
Department of Natural Resources  
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Madison, WI 53702  
*Date Interviewed: June 3, 1980*

Tom Blotz  
District Representative  
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Wauwatosa, WI 53213  
*Date Interviewed: June 5, 1980*

**Local**

Patrick Kennedy, Administrator  
McFarland Public School System  
5101 Farwell Street  
McFarland, WI 53558  
*Date Interviewed: June 3, 1980*

Donald Fieldstad, Jr., Village Manager  
Nick T. Paulos, P.E., Village Engineer and Director  
of Public Works  
Mark C. Radtke, Assistant Village Engineer  
6500 Northway  
Greendale, WI 53129  
*Date Interviewed: June 5, 1980*

Bob Delorit  
Town Chairman  
Box 25  
Brussels, WI 54204  
*Date Interviewed: June 9, 1980*

**Massachusetts**

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State House  
Boston, MA 02133  
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Ellis Fitzpatrick  
Audit Investigations  
Massachusetts State Department of  
Manpower Development

150 Causeway Street  
Boston, MA 02114  
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James Natale  
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### **TITLE III**

#### **State**

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Ken Wickham, Acting Supervisory Accountant  
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Department of Elder Affairs  
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*Date Interviewed: June 10, 1980*

#### **Areawide**

Robert Gallant, Director  
Leon Diewanowski, Accountant  
Highland Valley Elder Service Center  
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Northampton, MA 01060  
*Date Interviewed: June 13, 1980*

Doug Wilkinson, Assistant Director  
Carolyn Hubers, Program Coordinator  
Elderly Services of the Merrimack Valley  
420 Common Street  
Lawrence, MA 01840  
*Date Interviewed: June 11, 1980*

John O'Neill, Director  
Cambridge/Somerville Home Care Corp.  
1 Davis Square  
Somerville, MA 02144  
*Date Interviewed: June 10, 1980*

#### **Local**

Bob Reed, Director  
Cynthia Embree, Accountant  
Western Massachusetts Legal Services  
76 Pleasant Street  
Northampton, MA 01060  
*Date Interviewed: June 13, 1980*

Kathleen Roberts, Program Coordinator  
Brian McAuliffe, Director  
Cambridge/Somerville Legal Services, Inc.  
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Cambridge, MA 02141  
*Date Interviewed: June 11, 1980*

Maxa Berid, Director  
Barbara Olin, Accountant  
Merrimack Valley Legal Services, Inc.  
13 Hurd Street  
Lowell, MA 01852  
*Date Interviewed: June 12, 1980*

### **CIVIL DEFENSE**

#### **State**

Bernie Nolan, Chief Planner  
Office of Civil Defense  
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Framingham, MA 01701  
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#### **Local**

Chester Hallice  
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Cambridge, MA 02138  
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George Gatizmos  
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*Date Interviewed: June 13, 1980*

George Symborski  
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### **LAWCON**

#### **State**

Joel Lerner, Director  
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State of Massachusetts  
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**Local**

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Brian Elliot, Director Look Park  
Look Park  
Northampton, MA  
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    Planning Department  
    City Hall  
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*Date Interviewed: June 13, 1980*

Peter Helwig, Director  
Community Development  
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Cambridge, MA 02319  
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Robert Malevich  
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**Rhode Island**  
(pretest state)

**REPRESENTATIVES FROM  
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*Date Interviewed: April 16, 1980*

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**LEAA**

**State**  
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**Local**

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**CIVIL DEFENSE**

**State**

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**Local**

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**LAWCON**

**State**

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**Local**

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Appendix 2

RESPONSES TO LOCAL QUESTIONNAIRE BY SUBRECIPIENTS OF TITLE III GRANTS\*

Information Received	Washington, DC, Homemaker Health Aid Service, National Capital Area United Way	Norfolk, VA, Norfolk Senior Center, Inc.	Madison, WI, Dane County program on Aging	Shawano, WI, Shawano County Office on Aging	Milwaukee, WI, Eldercare Line	Cambridge, MA, Cambridge/Someville Legal Services, Inc.	Lowell, MA, Merrimac Valley Legal Services	Northampton, MA, Western Massachusetts Legal Services
<b>Guidance Manual Received—From Whom?</b>	No specific manual. Have not heard of Office of Human Development, but manual "may be around here somewhere."	Received copy of <i>Federal Register</i> , HHS, May 1980. Understand it to be the most recent regulations for Title III, XX funds. Haven't time to read it yet. Low priority unless someone available to answer questions. Otherwise, don't know if requirements stem from federal, state, or local ordinances.	Received guidance manual and <i>Contract Administration Handbook for Aging Programs in Wisconsin</i> from Department of Health and Social Services, Bureau on Aging, April 1, 1980.	<i>Contract Administration Handbook for Aging Programs in Wisconsin</i> received, including HHS, 45 CFR 74.	No state or federal manual. Fiscal policies and procedures from county. Most information included in contract.	No printed manual. Verbal instructions from previous administrator. Annual contract has detailed instructions.	No guidance manual. Instructions sent with monthly cost control statement and conditions are written into contract.	No manual. Internal management system for Legal Services satisfies Home Care Corp.
<b>Percentage of Federal/State Funds Received—For What Purposes?</b>	Money for all of our 19 contracts comes from a variety of separate sources and percentage of federal funds involved varies. Receive Title III grants from Fairfax, Arlington, DC, Prince Georges County, occasionally Montgomery County and Alexandria. From Fairfax County, Title III money consists of county budget allocation, United Way contribution. Part federal in county share.	Understanding is that Title III money matched locally with portion coming from federal government. SEVAMP (areawide agency) divides money up—we're not involved with city council. Total budget goals \$93,655 + \$7,000 in subsequent awards. 70% of that is federal money.	\$142,000 Title III money. Not aware of what percentage is federal/state money. Get funding for Title III B, C (nutrition), state senior program, and transportation.	Receive \$227,921 in Title III B & C 1 and 2 money. Funds senior center, food nutrition program, and home health care. Provide part of services to county, also contract out to nonprofits with Title III B money. \$9,875 is state money—the rest is federal money. County match is inkind. Service providers put up own match.	90% federal money, 10% county money. Title III allotment equals \$180,000.	All funds received from area agency are federal, but figure represents only 50% of what it costs to provide services. Percentage has decreased. 20% inkind required from Legal Services Corp.	75% federal money from area agency. 25% inkind match required from agency. Purposes for which grant can be used spelled out in contract and during negotiations.	All funds from area agencies are federal in origin. Grants for Legal Services for Elderly (Title III) average 40% of cost of services provided. Highland Valley pays higher than most at 60%. Legal Services required to pay inkind services.
<b>Additional Instructions Received—Form and Substance?</b>	Spent considerable time negotiating process with Fairfax County. Able to negotiate contract fairly easily. Budget consists of \$20,000 from Fairfax County, \$16,000 from client contributions, and \$16,000 from the United Way.	No, we don't receive additional instructions. If we have questions, ask SEVAMP (areawide agency). Still do not know if reimbursement for purchase of certain equipment or personnel expenditures is possible. Wish there were	Not really.	Areawide office calls us periodically for information.	Go down to county offices twice a week to gather information or to get something explained.	Billing forms include instructions.	No.	Fiscal officer from Pleasant Valley checked first year on recording procedures. No formal checkup since then.

		more instructions because as it is now, things are overlooked.						
<b>Updates:</b> a. How Often? b. Type? c. Time in which to comply?	No problem—no real written guidance. No major changes or updates.	Not often enough. Don't hear on a regular basis. No group meetings. Hear of my mistakes after I fill out forms. Occasionally, find out by going through previous directors' files. Otherwise, no explanation.	Only one update—the new manual. Material not received until May although we must start planning in March.	New guidance manual just issued. No updates but guidance changes to often—every year. Wish they would leave it the same.	Every 3-4 years. No problems.	No change in two years.	No real changes	Forms have changed from time to time, but no real difficulties in making adjustments.
a. Requests For Fiscal Information in Addition to Formal Ones? b. Overlap Between Program and Fiscal Information?	Generally does not happen. DC recently sent us a lengthy manual on how to audit even though present audit more than satisfactory.	Occasional requests for information—usually by phone. Fiscal information required each month, each quarter, and in the annual plan.	a. Receive guidance from the county. All procedures for various programs incorporated into county form. This incorporation procedure very difficult. Usually changes direction of program focus after we receive county plan. Try to incorporate information for state into one form and keep it up here. b. No program and fiscal overlap.	a. Nothing above and beyond county plan, standard requirements. b. Extensive information in the fiscal area in county plan.	Occasionally requested to prepare a nine-month worksheet. Budget information that is easy to prepare.	No, except when negotiating for new contract. Legal Services initiated extensive overview of expenses. Not required by Home Care Corp.	a. Request from area agency on the amount of time that area agency attorney has spent in <i>Haverhill vs. Lawrence</i> . b. No. Agency has strong position on guarding client information.	a. Home Care auditors have asked for information. b. No.
<b>Problems Responding to Any Guidance Received?</b>	Problem is not with any specific piece of guidance. It's going thru the process mentioned above for 19 separate contracts. Time consuming. All use different forms. Want information in slightly different fashion or a slightly different nature. Problem is also meeting their budget cycle, January-December. Ours is June-July.	Forms need more adequate space on them. Too small. Don't like the monthly report. Think it's possible to come up with something reflecting more accurate data. No one has a better idea. Very difficult in service organization to itemize help and assistance, particularly in-kind services.	Cannot hire a bookkeeper to fill out forms. Not an allowable cost. The director fills them out. Process too complicated to explain. Wishes they did not have to be completed monthly.	Numerous problems when supplement 2C money arrived with no instructions. Made it complicated when it could be simpler. Used to fill out one sheet and paper for state. Now areawide agencies have to fill out four forms. Bookkeeper couldn't deal with them. Expenditures hidden; forms poorly organized. Every month have to tell them who we serve although it rarely changes. Amendment to county plan was 28 pages. Unbelievable amount of	No problems at all with Title III money. Tremendous problems with guidance and forms for Title XX money.	No.	No.	Initially, yes. Six different forms from four different area agencies, all due by the fifth of the month. Basic information is the same, but all want at same time on different forms with little guidance available.

Appendix 2 (Cont.)

RESPONSES TO LOCAL QUESTIONNAIRE BY SUBRECIPIENTS OF TITLE III GRANTS\*

Information Received	Washington, DC, Homemaker Health Aid Service, National Capital Area United Way	Norfolk, VA, Norfolk Senior Center, Inc.	Madison, WI, Dane County program on Aging	Shawano, WI, Shawano County Office on Aging	Milwaukee, WI, Eldercare Line	Cambridge, MA, Cambridge/Someville Legal Services, Inc.	Lowell, MA, Merrimac Valley Legal Services	Northampton, MA, Western Massachusetts Legal Services
			paperwork because we receive additional funds. Why do we have to fill out 30 pages. Trying to prove need for the existence of a program that has proven successful for five years? County plan takes three months to prepare; 150-200 pages. Must submit separate forms for each category. Then reaggregate on different forms quarterly.					
<b>Reasonableness of Information, Is It Needed for Internal Management?</b>	Fairfax County form reasonable. Problem is timing again. We bill after service provided. Don't close our books until third week of month. Because Fairfax needs information at start of following month, our information is often inaccurate. Our internal procedures for aggregating this data take a long time. Homemakers fill out one form, which is submitted to social worker, who in turn aggregates it for numerous homemakers. The social worker then submits it to fiscal officer. This results in large payroll lag for homemakers.	To extent indicated in #6, yes. But would prefer to keep it in different fashion.	Not really. Everyone is keeping information they don't need or use. If I didn't have to submit information to areawide agency, would keep it for county, but not in present cumbersome forms. Would organize the forms differently and aggregate data quarterly. County board is interested in who pays the bill, not all of the requirements and what they mean.	Not reasonable. Too much and too detailed. In working on our '81 plan; haven't received allocation yet, but supposed to have plan completed. Putting together plan also calls for commission to break up into small groups and assess current needs. This is a group of elderly farmers trying to do this. Would keep this info but not in the detail or amount presently required. Tremendous problem with different budget cycles which county clerks refuse to acknowledge is out of our control. If we receive money after our September budget, have to process it all over again and pay the county twice. Clerks do not recognize grant	Yes. Would keep information anyway, especially in terms of ridership and calls we can't meet.	Yes. Form provided sometimes differs from agency needs. Expense categories are different and cost accounting procedures not required by Legal Services.	Yes. Information would be collected anyway.	Information is reasonable, but why are program and cash reports due every month? What do they do with this information? Would not keep information in the detail required by different agencies. Expenditures are broken down into budget categories but the problem is to separate out one areawide agency's services from another.



<p><b>Receive Guidance from More than One Source:</b>  <b>a. Do They Differ?</b>  <b>b. Problems?</b>  <b>c. Possibilities for Similar Forms?</b></p>	<p>Arlington and Fairfax on same report schedule. Everyone else is different. Very difficult to prepare this information each month. Yes, one report for all grants after books are closed. Because Arlington and Fairfax require nearly same information, this could be possible. DC different. Have a sort of semistate status, more rigid, require more information. Arlington and Fairfax have agreed upon same contract form for the first time. My approach on forms. "Tell me what you want, I'll tell you whether or not it's possible."</p>	<p>Don't receive funds from different state agencies but information provided for Titles III and XX is different.</p>	<p>Receive money from the Department of Transportation and Bureau on Aging. Different forms. For DOT one form satisfies all requests. Aging paperwork is too burdensome, particularly for rural counties. There is not enough time to provide services after all the forms are filled out.</p>	<p>N.A.</p>	<p>From county office to county office, state agency to state agency, yes. No fiscal information to overwhelm amounts of fiscal information. Receive approximately 6-7 grants and they are all different. Objectively, it would be great if we had one form. But we get used to it and it becomes part of the routine. Similar state, county, and federal hospital billing procedures would be nice. All are different now.</p>	<p>Two area agency requirements similar. Federal guidelines from Legal Services Corp. apply to federal grant while internal controls applied to area agency grants. No problems with multiple forms because the area agencies allow use of inhouse forms to provide monthly information.</p>	<p>Only monthly reports are required by area agency. Funding from Legal Services Corp. requires no monthly report, but does require annual agency audit. In terms of fiscal years, agency has much duplication of bookkeeping. DEA has changed fiscal year three times in a year. Local budget planning involves two different fiscal years within state, and two national fiscal years because of difference between LSC, Title XX, and CETA.</p>	<p>Yes, Federal Legal Services Corp. grant is entitlement annual and requires annual audit. Home Care could be handled same way. Grants run from \$20,000 to \$600,000 but are ten times as much trouble as LSC. Would be very helpful if agencies required this information on the same form.</p>
<p>periods, only debits incurred. We had to hire independent auditor which caused the board to get upset over additional expense.</p>	<p>15 hours or more per month of one person's time to prepare reports.</p>	<p>In terms of requirements in manual, not anything significant. For county plan, problems. Have to walk board through a series of administrative exercises. Takes a lot of time.</p>	<p>One clerical person, some part-time people on units of service. This is due to Title XX monster which overlaps here with Title III. Also, a full-time clerical person.</p>	<p>Once system established, only 2-3 hours a month.</p>	<p>5-6 hours a month. 4-5 months' negotiating initial grant. 30-40 hours yearly in negotiating annual award.</p>	<p>Monthly report four hours plus a couple of hours of book-keeper's time. \$25 worth of computerized time each month for fiscal printout.</p>		
<p><b>Resources Required to Meet State and Federal Requirements?</b></p>	<p>Can't say. Have three people in office of finance with a request in for another person because the workload is getting too heavy. Homemakers and social workers are involved with filling out forms and aggregating data as well.</p>	<p>Takes 1-1 1/2 days each month for one person to fill out forms. Also, secretary keeps log each day of incoming phone calls—purpose and activity. All walkins and numbers of people invited to special events are recorded. Record of volunteer hours also kept by secretary.</p>	<p>15 hours or more per month of one person's time to prepare reports.</p>	<p>N.A.</p>	<p>From county office to county office, state agency to state agency, yes. No fiscal information to overwhelm amounts of fiscal information. Receive approximately 6-7 grants and they are all different. Objectively, it would be great if we had one form. But we get used to it and it becomes part of the routine. Similar state, county, and federal hospital billing procedures would be nice. All are different now.</p>	<p>Two area agency requirements similar. Federal guidelines from Legal Services Corp. apply to federal grant while internal controls applied to area agency grants. No problems with multiple forms because the area agencies allow use of inhouse forms to provide monthly information.</p>	<p>Only monthly reports are required by area agency. Funding from Legal Services Corp. requires no monthly report, but does require annual agency audit. In terms of fiscal years, agency has much duplication of bookkeeping. DEA has changed fiscal year three times in a year. Local budget planning involves two different fiscal years within state, and two national fiscal years because of difference between LSC, Title XX, and CETA.</p>	<p>Yes, Federal Legal Services Corp. grant is entitlement annual and requires annual audit. Home Care could be handled same way. Grants run from \$20,000 to \$600,000 but are ten times as much trouble as LSC. Would be very helpful if agencies required this information on the same form.</p>

\*The responses included in this chart cover only one-third of the questions asked during the course of our interviews. Responses to questions concerning communication and enforcement/compliance procedures are available, together with all other interviews, at ACIR.

This chart contains the responses of only two subrecipients from Virginia due to the fact that the Jefferson Area Board for Aging in Charlottesville, VA, serves both as an areawide agency and service provider. The information gathered during this interview is included in our charts analyzing the responses from Title III areawide agencies.



# **Federal Assistance Agencies**

**Program:**  
**Title of Federal Guidance:**  
**Person(s) Interviewed and Title(s):**

**Agency, Division Branch:**  
**Address:**

**Phone:**  
**Date:**

## ***Guidance Received (Information)***

1. Have you incorporated OMB Circular A-102 into your written guidance?
2. In what form was OMB Circular A-102 incorporated into your guidance?
3. Who played important roles in the incorporation of OMB Circular A-102 into your guidance? What was OMB's role in the process?
4. Do you find the circular useful in the fiscal management of \_\_\_\_\_ program?
5. Do you receive fiscal guidance from departmental or legislative sources which conflicts with OMB Circular A-102? If so, how does it conflict?
6. How do you learn about changes in federal circulars? Does this present any problems for you?

## ***Guidance Received (Communication)***

7. Do you understand OMB Circular A-102? Is it clear and simple?
8. What areas are ambiguous and unclear?

9. Have you sought or did you receive any assistance in understanding OMB's requirements? If so, from whom?

*Guidance Received (Enforcement/Compliance)*

10. Do you receive fiscal guidance from Congress, OMB, and the departmental level in time to prepare the guidance for \_\_\_\_\_ program?

11. Do you receive changes and updates to Circular A-102 in time to incorporate them into your guidance?

12. Have you ever requested a waiver to OMB Circular A-102? If so, what did you request the waiver for? Was it granted?

13. Has OMB ever raised an issue with respect to your compliance with OMB Circular A-102?

*Guidance Issued (Information)*

1. Are you familiar with the term "flow-through"? If yes, what does it mean to you?

2. Who did you consult in preparing your guidance manual? What method did you use to consult them?

3. Do the provisions in your guidance manual include the following information?

	YES	NO
a) Retention of records for three years	_____	_____
b) Payments will be received within 30 days of request	_____	_____
c) Method of payment will be determined in accordance with OMB Circular A-102	_____	_____
d) Recipients will spend funds secured by letter of credit within three days	_____	_____
e) Cost principles are determined by Circular 74-4	_____	_____
f) Audits are conducted usually annually, but not less frequently than every two years	_____	_____
g) Audits are conducted according to generally accepted auditing standards	_____	_____
h) Final report will be submitted within 90 days of end of grant	_____	_____

4. Does your guidance make clear which of these provisions flow through to recipients of state agency grants?

5. In what instances should a state agency apply for an indirect cost rate based on Circular 74-4?

6. In what instances should the state agency award funds using the provisions in Attachment O of OMB Circular A-102?

7. When should the state agency use the advance method of payment to recipients?

8. What resources (time and staff hours) are required to prepare the fiscal guidance for \_\_\_\_\_ program?

9. Do you require financial information during the application, monitoring, or evaluation phases of a grant?

10. Do you request fiscal information that is not required by OMB or Congress? By what method(s) do you request this information? Why do you request it?

11. Do you require program and financial information separately?
12. Approximately how often do you update or change guidance for the \_\_\_\_\_ program? What method do you use to update or change the guidance?
13. Who do you consult when you are making changes or additions to the guidance? By what method do you consult them?

*Guidance Issued (Communication)*

14. In your opinion is this reasonable information to expect?
15. Why do you require the information?
16. How do you use the information?
17. Is it passed on to any other federal office? If so, to whom?
18. Does your program provide technical assistance to recipients of your awards? If not, do you require that they obtain outside help?
19. To what extent are the federal regional offices involved in guidance for issuing, interpreting, or changing the \_\_\_\_\_ program?

*Guidance Issued (Enforcement/Compliance)*

20. How many grants have you awarded to Virginia, Wisconsin, and Massachusetts under \_\_\_\_\_ program?
21. What form(s) do you require the state agency to submit in applying for a grant? (Copies, if available.)
22. What form(s) do you require them to submit during the administration of a grant? (Copies, if available.)
23. What form(s) do you require from subrecipients of awards made under \_\_\_\_\_ program? (Copies, if available.)
24. How often are the state agencies required to submit the forms?
25. In general, how much time is allowed state agencies to provide the information required as a result of changes or additions to guidance?
26. Do you collect information from state agencies on a cash or accrual basis? Does this present any problems?
27. How many people do you have to review the financial reports that you receive?
28. By what method do you make payment to state agencies under the \_\_\_\_\_ program?
29. (If advance or RDO letter of credit) How long does it take for request for payment to be approved?
30. What form(s) do you require state agencies to submit to make request for payment?

31. Do you follow federal audit schedules in performing audits on your recipients? If not, why?
32. Does your audit request program as well as fiscal information?
33. On the average, how many people are necessary to audit a state assistance agency? How long does an audit for this program take?
34. Do you collect information that gives your office audit capability without onsite review?
35. Do you receive complaints from recipients and subrecipients attempting to comply with financial guidelines for this program? If so, what are some examples?
36. In your view, are the complaints legitimate? If not, why not?
37. If there is noncompliance with federal financial requirements, what steps do you take to ensure compliance?
38. Is it possible to ensure compliance using these steps?
39. Have you ever suspended or terminated a grant if a recipient has failed to comply with federal financial requirements?

# State Assistance Agencies

Program:  
Title of Federal Guidance:  
Person(s) Interviewed and Title(s):

Agency, Committee, etc.:  
Address:

Phone:  
Date:

## *Guidance Received (Information)*

1. What written guidance have you received from the federal agency regarding fiscal management of the \_\_\_\_\_ program?
2. From whom did you receive the guidance?
3. Was this written guidance accompanied by a memorandum, phone call, or personal visit by agency personnel?
4. How often is the guidance updated and do you receive the revisions in time to comply with them?
5. Do you receive requests for fiscal information in addition to the requirements in the formal federal guidance? If so, in what form are these requests issued?
6. Are there difficulties in responding to these requests? If so, why?
7. Do you receive financial guidance from the state which conflicts with the federal guidance? If so, how does it conflict?
8. What is the nature of the fiscal guidance you receive from the state?
9. In your opinion, is the information required by the state reasonable and necessary?

10. What resources (time and staff hours) are used to meet state and federal fiscal requirements?
11. Have you ever been asked to provide fiscal information when you are meeting program requirements?
12. If so, did this occur during the program application, reporting, or evaluation phase of the project?

*Guidance Received (Communication)*

13. Do you feel that you have been adequately informed concerning your fiscal responsibilities under the \_\_\_\_\_ grant?
14. Do you understand the guidance? Is it clear and simple?
15. What areas are ambiguous and unclear?
16. Have you sought or did you receive any assistance in complying with the federal requirements? If so, from whom?
17. What roles do the regional office and the federal agency play in providing technical assistance?
18. Have you ever received guidance from one source that was later contradicted or overruled by another? If so, how?

*Guidance Received (Compliance and Enforcement)*

19. What form(s) do you have to submit to the federal agency in applying for a grant (copies if available)? In your opinion, are these reasonable forms to have to complete for the federal agency?
20. How long do you retain your financial records other than those concerning payroll expenditures?
21. By what method of payment do you receive your funds from the federal government?
  - a) (if advance) What kind of information is required to receive money from the federal agency in advance?
  - b) if letter of credit, what amount and type of information is needed in order to receive money under a letter of credit?
22. How often are you required to submit information to the federal agency?
23. How long does it take for your request to be approved?
24. Approximately how many days does it take for you to receive the money?
25. (If letter of credit) Does the federal agency impose a 3-day limitation on drawdowns? Does this present problems for your agency?
26. How is your accounting system set up?
27. Does the federal agency or federal regional office require information on a cash or accrual basis?
28. Does this present problems for you?
29. On what basis is the indirect cost rate for this program negotiated?
30. Do you feel that the percentage for reimbursement for indirect cost for this program is fair?



31. How often is the agency audited? By whom?
32. When do you have to submit a final report to the federal agency for this program?

**Guidance Issued (Information)**

1. Are you familiar with the term “flow-through”? If yes, what does it mean to you?
2. In preparing financial guidelines for recipients of this program, do you have to meet state requirements that are different from those imposed by the federal government?
3. Do you require financial information during the program application, monitoring, or evaluation process?
4. Does the agency ask for information that is required by neither the federal government nor state government? Why?
5. Do you require program and financial information separately?
6. Do the provisions in the state guidance include the following information?

	YES	NO
a) Retention of records for three years	_____	_____
b) Payments will be received within 30 days of request	_____	_____
c) Method of payment will be determined in accordance with OMB Circular A-102	_____	_____
d) Recipients will spend funds secured by letter of credit within three days	_____	_____
e) Cost principles are determined by Circular 74-4	_____	_____
f) Audits are conducted usually annually, but not less frequently than every two years	_____	_____
g) Audits are conducted according to generally accepted auditing standards	_____	_____
h) Final report will be submitted within 90 days of end of grant	_____	_____

**Guidance Issued (Communication)**

7. In your opinion is this reasonable information to expect?
8. Why do you require the information?
9. How do you use the information?
10. Is it passed on to any other state or federal office? If so, to whom?
11. How many people do you have to prepare the financial guidelines for this program?
12. Does your program provide technical assistance to recipients of your awards? If not, do you require that they obtain outside help?

**Guidance Issued (Enforcement and Compliance)**

13. By what method do you make payments to recipients?
  - a) If letter of credit, what type of information do you require?
  - b) If advance or reimbursement, what type of information do you require in the billing? How often do you require financial reporting? How many copies of the information do you require?

14. Is it necessary information for the proper management of your program?
15. How many people do you have to review the financial reports that you receive?
16. Do you collect information from recipients on a cash or accrual basis? Does this present any problems?
17. Do you follow federal and state audit schedules in performing audits on your recipients? If not, why?
18. Do you collect information that gives the state agency audit capability without onsite review?
19. Do you receive complaints from recipients attempting to comply with financial guidelines for this program? If so, what are some examples?
20. In your view are the complaints legitimate? If not, why not?
21. If there is noncompliance with federal financial requirements what steps do you take to ensure compliance?
22. Is it possible to ensure compliance using these steps?
23. Have you ever suspended or terminated a grant if a recipient has failed to comply with federal financial requirements?

## Local Assistance Agencies

Program:

Person(s) Interviewed and Title(s):

Address:

Phone:

Date:

### *Information*

1. Are you aware of the percentage of federal funds and state funds in grants you receive for (Community Development, Outdoor Recreation, Aging programs)? If so, for what purposes are you supposed to spend the federal money?
2. Have you received a guidance manual for the fiscal management of the \_\_\_\_\_ program?
3. Have you received other instructions by memorandum, phone call, or personal visit by state agency personnel?
4. How often is the guidance updated and do you receive the revisions in time to comply with them?
5. Do you receive requests for fiscal information in addition to the requirements in the formal state guidance? If so, in what form are these requests issued?
6. Do you have problems responding to any of the guidance you receive? If so, please specify.
7. Have you ever been asked to provide fiscal information when you are meeting program requirements? If so, what are some examples of this?
8. In your opinion, is the information required by the state reasonable and necessary?
9. Do you need this information for your own management needs? If not, what are some examples of information you submit that you feel is unnecessary?

10. Do requests for fiscal information differ widely from state agency to state agency?
11. Does this cause problems for you?
12. Would it be useful for state agencies to require this information in similar forms?
13. What resources (time and staff hours) are used to meet state and federal fiscal requirements?

*Communication*

14. Do you feel that you have been adequately informed concerning your fiscal responsibilities under the \_\_\_\_\_ program?
15. Do you understand the guidance? Is it clear and simple?
16. What areas are ambiguous and unclear?
17. Have you sought or did you receive any assistance in complying with the state requirements? If so, from whom?
18. Have you ever received guidance from one source that was later contradicted or overruled by another? If so, how?

*Compliance and Enforcement*

19. On what basis is your accounting system set up?
20. What form(s) do you have to submit to the state agency in applying for a grant (copies if available)?
21. What form(s) do you have to submit to the state agency during the administration of a grant?
22. Is the time frame in which you are required to prepare the forms for the state reasonable and is the data required in the forms reasonable and necessary?
23. How many copies of the forms are you required to submit to the state agency?
24. How long does it take you to receive payment following submission of your request?
25. How long do you retain your financial records?
26. Does the state agency require information on a cash or accrual basis?
27. Does this present problems for you?
28. On what basis is the indirect cost rate for this program negotiated?
29. Do you feel that the percentage for reimbursement for indirect cost rate is fair?
30. How often is the agency audited? By whom?
31. When do you have to submit a final report to the state agency for this program?

## **Legislative and Executive Role in the Fiscal Management of Federal Programs**

1. To what degree are the legislative and executive branches involved in the receipt and management of federal money?
2. What are the specific duties of the legislative and executive branches in tracking federal money coming into the state?
3. What type of accounting system is used by the state to identify and keep track of federal vs. state money?
4. To what extent do the legislature and executive branch coordinate fiscal information on federal grants?
5. What office serves as the A-95 clearinghouse? Approximately what percent of federal money is identified through the A-95 process in the state?
6. What processes do the state agencies have to go through at the state level to apply for federal funds?
7. Is there an agency that has the responsibility for issuing uniform fiscal management requirements for state agencies and local governments?
8. If so, what type of guidance has this agency issued?
9. Does the guidance incorporate OMB Circular A-102? If so, what parts of the circular are included in the guidance?
10. What is the view of OMB Circular A-102 as a valuable fiscal management tool?
11. What are the state requirements for audits of state agencies and local governments?
12. How are they enforced?



# Glossary

**Allowable Costs**—“Allowability of costs under federal grants includes direct and indirect costs allocable to the grant less applicable credits. . . . Many federal grantor agencies have accepted the definition of allowable costs as including the direct and indirect costs. . . . insofar as such costs are necessary and related to the performance.”<sup>1</sup>

**Circular A-102—Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments.** The first of OMB’s management circulars written for the purpose of simplifying and standardizing federal management requirements. Issued in 1971, the circular established uniform standards in 15 administrative categories including application and reporting forms, financial management, payment methods and schedules, and audit requirements. In 1977, many of these requirements were extended to any agency or organization receiving a subgrant made with federal funds.

**Codified Regulation**—A term used to indicate that the regulation is adopted word for word, or in substance in the *Code of Federal Regulations* by the assistance agency.

**Contract**—Whenever the principle purpose of the instrument is the acquisition, by purchase, lease, or barter, of property or services for the direct benefit or use of the federal government. (PL 95-224.)

**Cooperative Agreement**—“(a) the principal purpose

of the relationship is the transfer of money, property, services, or anything of value to the state or local government or other recipient to accomplish a public purpose of support or stimulation authorized by federal statute, rather than acquisition by purchase, lease, or barter of property or services for the direct benefit or use of the federal government; and (b) substantial involvement is anticipated between the executive agency, acting for the federal government, and the state or local government or other recipients during performance of the contemplated activity.” (PL 95-224)

**Direct Costs**—“are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or other programs against which costs are finally lodged.”<sup>2</sup>

**Federal Assistance Agencies**—Departments and agencies that administer assistance programs which report to the President.<sup>3</sup>

**Federal Grant and Cooperative Agreement Act of 1978(PL 95-224)**—passed to clarify the definitions and proper uses of grants, contracts, and cooperative agreements in awarding federal funds.

**Grant**—“(1) the principal purpose of the relationship is the transfer of money, property, services, or anything of value to the state or local government or other recipient in order to accomplish a public purpose of support or stimulation authorized by federal

statute, rather than acquisition by purchase, lease, or barter of property or services for the direct benefit or use of the federal government; and (2) no substantial involvement is anticipated between the executive agency, acting for the federal government and the state, or local government or other recipient during performance of the contemplated activity.” (PL 95-224)

**Indirect Costs**—“Indirect costs are (1) incurred for a common or joint purpose benefiting more than one project, grant, contract, or cost objective and (2) not readily assignable to the cost objectives specifically benefited without an effort that is disproportionate to the results.”<sup>4</sup>

**Local Government Jurisdiction**—The term “means a local unit of government including specifically a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments, sponsor group representative organization. . . and other regional or interstate government entity, or any agency or instrumentality of a local government exclusive of institutions of higher education and hospitals.”<sup>5</sup>

**Modified Regulation**—A term used to indicate that parts of the regulation are adopted while others are changed, added to, or eliminated.

**Office of Management and Budget**—The Office of Management and Budget was established by EO 11541 on July 1, 1970. As an executive agency, OMB carries out its delegated functions under the direction

of the President. Some of OMB’s functions include reviewing the organizational structure and management procedures of the executive branch; developing information systems to provide the President with program performance data; conducting evaluation efforts to assess program objectives, performance and efficiency; and keeping the President informed on the progress of activities in the government agencies.

**Pass through**—In this study pass-through funding is that money whose federal source may still be identified after passing through the states to local recipients. Circular A-102 is intended to accompany many of the grants that by federal law or by state discretion may pass through to local jurisdictions. Since the interest of this study is in the fiscal management of these funds, the ability to track both the money and the regulations is the basis of the present definition.

**Total Costs**—“The total costs of a grant or contract agreement is defined as the allowable direct and allowable indirect costs, less any applicable credits.”<sup>6</sup>

**Unallowable Costs**—Those “costs and expenses [that] cannot be accepted as valid or allowable charges to federal grants. The more common allowed costs or expenses include advertising, bad debts, contingencies, contributions and donations, entertainment, fines and penalties, government official’s expense [salaries and expenses of the office of the governor of a state or the chief executive of a political subdivision], interest and other financial costs, legislation expenses, and underrecovery of costs or losses under grant agreements.”<sup>7</sup>

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## FOOTNOTES

<sup>1</sup> American Institute of Certified Public Accountants, *Federal Grants-In-Aid: Accounting and Auditing Practices*, New York, NY, American Institute of Certified Public Accountants, 1977, pp. 102-03. Definition of allowable costs taken from this publication because the definition in FMC 74-4 is too lengthy for purposes of a glossary.

<sup>2</sup> General Services Administration, Office of Federal Management Policy, *Federal Management Circular FMC 74-4: Cost Principles Applicable to Grants and Contracts with State and Local Governments*, Washington, DC, General Services Administration, July 1974, p. 4.

<sup>3</sup> Office of Management and Budget, *Managing Federal Assistance in the 1980’s*, Washington, DC, Office of Management and Budget, August 1979, p. 37.

<sup>4</sup> General Services Administration, Office of Federal Management Policy, *Federal Management Circular FMC 74-4: Cost Principles Applicable to Grants and Contracts with State and Local Governments*, General Services Administration, Washington, DC, July, 1974, p. 5.

<sup>5</sup> Office of Management and Budget, *Circular A-102: Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments*, Washington, DC, U.S. Government Printing Office, 1979, p. 45829

<sup>6</sup> American Institute of Certified Public Accountants, p. 97

<sup>7</sup> *Ibid.*, pp. 103-04.







# What is ACIR

The Advisory Commission on Intergovernmental Relations (ACIR) was created by the Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of Federal, state, and local government and the public.

The Commission is composed of 26 members—nine representing the Federal government, 14 representing state and local government, and three representing the public. The President appoints 20—three private citizens and three Federal executive officials directly and four governors, three state legislators, four mayors, and three elected county officials from states nominated by the National Governors' Association, the National Conference of State Legislatures, the National League of Cities/U.S. Conference of Mayors, and the National Association of Counties. The three Senators are chosen by the President of the Senate and the three Congressmen by the Speaker of the House.

Each Commission member serves a two year term and may be reappointed.

As a continuing body, the Commission approaches its work by addressing itself to specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the federal system. In addition to dealing with the all important functional and structural relationships among the various governments, the Commission has also extensively studied critical stresses currently being placed on traditional governmental taxing practices. One of the long range efforts of the Commission has been to seek ways to improve Federal, state, and local governmental taxing practices and policies to achieve equitable allocation of resources, increased efficiency in collection and administration, and reduced compliance burdens upon the taxpayers.

Studies undertaken by the Commission have dealt with subjects as diverse as transportation and as specific as state taxation of out-of-state depositories; as wide ranging as substate regionalism to the more specialized issue of local revenue diversification. In selecting items for the work program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

After selecting specific intergovernmental issues for investigation, ACIR follows a multistep procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts, and interested groups. The Commission then debates each issue and formulates its policy position. Commission findings and recommendations are published and draft bills and executive orders developed to assist in implementing ACIR policies.

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