sioner of Credit Unions will use a statistical sampling procedure to check accounts, rather than going over each one individually. Similar approaches are being explored in other state agencies, such as the Department of Revenue, for a wide variety of information gathering functions.

From the sharing of computer programs by separate bureaus of the same agency, to the installation of a new high-speed press to service the printing needs of all agencies, the list of prospective productivity gains for the State of Wisconsin in the 1973-75 budget is long and impressive. But it is also deceptive.

Some of these gains represent program reductions that would have occurred anyway, in the natural course of things. For example, the Department of Health and Social Services has claimed a $3.7 million cost reduction for institutional care as a productivity saving. What this figure primarily reflects is a declining institutional population, and a resultant reduction in the food budget of these institutions. Is this a productivity improvement?

A more dramatic example of the mixed results of our productivity policy to date involves an attempt (in the 1973-75 budget) to close a number of under-utilized state institutions. One would think that when two or three institutional facilities lie half empty, the most productive course would be to consolidate their operations. Yet no such recommendation came from the agency involved as a part of *its* productivity policy.

The lesson to be learned from our attempt to close these institutions is that productivity improvement, like any other political goal, is not sacrosanct. And although it may look like a bipartisan initiative to you—because you are in office—it will not necessarily look like that to your opponents. Indeed, the test of a productivity program may be its ability to provoke this kind of response.

By Patrick J. Lucey
Governor, State of Wisconsin

In Washington

By Dwight A. Ink

New Federalism

Our Federal system has been plagued in recent years by the burgeoning growth of an extensively fragmented Federal aid system—a system that generated the worst red tape experienced by this country. Although designed by well-intentioned people to help communities and individuals meet urgent social and economic needs, Federal aid became a highly centralized operation in which Washington officials became the decision-makers for thousands of communities across the Nation.

Nature of Grant Program Problems. Because Washington officials were too far removed from the execution of programs at the local level, many of these Federal programs conflicted and overlapped. In one city, I'm told, seven different health care grants were awarded to seven different agencies; only two of the agencies were under the control of the city government.

Federal funds were tied up in red tape. Despite our best efforts to standardize and simplify grant procedures, forms, and guidelines, there are still many burdensome requirements placed on local program managers.

In addition, separate bureaucracies at the Federal level were created to administer each program.

This situation forced many state and local governments to divert already scarce resources to hire a new breed of experts—the grantsmen—merely to deal with the costly, tangled and time-consuming red tape of Federal assistance.

Clearly, this system needed drastic overhaul, and the President committed himself to doing the job.

Improving Federal Assistance. One major approach of the President is through revenue sharing. General revenue sharing, administered by the Office of Revenue Sharing in the Treasury Department, has already placed over $6 billion in the treasuries of state and local governments. It will continue to place $6 billion a year in the hands of over 38,000 communities across this country—at least through calendar year 1976. I would like to commend Graham Watt and his staff of 40 people for the job they have done in getting these checks out to you.

In addition to general revenue sharing, the President has asked Congress to appropriate an additional $7 billion a year to supplant outmoded, overlapping, and narrow categorical grant programs. Present grants would be consolidated into four broad-purpose special revenue sharing programs in the areas of education, law enforcement, manpower training, and urban community development.

I recognize that many of you are concerned about how much aid you will be receiving. In fiscal 1974, Federal aid payments to state and local governments will total about $45 billion. This is more than double the $20 billion level of aid in 1969. Also, human resources expenditures have increased from 32% of the total Federal outlays in 1968 to 47% in 1974.

In the coming fiscal year 1974, when all of the increases and decreases are taken into account, state and local governments are scheduled for a net increase of $1.2 billion.

Some programs have increased substantially such as

waste treatment construction grants, up $73 million
urban mass transit facilities, up $91

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- million
- work incentive program, up $142 million
- law enforcement assistance, up $200 million

Role of State and Local Governments. But dollar amounts are not the whole story of what is happening. Equally important is your ability to use the dollars you receive under the new assistance programs to meet what you consider your most pressing needs, rather than what some Washington official guesses might be your priority needs. You know that Federal dollars for police training are of little value if you can't afford to hire the men to train. And dollars for rat control are wasted if you can't maintain good regular garbage collections. You know your urgent needs, and the best ways to meet them. New Federalism is designed to let state and local officials make their own decisions.

Most finance officers have now had six months experience with general revenue sharing and should now be aware that they will play a key role in the success or failure of the new program. Revenue sharing has been widely heralded as being free of "strings," and I believe most of you would agree that this has generally been the case.

It is too early to fully evaluate revenue sharing, but early reports from Treasury, ACIR, and other sources indicate that the program is working in three important areas:

- Recipients are using the funds for a broad array of governmental services. They are responding to their needs as they perceive them.
- There seems to have been less need for state and local governments to impose new or increased taxes.
- The citizens of many communities have been actively involved in deciding where revenue sharing funds should be spent.

I'm sure it has become clear by now that the Federal Government has given you far greater responsibilities and accountability in handling these Federal funds than is true of categorical grants.

First, the regulations require that you spend revenue sharing funds in accordance with the laws and procedures applicable to the expenditure of your own revenues. This shifts the management responsibility to you, where it belongs. It means no detailed Federal guidelines regulating planning, budgeting, hiring practices, travel, salary levels, and other matters of administrative policy. Those of you that have good, well defined administrative policies, should have no problems adhering to them, but if you do not, you will have to exercise special care in how these funds are managed.

Second, the regulations provide that "in accounting for revenue sharing, you shall, at a minimum, use the same fiscal accounting and internal audit procedures that you use with respect to expenditures from revenues derived from your own sources." In this case, the Federal Government is assuming that you have the basic accounting and control systems necessary to provide information for required reports, and to assure that Federal funds have not been used in violation of the law or regulations. If your accounting systems are not adequate for these purposes, you will need to upgrade them so that you can meet your accounting responsibilities.

Third, the regulations provide the Secretary of the Treasury will rely, to the maximum extent possible, on audits performed by state and local government auditors and independent public accountants. If you insist on and receive good audits by your state, local, or independent auditors, the Federal Government can avoid creating a large revenue sharing audit organization. But more importantly, it will demonstrate the basic capability and desire of states and local governments to police their own affairs without Federal intervention.

It is planned to incorporate these same three elements into special revenue sharing programs:

- use your own laws and procedures
- use your own fiscal, accounting, and internal audit procedures
- rely to the maximum extent on state, local, and independent audits

Therefore, the success of New Federalism will rest heavily on effective state and local financial management. Further steps to reduce red tape and standardize Federal requirements will be influenced very heavily by the degree of confidence that Congress and the public have in the ability of state and local governments to manage programs effectively with a minimum of Federal involvement.

Examples of Federal Assistance for State and Local Management. In recognition of the desire of state and local governments to strengthen their basic management systems, the President has proposed $110 million in fiscal 1974 for the Responsive Government Act. These funds would be for the purpose of assisting you in improving the management of your communities. They are in addition to any funds you may have available from general revenue sharing —which includes financial management as a specific high priority expenditure category. In fiscal 1974 there will also be $14 million available under the Intergovernmental Personnel Act to upgrade state and local capabilities.

Responsibilities Reassigned to GSA. Last month the President reassigned a number of government-wide management responsibilities from the Office of Management and Budget to the General Services Administration that relate to New Federalism. Among these were most of the functions previously carried out by OMB in the areas of financial management; management systems; procurement, contracting, and property management; and automatic data processing management. GSA now has overall leadership responsibility for developing government-wide policy in these areas, and for seeing that such policy is carried out within the Executive Branch. It has assumed these responsibilities under the broad policy oversight of OMB, drawing upon OMB for assistance in resolving major policy issues.

Mr. Roy L. Ash, in his role as Assistant to the President for executive management, as well as Director of Office of Management and Budget, will be working closely with GSA and with the Civil Service Commission in carrying out their Government-wide management programs. Mr. Sampson, nominated by President Nixon as Administrator, has demonstrated vigorous leadership in the field of management in industry, state government and Federal Government.

Among the responsibilities reassigned to GSA, the following is of particular interest:

Circular No. A-102 Simplifies and standardizes the administrative requirements of grant programs. For example:

- In the area of application forms, before A-102 there were 80; now there are two.
- In the area of reporting forms, before A-102 there were 53 averaging six pages in length; now there are 12, each only one page long.
- A multiplicity of records retention requirements have been reduced to one.
- Budget classification categories have been reduced from 103 to nine.

The list is much longer, but these are indications of the progress that has been made. We expect the Circular to be fully implemented by July 1.

Integrated Grant Administration Program. This program is directed toward coordinating grants from several different Federal sources. It makes it possible for state or local governments to:

Meet interrelated needs with one comprehensive plan for receiving Federal support from several agencies.

Establish work plans and priorities geared to state and local needs rather than conform to Washington—imposed planning.

Receive Federal agency funds in synchronization with their own funding cycles.

Report progress and project revisions to one Federal center.

Administer programs more effectively.

Circular No. A-87 Sets forth, for the first time, a uniform Government-wide set of principles for determining costs applicable to grants and contracts with state and local governments. It also provides that only one Federal agency will audit grantees' indirect costs on behalf of all Federal agencies.

Circular No. A-73, which will be reissued in a revised form:

provides for closer cooperation and coordination among audit staffs at various levels of government

emphasizes the need for early audits of new or greatly expanded programs

incorporates by reference the *Standards for Audit* recently issued by the General Accounting Office.

We believe this Circular is particularly important at this time. As the Federal Government moves more toward simplified and standardized grant systems, it is coming to rely more and more on state and local governments. We have already seen this in general and special revenue sharing and in simplified grant systems like the Integrated Grant Administration program.

We view effective audit systems as an essential element of state and local accountability which has not always received the attention it should.

New Efforts for Improving Federal Assistance. You may be also interested in a new study, now in the design phase, which I regard as very significant. In it, we hope to determine how much of the money spent for certain existing Federal grant programs goes for program purposes, and how much goes into unnecessary overhead. As things now stand, no one knows how much of the total Federal spending results in services to the public, and how much is siphoned off into administrative costs. We do not know, for example, how much of the $20 billion a year spent on health care actually results in health services to individuals, and how much is spent stamping forms and shuffling papers.

We plan to analyze these administrative costs for about five major grant programs, initially, and possibly more, later.

Phase 1—Administrative Costs in Federal Agencies. In the first phase of this effort, we would determine:

the total administration costs of the Federal agencies and how these costs should be allocated to program activities

the administrative costs per unit of agency output

whether there are wide differences in unit administrative costs among agencies

whether observed differences are random or can be accounted for by differing program composition

what can be done about reducing agency administrative costs

Phase II—Administrative Costs of State and Local Governments. As a second phase we would hope (working cooperatively with state and local governments) to follow a few selected programs through the various levels of government to the point where services are actually rendered. We would attempt to develop the same kind of information at each level of government as we did at the Federal level. Thus, we should find the totality of administrative costs at all three levels of our federal system.

Expected Results. As a result of this study, we expect to be able to:

identify areas for major cost reductions in the organizations studied

provide additional evidence to support proposals for streamlining the delivery of government services to the public

develop price tags for various administrative "controls" over programs (against which the value of these controls could be weighed)

make recommendations for how to best determine the administrative cost of other major grant programs, i.e., cost collection systems, or cost sampling systems.

Conclusion. Some critics have said that New Federalism, with its recognition of state and local governments as partners in providing for National needs, will not work. They believe that many state and local governments are not well managed.

We know there are problems in state and local management—just as there are in the Federal management—and just as there are in industry. But we reject the notion that the Federal Government can best decide what are the priorities of Kansas City or Fargo, N.D. We also believe that only by returning power and responsibility to states and localities, can we expect to strengthen the capability of state and local governments to cope with the difficult problems facing communities across the country. Local officials, close to the community—a part of it—can best understand local problems and set local priorities. Freed from restrictive Federal red tape, and enabled to make decisions concerning Federal aid, they can be held accountable by their voters for these programs. I regard this whole effort as bringing government closer to the people. Most people applaud this, but it does underscore the importance of effective management in local government.

In my years with OMB and HUD, and before that with city government, I have enjoyed working with the MFOA and with other organizations representing state and local officials. These relationships have been valuable and productive, and I look forward to continuing them in my new position in GSA. This certainly reflects Mr. Sampson's view. I believe we have made substantial progress over the last few years by working together as partners in developing new methods of handling our mutual administrative problems in a way that eases the burdens on all levels of government and permits us to provide better service to the people. □