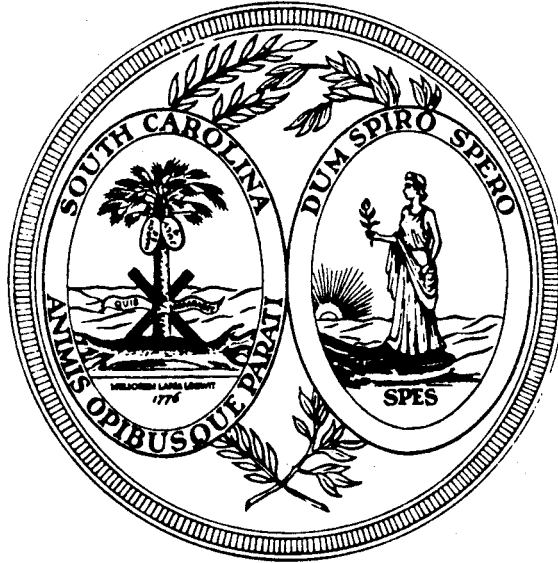


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South Carolina General Assembly



Legislative Audit Council



South Carolina General Assembly
Legislative Audit Council
A Study of the Impact of
Federal and Other Funding on
Legislative Oversight
May 12, 1977



LEGISLATIVE AUDIT COUNCIL

STATE OF SOUTH CAROLINA

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COLUMBIA, SOUTH CAROLINA 29201

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May 12, 1977

MEMORANDUM

- PUBLIC MEMBERS

Carl B. Harper, Jr.
Chairman

F. Hall Yarborough
Robert S. Small, Jr.

TO: Members of the General Assembly

FROM: Legislative Audit Council

The Council has completed its 12 month study of the impact of Federal and other funding on legislative control in the budgetary process. Extensive recommendations have been made, however, Council feels that these recommendations could not be implemented during this session of the General Assembly.

EX-OFFICIO MEMBERS

SENATE

W. Brantley Harvey, Jr.
Lt. Governor

Pres. - Senate

L. Marion Gressette

Pres. Pro Tempore

Chm. - Judiciary Comm.

Rembert C. Dennis

Chm. - Finance Comm.

The FY 77-78 Appropriation Bill has established a subcommittee which is directed to determine the changes necessary for the appropriation of all funds. This committee will provide a viable mechanism to consider the Council's recommendations toward strengthening the General Assembly's ability to oversee the activities of State agencies.

/jk

HOUSE

Rex L. Carter

Speaker of House

Tom G. Mangum

Chm. - Ways & Means Comm.

Robert L. McFadden

Chm. - Judiciary Comm.

George L. Schroeder
Executive Director

Albert M. Gross
Deputy Director

THE STATE OF SOUTH CAROLINA

GENERAL ASSEMBLY

LEGISLATIVE AUDIT COUNCIL

A STUDY OF THE IMPACT

OF

FEDERAL AND OTHER FUNDING

ON

LEGISLATIVE OVERSIGHT

The Legislative Audit Council wishes
to acknowledge the assistance and cooperation
of the Legislative Council in the printing of
the report.

COUNCIL MEMBERS

Carl B. Harper, Jr., Chairman

Robert S. Small, Jr.

F. Hall Yarborough

EX OFFICIO MEMBERS

SENATE

W. Brantley Harvey, Jr.
Lieutenant Governor
President of the Senate

L. Marion Gressette
Pres. ProTempore of the Senate
Chairman, Judiciary Committee

Rembert C. Dennis
Chairman, Finance Committee

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Executive Director

HOUSE OF REPRESENTATIVES

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Speaker of the House

Tom G. Mangum
Chairman, Ways and
Means Committee

Robert L. McFadden
Chairman, Judiciary
Committee

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GLOSSARY

Agency Contingent Funds - State, Federal or other funds set aside and controlled by State Agencies for unforeseen expenditures or unanticipated expenditures of uncertain amounts.

Agency Revenue - Cash received by State Agencies from another governmental unit or department, an individual or a private firm in addition to State funds appropriated by the Legislature.

Agency Surplus Funds - The excess of an agency's State, Federal and other funds received for a fiscal period over expenditures plus encumbrances for the same fiscal period.

Block Grant - A block grant authorizes Federal aid for a wide range of activities within broad functional areas and gives recipients discretion in identifying problems and designing programs to deal with them.

Carryforward Funds (State) - Unspent appropriations which an agency is not required to return to the General Fund at the end of the fiscal year.

Federal Audit Exception - Determination by an auditor after examining documents, records, and reports that a governmental unit has received and/or expended Federal funds in a manner not consistent with applicable Federal laws and regulations.

Indirect or Overhead Costs - Costs necessary in providing government services but are of such a nature that the exact amount applicable to different government services cannot be accurately determined. Usually they relate to expenditures which are not directly related to the delivery of a service such as management, supplies, building use, etc.

Reimbursement - Cash received as a repayment of the cost of services performed, or of other expenditures made on behalf of another governmental unit or department.

State Matching Funds - The financial contribution that states are required to make to supplement Federal grant monies.

INTRODUCTION - SCOPE AND PURPOSE

The Legislative Audit Council was created under Act 1136 of 1974, as amended by Act 157 of 1975. The Council consists of three public members, elected by the General Assembly to non-concurrent six-year terms, and six ex officio members: The President of the Senate, the Speaker of the House of Representatives, Chairman of the Senate Finance Committee, Chairman of the House Ways and Means Committee, and Chairmen of the Senate and House Judiciary Committees. The Council employs professional and clerical staff personnel who conduct audits under the supervision of the Council members.

The Legislative Audit Council provides a number of services to the General Assembly of South Carolina. It conducts audits and investigations of State agencies and programs as referred to it by the General Assembly, Legislative Committees or Assembly members, and generates a schedule of audits of the operations of State agencies and departments to be performed periodically.

The Legislative Audit Council reported on April 15, 1976, that agencies were receiving duplicate funds from State, and Federal or other sources for identical costs. The Council estimated that \$20 to \$40 million of duplicate funding was occurring, and that millions of dollars of surplus funds remained unused in agency accounts. As a result of the preliminary report, the Council was directed to perform an in-depth study of the impact of Federal and other funds on State Government. The purpose of the study was specifically to determine the causes and effects of duplicate funding, to identify

areas where legislative oversight capabilities could be strengthened and to develop recommendations which will enable the Legislature to correct the problems identified.

The Council's preliminary report discussed two problem areas involving Federal and other sources of funds. First, the cost of administration for Federal and other programs was being paid primarily from State appropriations, and payments for administrative costs from Federal and other sources were being maintained as surplus funds for agency directed purposes. Secondly, some agencies were not remitting the proper amounts of payroll fringe benefits from Federal and other sources to the Retirement Division as required by law.

As the audit progressed, the Council realized that the problems of duplicate funding for administration and payroll fringe benefits were a part of a much more significant problem. The problem observed was that the basic constitutional authority of the Legislature, that of appropriating the State's resources and setting the State's priorities, has been eroded by the large influx of Federal and other funds into the State in recent years. State Agency accountability to the Legislature was found to be diminished when agencies had Federal and other sources of funds available.

Since the Retirement Division of the Budget and Control Board was working toward the resolution of the problem of recovering payroll fringe benefits from Federal and other sources of funds, the Council was able to place additional emphasis on the problems of duplication of administrative and operating costs in the budgetary process.

A survey of ninety State Agencies was conducted. Of those, numerous agencies were further analyzed for the types and amounts of agency

funding and the budgeting of their revenues. The following eleven agencies were studied in more detail and specific information regarding their handling of Federal and other funds are discussed in subsequent chapters.

Department of Youth Services
Department of Health and Environmental Control
Department of Juvenile Placement and Aftercare
Department of Social Services
Department of Mental Health
Department of Mental Retardation
State Agency of Vocational Rehabilitation
Commission on Alcohol and Drug Abuse
Commission on Aging
Department of Labor
Board for Technical and Comprehensive Education.

In addition, the Title XX program administered by the Department of Social Services and the Law Enforcement Assistance Program administered by the Governor's Office, Division of Administration, were reviewed in detail and are included as case studies in this report. The study of these agencies and programs included activities such as interviews with agency officials and professional staff, a review of financial and budgeting records, and a review of applicable laws, policies, and procedures. Additional information was obtained from national government organizations, Federal agencies and other states.

BACKGROUND

State legislatures have recognized that Federal funds pose problems to the effective and efficient allocation of a state's available resources. Federal aid to states has increased from \$2.9 billion to \$60 billion since 1954. In 1975 South Carolina's State and local government and other eligible organizations received Federal funds of over \$3.5 billion. Of that amount the State Government received over \$600 million. It is estimated that \$733 million of Federal funds will be available to State Government for FY 76-77. In addition to these Federal funds, agencies estimate that \$212 million of funds from sources other than State appropriations or Federal allocations will be available for their operations for FY 76-77. Therefore, about \$945 million of funds from Federal and other sources will be available for the operations of State Government during FY 76-77. That amount constitutes nearly half (43%) of the State's \$2 billion budget. As indicated by the graph (see p. 6), available Federal and other funds have been consistently about half of the State's total budget. From FY 72-73 to FY 75-76 the State's total budget has grown 80%.

Federal funds available to State Government are given to specifically designated agencies. The funds have varying limitations or conditions for use which agencies must fulfill in order to receive them. Frequently agencies are to provide a matching share of State funds as an eligibility requirement. In recent years increasing responsibilities for planning, administration, and evaluation of Federal

programs have been given to the State. Such programs as Grants to States for Social Services (Title XX), Law Enforcement Assistance Administration (LEAA), and many others allow the State to set priorities and allocate funds within general guidelines. The General Assembly in South Carolina has had limited involvement in setting such priorities and making such allocations.

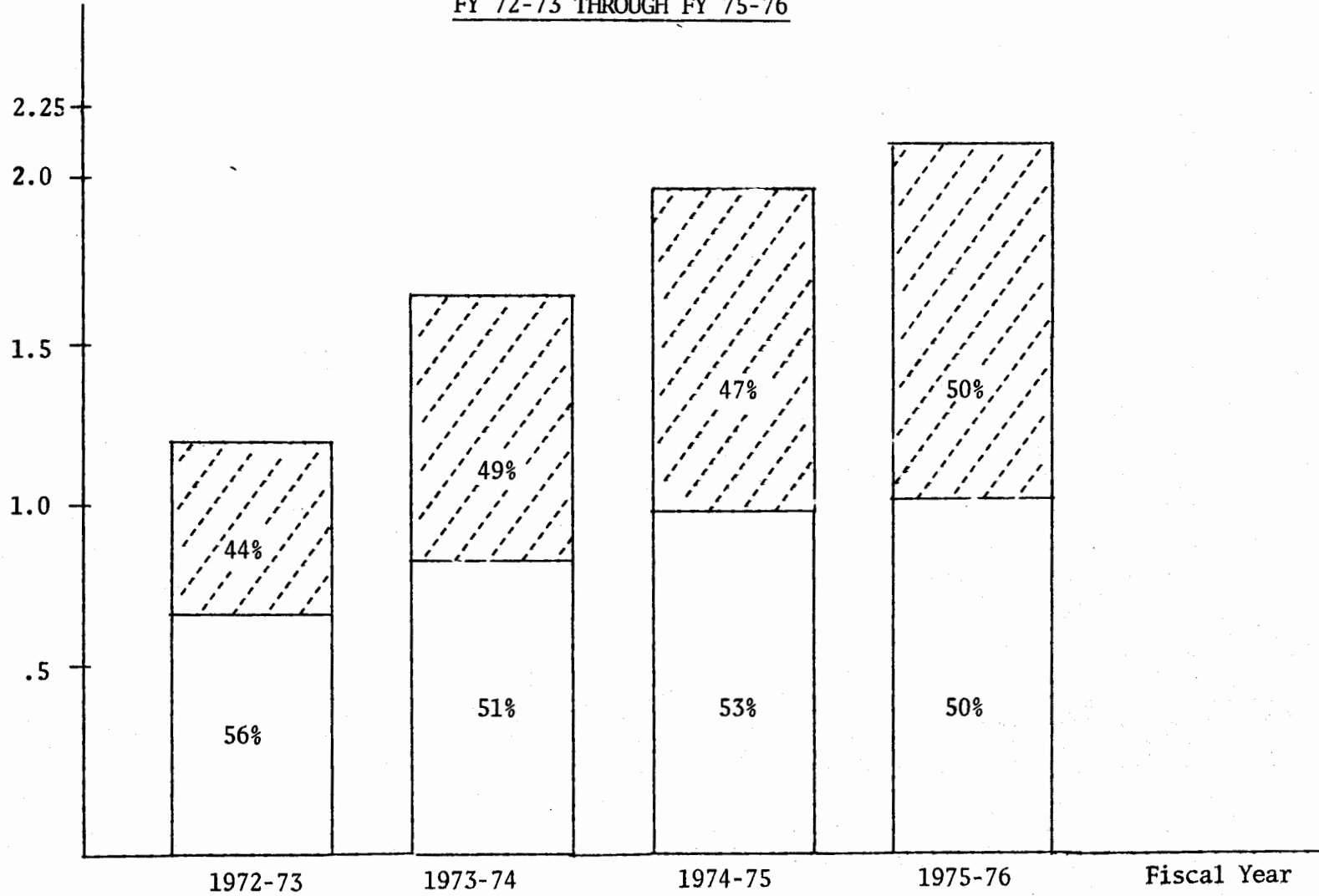
The Legislature must be provided the necessary information to encompass both planning and control. Planning is generally based on research and knowledge of the needs of citizens. Control over planned operations is necessary in order that deviations from plans be noted and kept on a course toward State legislated goals. The budgetary process serves to coordinate the different objectives of all State Agencies toward the goals of the State Government as decided by the General Assembly. It is through this process that waste and duplication are prevented and the most economical use of resources is achieved in government.

It should be noted that this report identifies millions of dollars of surplus funds which existed in agency accounts as of June 30, 1976. Some of the funds have since been used by agencies. However, the causes of such surpluses have not been eliminated, and similar surpluses undoubtedly will exist at the end of FY 76-77.



ANALYSIS OF ACTUAL FUND GROWTH IN SOUTH CAROLINA STATE GOVERNMENT

Dollar Amounts
in Billions

FY 72-73 THROUGH FY 75-76



-6-

 Federal and Other Funds
 State Funds

CHAPTER I
INCREASING LEGISLATIVE CONTROL OVER THE COST
AND GROWTH OF STATE GOVERNMENT

In its twelve month review the Council found that the impact of Federal and other funds on the State Government of South Carolina has undermined and circumvented the constitutional authority of the General Assembly. Due to the rapid increase of Federal and other funds and the limitations of the current budgetary process, the General Assembly is not able to control completely the rate and direction of growth of State Government. Legislative priorities were found to be hindered and altered in many cases by the influence of programs funded from Federal and other sources. In essence, the current budgetary process is "open-ended" with respect to Federal and other funds. State Agencies can receive and expend an unlimited amount of Federal and other funds without being required to inform the Legislature of the purpose, benefit or effect of such funds. The failure to effectively coordinate Federal and State funding has allowed agencies to create new divisions, begin new programs, hire personnel, and provide pay increases without the consent or guidance of the State Legislature. Such expenditures often would not stand the test of legislative review.

During the course of this study, the Council found numerous examples where the Legislature's authority had been circumvented and State Government in South Carolina had been expanded in non-legislated directions. The following examples are only a few of the instances found; however, they illustrate the effect budgetary weaknesses and inadequate information can have on maintaining

effective legislative control over the spending and direction of growth of State Government.

- The Legislature is required to make decisions concerning appropriations without full knowledge of the amount of money available to agencies. When the Legislature passed the Appropriation Act for FY 75-76, it was not aware that agencies would receive \$155 million (see Appendix A) of Federal and other funds in addition to the amounts shown in the State Budget. That amount represents 13% of the \$1.2 billion State appropriations for FY 75-76. It is extremely difficult for the General Assembly to efficiently appropriate funds for the State's needs when it is unaware of such a large amount of State revenue.
- Millions of dollars of surplus funds are accumulated because State, Federal, and other funds are often obtained for duplicate purposes by agencies. A review of eleven State Agencies by the Council disclosed that at least \$24.3 million of surplus revenues existed in special accounts as of June 30, 1976, and were outside of the direct monitoring of any independent authority.
- At the close of FY 75-76, the General Fund of the State showed a deficit of \$16.3 million while the special accounts of the various agencies showed surplus funds in excess of \$24 million. Had different budgetary and accounting procedures been followed, the General

Fund would have shown a surplus rather than a deficit.

- Many agencies use most of their Federal funds for program activities, requiring the use of State funds to administer the Federal programs. Due to the misallocation of State funds in this manner the Legislature was deprived of its right to determine how approximately \$15.9 million of State funds would be spent for FY 75-76.
- The current budgetary process, by not including all agency revenues, is for all practical purposes "open-ended" and allows for unlimited expansion of programs by agencies. This requires the obligation of future State resources without legislative approval and could promote the need for tax increases.
- The existence of surplus or contingent funds at the agency level can allow agencies to cover up mismanagement disclosed by Federal audit exceptions. Further, agencies with such funds do not have to consider closely the economy of their decisions. In either case accountability to the Legislature and the incentive to manage resources efficiently is reduced by the existence of contingent funds at the agency level.
- In October of 1975, the Budget and Control Board, in a memorandum from the Office of the State Auditor, advised

all agencies that an 8% reduction of appropriations was necessary to balance the State's finances. An agency which had accumulated surplus funds was in a better financial position to reduce its appropriation. Surplus funds were used in many agencies to make up the losses caused by the 8% reduction. Agencies which did not accumulate surplus funds were forced to "tighten their belts" and cut back on spending. The existence of surplus funds for a few agencies resulted in the unfair treatment of agencies which were trying to operate efficiently.

- During the statewide "hiring freeze" imposed by the Budget and Control Board from February to August 1976, agencies requested and obtained Budget and Control Board approval for 605 new positions from Federal and other sources of funds. The funds available for the positions were a result of either new Federal programs starting during the year without legislative approval or the availability of surplus funds controlled by the agencies. The Budget and Control Board was given little information concerning the funds used to create the new positions. Once these positions are created and filled the Legislature may be required to absorb them into the State budget in future years or eliminate the funding for the positions.

Federal funding to states has rapidly increased over the past thirty years. Along with the increases in funds, states are receiving increased responsibility for planning and administering Federal block grants, revenue sharing and other programs. Most of the Federal money available to states is utilized for the same types of services as State appropriations. Therefore, many states have begun to realize the need to coordinate all sources of funds available for the operations of State Government. However, South Carolina's budgetary system has remained relatively unchanged since the 1950's, and even today has not fully recognized the impact of Federal and other funds on State Agency activities. This situation has been further complicated in that the State Budget and Control Board's attempts to combat the problem have been hindered by limited staff and most recently its constitutionality has been questioned. The State Attorney General has been asked to determine whether the structure of the Budget and Control Board is in violation of the State's Constitution regarding "Separation of Powers."

The effects of the Legislature not being provided timely, accurate, and complete information on State Agency operations, combined with imprecise provisions for the treatment of agency revenue has allowed agencies to assume the authority to set priorities which often circumvent the intent of the Legislature.

In the following paragraphs the Council has attempted to identify some of the reasons for the lack of effective legislative control over the rate and direction of growth of State Government.

- The primary cause found by the Council was the failure of the budgetary process to include and coordinate all funds available for the operations of State Government. The significance of this problem is supported by the fact that fifty percent (50%) of the \$2 billion available during FY 75-76 for the operations of State Government was from Federal and other sources.

- Federal and other sources of funds could duplicate the purposes of State appropriations. The extent to which such duplication exists is unknown and occurs at the discretion of State Agencies.

- The FY 76-77 Appropriation Act (Part 1, Section 120) is designed to preclude the accumulation of surplus funds in agency accounts. This law requires all agencies to use "institutional revenue" for agency operations prior to using General Fund appropriations, thus causing surpluses to lapse to the General Fund. The Budget and Control Board interprets "institutional revenue" to include any non-appropriated revenue available to agencies. However, agencies have interpreted the law as excluding all or a portion of their non-appropriated revenue. They have accumulated millions of dollars in surplus funds and have often used these funds without legislative approval. The 1977-78 Appropriation Bill (Section 121) contains revisions of this provision which could diminish the accumulation of surplus funds.

- South Carolina's current budgetary process does not ensure full legislative involvement with respect to starting new or expanding existing agency programs. The Council found that the Legislature is not brought into the decision-making process until agency-initiated programs require State funding for continuation. The Federal Government frequently designs programs so that the funding is absorbed by the State over a transition period of several years. This Federal strategy, along with the desire of agencies to expand, were found to have greatly influenced the growth and direction of State Government.

Once a program is started, it is difficult for the General Assembly to make an informed decision on its continuation. Generally a program develops a clientele which serves as an effective lobbying force for continued funding. Some legislators have referred to this as "political blackmail."

- The General Assembly is placed at an additional disadvantage in that there is currently no mechanism in the State that can provide an independent evaluation of new programs prior to State funding.
- The Legislature was not made aware of the possibility of replacing State funding with Federal reimbursements. In addition, the Legislature has not been provided sufficient information to know when it can use Federal monies to reduce State appropriations. On the contrary,

the Legislature is generally advised that Federal monies must always be used for additional programs and services.

As elected representatives of the citizens of South Carolina, the ultimate responsibility for the operations of State Government is constitutionally given to the General Assembly. To efficiently and effectively serve the public, the Legislature must rely on its most powerful management tool, the legislative budgetary process. An effective budgetary process makes maximum use of all State resources. The present budgetary process does not provide sufficient information for the Legislature to carry out its constitutional authority.

Many state legislatures have been faced with budgetary problems similar to those of South Carolina. At least twenty-six states now have a process for appropriating and reviewing the use of Federal funds. According to a Commonwealth (state) Court ruling in December of 1976, the Pennsylvania Legislature has the constitutional power to control all Federal funds spent. The Alaska Legislature appropriates all funds including Federal funds, in the State budget. South Dakota provides statutory authority for legislative review of the use of Federal funds.

In September 1976, the National Conference of State Legislatures adopted a policy resolution which asserts that "no Federal domestic spending program should be enacted which would enable the executive branch of State Government to spend any money passing through the State Treasury without State legislative approval." The Advisory Commission on Intergovernmental Relations also recommends that "State Legislatures take much more active roles in State decision making

relating to the receipt and expenditure of Federal grants to the states." Specifically, Legislatures are urged to "give serious consideration to: inclusion of anticipated Federal grants in Appropriation Bills; prohibition of receipt or expenditure of Federal grants above the amount appropriated without the approval of the Legislature or its delegate."

Most states have either developed or are moving toward increased legislative control over all funds administered by their state because of the realization that Federal and other funds not included in the budgetary process can undermine legislative decision-making. States must be prepared to support Federal and other programs which are desirable and assist in eliminating those which are not.

CONCLUSION

Due to the lack of accurate, timely information and to limited controls in the current legislative budgetary process the General Assembly is not able to perform fully its function of constitutional oversight. The present budgetary system places emphasis on State funds and has just begun to realize the magnitude of problems resulting when all funds are not controlled. As a result of the flexibility agencies have in the use of resources, Federal program priorities and the priorities of agencies are greatly influencing the present and future spending of State Government.

The Senate Finance Committee amended the FY 77-78 Appropriation Bill to include that "it is the intent of the General Assembly to appropriate all funds, including Federal and other funds, for the operations of State Agencies and institutions for the FY 78-79." The Council's study supports the need for legislative control of Federal and other funds. In addition, the Council recommends specific changes

in the State budgetary process. If the following recommendations are implemented, the State fund appropriation will be the net of the total approved funds for an agency less any estimated Federal or other funds. The Legislature thereby authorizes the expenditure of a specified amount of Federal and other funds. In all cases, expenditures of Federal and other funds throughout the year must be contingent on the actual receipt of such funds, and agencies are responsible for adjusting expenditures downward in the event of a shortfall of Federal and other receipts. In order to spend more Federal and other funds than authorized by the Legislature, a State Agency would be required to obtain approval to amend their budgets. This process would allow the State to take advantage of unanticipated Federal and other funds while maintaining centralized coordination of Federal, State and other funding.

The Council has determined that legislative oversight can be improved by (1) overall budgetary reform, and (2) increased capabilities for support agencies which serve the Legislature. The following is a summary of the areas of needed change which the Council feels should be considered.

1. Overall Budgetary Reform

- A. All funds should be included in the legislative budgetary process (see Recommendation Number 1). To do this the Legislature should place a ceiling on total agency expenditures from all sources of funds. This will serve to prevent uncontrolled duplication and expansion in government.

- B. A mechanism for agencies to amend their legislative ceiling on expenditures should be established (see Recommendation Number 1). Budget amendments will at times be necessary to avoid the possibility of the State's losing Federal funds which become available when the Legislature is not convened. The emphasis, however, should be on estimating all revenue and receiving prior legislative approval in the Appropriation Act. This mechanism will also serve as a tool for monitoring the coordination of agencies' Federal and other funded programs with State fund allocations.
- C. Uncontrolled and wasteful duplication must be prevented (see Recommendation Number 2). Present law does not ensure that funds from sources other than the General Fund will be used to minimize the cost of government to the taxpayers. Agencies receive State, Federal and other funds for precisely the same purposes resulting in surpluses available to agencies.
- D. All agency contingent or surplus funds should be eliminated and a special statewide contingent fund should be established (see Recommendation Number 3). Agency level contingent funds reduce legislative control over agencies in that agencies may direct expansion and cover up management errors. A State level contingent fund would provide a source for payment of Federal audit exceptions and increase legislative control.

E. Administrative costs should have equitable, uniform, and controlled treatment (see Recommendation Number 4). Generally, agencies have full discretion in the treatment of the administrative costs of Federal and other programs. As a result the Legislature's decision to allocate funds is pre-empted.

2. Increased Capabilities for Legislative Support Agencies

A. In order for the General Assembly to accurately assess the State's needs and accomplish its priorities, it must have available more accurate, timely, and usable information (see Recommendation Number 5).

The Legislature needs the best possible estimates of available Federal and other funds, and it needs to know which programs are desirable for continuation with State funds.

DEFINITIONS

When used in the following recommendations, the term "agency" or "State Agency" and the plural of such terms means any executive, judicial, legislative, or administrative department, commission, board, bureau, division, service, office, authority, administration, or corporate entity which is an instrumentality of the State, or any other establishment funded in whole or in part from the appropriations of the

State or funded from the collection of fees, fines, donations, or any other receipt allowed by State law.

All "Existing Legislation" cited in the following recommendations is from the General Appropriation Bill 1977-1978, unless otherwise stated.

RECOMMENDATIONS

- (1) THE GENERAL ASSEMBLY SHOULD AUTHORIZE THE EXPENDITURE OF FEDERAL AND OTHER FUNDS. BUDGET AMENDMENTS SHOULD BE REQUIRED BEFORE AGENCIES SPEND IN EXCESS OF THEIR AUTHORIZED AMOUNTS. THE GENERAL APPROPRIATION ACT SHOULD PLACE A CEILING ON THE TOTAL AMOUNT OF EXPENDITURES ALLOWED FOR EACH AGENCY FOR THE FISCAL PERIOD STATED IN THE ACT.

NO STATE AGENCY SHOULD ESTABLISH NEW PROGRAMS OR EXPAND EXISTING PROGRAMS SUPPORTED BY FEDERAL AND/OR OTHER FUNDS BEYOND THE SCOPE OF THOSE ALREADY ESTABLISHED, RECOGNIZED, AND APPROVED BY THE LEGISLATURE, UNTIL THE PROGRAM AND THE EXPENDITURE OF AVAILABLE MONEY RECEIVE THE PRIOR APPROVAL OF THE BUDGET AND CONTROL BOARD IN THE FORM OF A BUDGET AMENDMENT.

BUDGET AMENDMENTS OF THIS NATURE SHOULD BE APPROVED BY A QUORUM OF THE BUDGET AND CONTROL BOARD.
BUDGET AMENDMENTS SHOULD AUTHORIZE AN AGENCY

TO EXPAND EXISTING PROGRAMS OR ESTABLISH NEW PROGRAMS REQUIRING EXPENDITURES ABOVE THE APPROPRIATED CEILING.

HOWEVER, THE GENERAL ASSEMBLY SHOULD ACCEPT NO OBLIGATION DIRECTLY OR INDIRECTLY FOR SUPPORT OR CONTINUATION OF NEW PROGRAMS OR EXPANSION AUTHORIZED BY BUDGET AMENDMENT. THE GENERAL ASSEMBLY SHOULD BE OBLIGATED TO PROVIDE TO STATE AGENCIES ONLY THOSE FUNDS IN THE GENERAL APPROPRIATION ACT IDENTIFIED AS STATE APPROPRIATIONS. IN THE EVENT THAT AN AGENCY'S ACTUAL RECEIPTS FROM FEDERAL AND OTHER SOURCES ARE LESS THAN AUTHORIZED IN THE GENERAL APPROPRIATION ACT, THE AGENCY SHOULD REDUCE SPENDING TO THE LEVEL OF ACTUAL FUNDS AVAILABLE. THE BUDGET AND CONTROL BOARD SHOULD PRESENT TO THE LEGISLATURE A REPORT OF ALL BUDGET AMENDMENTS AUTHORIZED BY THE BOARD WITH THE ANNUAL STATE BUDGET RECOMMENDATIONS OF THE BOARD. THE REPORT OF BUDGET AMENDMENTS SHOULD SHOW ALL NEW OR EXPANDED PROGRAM AUTHORIZATIONS IDENTIFIED BY PROGRAM, SOURCE OF FUNDS, AND AGENCY.

- (2) MONEY FROM SOURCES OTHER THAN THE GENERAL FUND SHOULD BE USED TO MINIMIZE THE COST OF GOVERNMENT. PART I, SECTION 121 OF THE APPROPRIATION ACT STATES:

"That all departments, institutions, and agencies of the State having revenue funds other than State appropriated funds available for operation shall, as far as practicable,

use such revenue before appropriations from the State's General Fund are expended or requisitioned."

THIS SECTION SHOULD BE ENFORCED TO ENSURE THAT ALL AGENCIES FUNDED WITH STATE APPROPRIATIONS UTILIZE FUNDS FROM SOURCES OTHER THAN STATE APPROPRIATIONS BEFORE REQUISITIONING OR REQUESTING STATE APPROPRIATED FUNDS, EXCEPT AS SPECIFICALLY PROHIBITED BY LAW(S), OR REGULATION(S) DULY BASED ON LAW.

(3) ALL AGENCY CONTINGENT FUNDS SHOULD BE ELIMINATED.

(A) EFFECTIVE JUNE 30, 1977 ALL AGENCIES SHOULD BE REQUIRED TO CERTIFY TO THE BUDGET AND CONTROL BOARD THAT ANY CARRYFORWARD OF FEDERAL AND OTHER NON-APPROPRIATED FUNDS IS REQUIRED BY FEDERAL OR STATE LAW. ALL UNEXPENDED FEDERAL AND OTHER FUNDS NOT RESTRICTED BY FEDERAL OR STATE LAW SHOULD LAPSE TO THE GENERAL FUND AT THE END OF EACH FISCAL YEAR.

(B) ALL "EARNED FUNDS" ACCOUNTS IN STATE AGENCIES SHOULD BE ELIMINATED. ALL FUNDS PRESENTLY IN "EARNED FUNDS" ACCOUNTS SHOULD BE IMMEDIATELY AUDITED. ANY BALANCE IN "EARNED FUNDS" ACCOUNTS NOT RESTRICTED BY FEDERAL LAW SHOULD THEN BE TRANSFERRED TO THE STATE GENERAL FUND.

IT IS RECOMMENDED THAT A RESERVE FUND FOR AUDIT EXCEPTIONS BE APPROPRIATED TO THE BUDGET AND CONTROL BOARD.

ITS USE SHOULD BE RESTRICTED TO PAYMENTS FOR AUDIT EXCEPTIONS WHEN DETERMINED TO BE APPROPRIATE BY THE BUDGET AND CONTROL BOARD. THIS FUND SHOULD BE ESTABLISHED BY THE TRANSFER OF A PORTION OF AGENCY LEVEL CONTINGENT FUNDS TO THIS RESERVE FUND OR MAINTAINED AT THE AGENCY LEVEL. THE BUDGET AND CONTROL BOARD SHOULD SUBMIT TO THE GENERAL ASSEMBLY WITH THE ANNUAL BUDGET A REPORT WHICH IDENTIFIES ALL PAYMENTS MADE FROM THE RESERVE FUND FOR AUDIT EXCEPTIONS.

THE RESOLUTION OF AUDIT EXCEPTIONS OR FINDINGS REQUIRING THE RETURN OF MONEY TO ANY FEDERAL FUNDING SOURCE SHOULD BE PERFORMED IN THE FOLLOWING MANNER:

- (A) STATE OFFICIALS AT THE AGENCY LEVEL SHOULD PERSUE ALL LEGAL MEANS TO RESOLVE AUDIT EXCEPTIONS BEFORE REQUESTING FUNDS FROM THE RESERVE FUND FOR AUDIT EXCEPTIONS.

- (B) UPON DETERMINATION BY THE BUDGET AND CONTROL BOARD THAT THE AUDIT EXCEPTION(S) WAS NOT A RESULT OF GROSS INCOMPETENCE, MISMANAGEMENT, MISCONDUCT, OR NEGLIGENCE, THE AGENCY SHOULD BE ALLOWED TO UTILIZE AN AMOUNT OF ITS STATE APPROPRIATED FUNDS WHICH WOULD LAPSE TO THE GENERAL FUND TO PAY FOR THE AUDIT EXCEPTION. SHOULD STATE APPROPRIATED FUNDS WHICH WOULD LAPSE TO THE

GENERAL FUND NOT BE AVAILABLE, THE AGENCY SHOULD BE ALLOWED TO REQUEST FROM THE BUDGET AND CONTROL BOARD FUNDS FROM THE RESERVE FUND TO PAY FOR THE AUDIT EXCEPTION.

- (C) SHOULD THE DECISION OF THE BUDGET AND CONTROL BOARD CONCLUDE THAT GROSS INCOMPETENCE, MISMANAGEMENT, MISCONDUCT, OR NEGLIGENCE HAD OCCURRED, THE OFFICE OF THE ATTORNEY GENERAL SHOULD PURSUE OTHER SUCH ACTIONS AS APROPRIATE IN THE FULFILLMENT OF STATE LAWS.

THE BUDGET AND CONTROL BOARD SHOULD DETERMINE THE FEASIBILITY OF PROVIDING, AND IF FEASIBLE, SHOULD PROVIDE, FIDELITY BONDING, ERRORS AND OMISSIONS COVERAGE OR FAITHFUL PERFORMANCE COVERAGE FOR APPROPRIATE STATE OFFICIALS AS DEEMED NECESSARY. SUCH COVERAGE SHOULD APPLY TO ANY LOSSES DUE TO AUDIT EXCEPTIONS AND/OR LOSSES FROM THEFT OR MISAPPROPRIATION.

- (4) THE GENERAL ASSEMBLY SHOULD REPEAL PART 1, SECTION 13-I, WHICH STATES:

Provided, Further, That the General Assembly has been made aware of the fact that various state agencies and departments have received federal and other monies as reimbursement for administrative expenses paid from the General Fund of this State. It has also been found that these monies are retained by the state agencies and departments in special funds rather than being returned to the

General Fund. It is hereby declared the intent of the General Assembly that as soon as practicable, reimbursement of administrative or overhead expenses paid from General Fund appropriations, whether received from the federal government or other sources, including but not limited to the 'Statewide Cost Allocation Plan', shall be deposited with the State Treasurer to the credit of the General Fund. In order that this might be accomplished, the Budget and Control Board is directed to study the various state agencies and departments receiving federal and other monies and to develop a positive plan to require compliance with the intent of the General Assembly as expressed in this proviso.

THE ABOVE PROVISIO HAS SERVED AS A SOMEWHAT EFFECTIVE MECHANISM FOR LEGISLATIVE CONTROL OVER INDIRECT, AND ADMINISTRATIVE COSTS. HOWEVER, BASED ON FURTHER STUDY CONTAINED IN THIS REPORT A DIFFERENT APPROACH FOR CONTROL WOULD BE MORE DESIRABLE.

THE GENERAL ASSEMBLY SHOULD REQUIRE ALL AGENCIES TO RECOVER ALL ALLOWABLE ADMINISTRATIVE, INDIRECT, OR OVERHEAD COSTS FROM FEDERAL OR OTHER FUNDING SOURCES EFFECTIVE JULY 1, 1977. ALL SUCH AGENCIES SHOULD BE REQUIRED TO DEVELOP, OBTAIN APPROVAL AND IMPLEMENT INDIRECT COST ALLOCATION PLANS. THE PLANS SHOULD INCLUDE ALL ALLOWABLE STATEWIDE INDIRECT COSTS AND ALL ALLOWABLE INDIRECT COSTS OF THE AGENCY FOR WHICH THE PLAN IS PREPARED.

THE BUDGET AND CONTROL BOARD SHOULD BE DIRECTED TO DEVELOP GUIDELINES TO ACCOMPLISH THIS, ENSURING THE TREATMENT OF INDIRECT COST RECOVERIES AS FOLLOWS:

- (A) ALL AGENCIES SHOULD DEVELOP AN INTERNAL METHOD FOR THE REVIEW OF ALL GRANTS, AGREEMENTS AND CONTRACTS FROM FEDERAL AND OTHER SOURCES TO ENSURE THAT THE MAXIMUM ALLOWABLE INDIRECT COSTS ARE A BUDGETED PART OF EACH GRANT, AGREEMENT, OR CONTRACT.
- (B) ALL INDIRECT COSTS RECOVERED SHOULD BE BUDGETED AND EXPENDED IN THE ADMINISTRATIVE AREAS OF THE AGENCY RECOVERING THE COSTS.
- (C) THE BUDGETING AND EXPENDING OF INDIRECT COST RECOVERIES SHOULD BE DONE IN A MANNER WHICH REDUCES THE STATE APPROPRIATIONS MADE TO AGENCIES FOR ADMINISTRATION.
- (D) ALL INDIRECT COSTS RECOVERED BY AGENCIES WHICH ARE NOT EXPENDED OR ENCUMBERED AS OF JUNE 30 OF THE FISCAL YEAR SHOULD LAPSE TO THE STATE GENERAL FUND.
- (5) INFORMATION CONCERNING THE AMOUNTS, EFFICIENCY, AND EFFECTIVENESS OF THE USE OF FEDERAL AND OTHER FUNDS SHOULD BE AVAILABLE TO THE LEGISLATURE.

IT IS FURTHER RECOMMENDED THAT A FEDERAL PROGRAM ANALYSIS UNIT BE ESTABLISHED AS PART OF THE BUDGET AND CONTROL BOARD TO ENSURE THAT THE LEGISLATURE IS INFORMED

OF CURRENT, NEW AND PROPOSED FEDERAL ACTIVITIES THAT WOULD AFFECT THE STATE'S PROGRAMS, PLANS, POLICIES AND BUDGET. THIS STAFF WOULD PERFORM THE FOLLOWING FUNCTIONS:

- (A) MONITOR CURRENT, NEW AND PROPOSED FEDERAL PROGRAMS, LEGISLATION, AND REGULATIONS.
- (B) IMPLEMENT THE PROPOSED INDIRECT COST RECOVERY LEGISLATION (SEE P. 24).
- (C) REPORT TO THE LEGISLATURE ON AN ANNUAL BASIS THE FISCAL IMPACT OF FEDERAL FUNDS ON CURRENT AND FUTURE BUDGETS. THE REPORT SHOULD BE IN THE FORM OF AN ANALYSIS OF EACH STATE AGENCY REGARDING:
 - (1) ACTUAL LEVEL OF STATE FUNDING NEEDED TO MATCH FEDERAL GRANTS;
 - (2) REQUEST(S) FOR STATE FUNDING TO CONTINUE PROGRAMS PREVIOUSLY SUPPORTED WITH FEDERAL FUNDS;
 - AND (3) THE FISCAL IMPACT OF FEDERAL GRANTS ON THE STATE BUDGET FOR THE NEXT THREE YEARS.
- (D) REPORT TO THE LEGISLATURE AN UPDATED ESTIMATE OF FEDERAL AND OTHER REVENUE BY AGENCY DURING THE FIRST THREE WEEKS OF THE SESSION. THE REPORT SHOULD INCLUDE ALTERNATIVES WHERE FEDERAL AND OTHER FUNDS CAN BE USED IN PLACE OF AGENCY REQUESTS FOR STATE APPROPRIATIONS.

CHAPTER II

WEAKNESSES IN THE PRESENT STATE BUDGETARY PROCESS

The Council's study revealed several weaknesses in the State budgetary process relating to the overall problem of the lack of legislative control over the activities of State Agencies. This chapter describes those weaknesses and provides specific examples of the underestimation, duplication, accumulation and inefficient use of Federal and other funds. Taken as a whole, these examples illustrate the need for the Legislature to review all spending plans of State Agencies and to authorize each fiscal year total agency expenditures including all Federal and other funds.

Specific agency findings should not necessarily reflect adversely on the management practices of agencies. These examples do not imply that any agency has intentionally interfered with the Legislative appropriation process, but do exemplify weaknesses in the existing process. Although the Council found a wide variation in the interpretation of State laws and policies, the agencies examined appeared to manage their funds in a manner which they considered to be within the framework of existing State policies and in the best interest of the agency.

Weaknesses of the budgetary process can be classified into five major types. First, the Council found the underestimation of Federal and other revenue in budget requests submitted to the Legislature. Not including all Federal and other funds in budget requests exaggerates the amount of State appropriations needed by State Agencies. Because the Legislature is not aware of all Federal and other funds available to agencies, it appropriates State funds to programs which will also be funded by Federal or other sources. This contributes to the duplication of Federal, State and

other funds for identical purposes. The present system allows agencies broad discretion in the use of Federal and other funds. When agencies receive funds from two sources for the same expenditures, they either accumulate the excess (problem three) or spend it for non-legislated expansion (problem four). Along with these weaknesses exists a fifth area of significant concern, the inefficient allocation of Federal and other funds between administrative and program costs. Most Federal and other funds available for administration have been budgeted and used by agencies for program activities. This forces State appropriations to pay the cost of administration rather than allowing State funds to be used for State legislated priorities.

The Council is aware that Federal and other funds support many worthwhile activities. The Council does not advocate that the State discontinue participation in Federal programs. However, changes are needed to correct weaknesses in the State budgetary process so the Legislature will control the utilization of Federal and other funds to accomplish statewide priorities.

Before providing examples of underestimation, duplicate funding, and other problems, it is helpful to briefly describe the nature of the weaknesses in the budgetary process.

UNDERESTIMATION OF REVENUE

The Council found that State Agencies had available during FY 75-76 at least \$155 million of Federal and other funds which were not reported to the Legislature (Appendix A).

The primary reason the Legislature is not completely informed of Federal funds is that a State Agency does not know the exact amount of reimbursements it will receive when a budget request is prepared. An agency must estimate as accurately as possible Federal and other funds it will receive during the fiscal year. Even the

most careful estimations are not always accurate because the funding level of some Federal programs is often determined after a State Agency prepares its State budget request.

A contributing factor found by the Council in several agencies is the international underestimation of Federal and other funds. Financial officials in these agencies told the Council that they intentionally underestimated reimbursements from Federal programs. By not including all Federal and other funds in their budget requests, some State Agencies were able to exaggerate the need for State appropriations. This was found to be a strategy used by these Agencies to "pad" budget requests in order to receive increased State appropriations.

Whether the underestimation of revenue occurred inadvertently or was calculated does not change the result. Underestimation results in the Legislature appropriating State funds to agencies to support costs without being aware that the same costs will also be covered by Federal and other funds. The Council describes this situation as duplicate funding.

DUPLICATION OF FEDERAL AND STATE FUNDING

The Council identified nine State Agencies which received duplicate funding for identical purposes (see examples contained in this chapter). These examples illustrate a statewide problem which the Council believes occurs to some extent in most of the ninety-one State Agencies which obtain Federal and other funds.

ACCUMULATION OF CONTINGENT OR SURPLUS FUNDS

One major result of the duplication of State and Federal funding is the accumulation of agency contingent or surplus funds.

With duplicate funds agencies can pay program costs with State funds and accumulate Federal and other funds.

Most unexpended State appropriated funds are returned to the State General Fund at the end of a fiscal year. In contrast, unexpended funds in Federal or special accounts are automatically carried forward and available to the State Agency in the next fiscal year. Therefore, many agencies that receive duplicate funding spend State appropriations first because they will lose unexpended State appropriations at the end of a fiscal year. State Agencies could be operated with less State appropriations if agencies were prohibited from accumulating contingent or surplus funds.

NON-LEGISLATED EXPANSION

Because the current budgetary process is "open-ended" regarding Federal and other funds, agencies can receive and expend large amounts of funds throughout the year without the Legislature's knowledge or consent. As a result, State Agencies have assumed control over the expenditure of a large portion of Federal and other funds.

Agencies have been able to use Federal and other funds to begin or expand programs, hire additional personnel and increase operating expenditures. Agencies have taken these actions while acting within the existing State laws and regulations. Under the current budgetary process, the Legislature's intent is not clear when an agency requests, but is not appropriated State funds. The Council found that most agencies do not consider the Legislature's failure to appropriate increased State funds as disapproval of a proposed project. Without clear legislative intent agencies use

Federal and other funds to expand staff and operating expenses in pursuit of agency priorities.

The Council is not attempting to evaluate the effectiveness of programs expanded without legislative review. The point is that legislative authorization of all Federal and other funds through the budget process will prevent agencies from using their own discretion to begin new or expand existing programs. The Legislature will then have a chance to examine all agency spending plans from the perspective of overall State priorities.

INEFFICIENT ALLOCATION OF FEDERAL AND OTHER FUNDS BETWEEN ADMINISTRATIVE AND PROGRAM COSTS

The Federal Government will permit State Agencies to use a portion of Federal funds to pay for administrative costs. Under current State law and regulations agencies are not required to use any Federal funds to help pay for administration. The Council estimates that in FY 75-76 the State could have recovered approximately \$30 million from Federal programs to pay administrative costs. However, agencies only obtained \$14.1 million. This chapter provides some examples of inefficient allocation of Federal administrative costs and this problem is discussed in detail in Chapter VI.

The examples that follow are the result of a questionnaire survey of ninety State Agencies and a more in-depth review of eight agencies.

DEPARTMENT OF YOUTH SERVICES (DYS)

Underestimation of Revenue

The Council found that DYS's revenue from Federal and other sources for FY 75-76 was underestimated by \$3,010,260. The agency estimated to the Legislature that it would have available \$922,871 of Federal and other revenue for FY 75-76. However, it reported actual Federal and other funds available of \$3,933,131. DYS underestimated its Federal and other revenue by 326 percent.

Duplication of Federal, State and Other Funding

DYS received \$863,918 of Title IV-A, VI and XX reimbursements in FY 75-76. Because only \$180,000 of such revenue was budgeted to offset the need for State appropriated funds, DYS received \$683,918 of State funding to support the same social services program paid by the Federal Government,

Contingent or Surplus Funds

By the end of FY 75-76 DYS had accumulated \$1.7 million of surplus reimbursements from Title IV-A, VI and XX in an "Earned Funds" account. These surplus funds had been accumulated over a period of several years. According to DYS officials, there were no Federal restrictions on the use of the surplus reimbursements. Despite the existence of the surplus funds, DYS requested an increase of \$1.9 million in State funds in its FY 76-77 budget request.

Non-Legislated Agency Expansion

Matching Funds for LEAA Grants -

DYS has used reimbursements for the cost of social services to match Federal Law Enforcement Assistance

Administration (LEAA) grants. LEAA grants are generally funded for only three years, and the amount of State funds required as match increases each year. In the first year, the grant is 90% federally funded and 10% State funded, in the second year 80%/20%, and in the third and final year it is 65%/35%. LEAA grants provide Federal funds to start projects that are intended to be continued entirely with State funds.

In August 1975 DYS applied for a \$1.5 million LEAA grant for the deinstitutionalization of all status offenders in South Carolina. DYS officials explained that this grant was necessary to provide services mandated by the Legislature and was supported by the Governor and the Budget and Control Board. DYS was required to provide \$166,666 of State matching funds. The grant application signed by the Director of DYS explained the source of the State matching funds was an "Earned Funds" account.

The Department of Youth Services has a 10 percent match in cash deposited in the State Treasury. This amounts to \$166,666.66. Match money has been generated from reimbursable funds developed through the social service contract between the Department of Social Services and the Department of Youth Services as a reimbursement for services provided its clients. These are non-State appropriated funds that are available without any restrictions. This is State, not Federal, money. This money is available immediately. No State legislative action is necessary.
(Emphasis added)

Expansion of the Youth Bureau Program -

From FY 73-74, DYS has used social service reimbursements to expand the Youth Bureau program from 56 employees and an annual budget of \$547,133 to 141 employees and an annual budget in excess of \$2.5 million.

DYS requested in its FY 74-75 budget that the Legislature approve an increase of \$351,048 in State appropriated funds to replace LEAA funding of 26 Youth Bureau positions. The Legislature did not approve the request and DYS decided to use \$130,541 of earned funds (Title IV-A and VI reimbursements) to continue Youth Bureau programs in Columbia, Greenville, Spartanburg and Rock Hill. In FY 75-76 DYS again requested the Legislature to increase State funding of Youth Bureaus. The request was not approved and again DYS continued Youth Bureau activities by supplementing LEAA funds with \$388,642 of earned funds. For the third consecutive year DYS asked the 1976-77 Legislature to approve the use of State funds to increase the Youth Bureau program. DYS stated in its FY 76-77 budget to the Legislature.

There are 30 positions being funded by earned funds revenue (Title IV-A and VI). The request (\$278,524) for transfer of funds was requested last year but not funded. This year, if not funded, our delinquency prevention program in the communities will be hampered greatly and may result in the discontinuance of our programs.

Despite the Legislature's refusal to grant the request for the third year, the Youth Bureau program has not been discontinued and is being expanded in FY 76-77 with earned funds.

A comparison of the FY 76-77 budget request and the appropriation approved by the Legislature reveals a continuing rapid rate of expansion of the Youth Bureau program. The FY 76-77 appropriation of State funds indicates that the Legislature intended for the Youth Bureau program to be maintained at the FY 75-76 level of \$1.7 million supporting 106

positions. However, during FY 76-77 DYS increased staff to 141 and the total budget to \$2.5 million without the Legislature's approval. The Council did not evaluate the effectiveness of this program, but the expansion of this program represents a future obligation of State resources which was not approved by the Legislature.

In its LEAA grant application for the deinstitutionalization of status offenders, DYS stated: "The Department of Youth Services has never lost a single person whose job was initially funded through a Federal demonstration grant." The quote continued, "Specifically, this means that in the last five years over 400 highly trained staff members have been assimilated and absorbed by regular State appropriations."

Inefficient Allocation of Federal and Other Funds Between
Administrative and Program Costs

The Council did not review DYS procedures and plan for the allocation of administrative costs to the programs funded from Federal and other sources. However, it was found that the agency had not informed the Legislature through its budget estimate of \$160,689 of administrative cost reimbursements in FY 75-76. Based on DYS internal financial statements the Council found that less than one third of the administrative cost recoveries were used to offset the State's cost of administering Federal programs. In addition, \$29,888 of unused reimbursements were carried forward into FY 76-77.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL (DHEC)

Underestimation of Revenue

The Council found that DHEC's revenue from Federal and other sources was underestimated for FY 75-76 by \$9 million. The agency estimated to the Legislature that it would have available \$22.7 million of Federal and other revenue. However, it reported actual Federal and other funds available of \$31.7 million. DHEC underestimated its Federal and other revenue by 40 percent.

Duplication of Federal, State and Other Funding

DHEC received duplicate funding from State and Federal sources. In FY 75-76 DHEC expended \$236,716 of State appropriated funds to provide home health care for persons confined to their residences. The agency also received \$263,104 in Title XX payments for the same purpose but expended only \$10,222. DHEC carried forward into FY 76-77 the \$252,882 balance of Title XX reimbursements. In addition, the agency provided services with State funds which were also eligible under the Federal Medicare Program. At the end of FY 75-76 DHEC carried forward \$2.2 million of unexpended Medicare reimbursements.

Accumulation of Excess Funds - Contingent Funds

The Council found that DHEC had accumulated and carried forward \$3.7 million into FY 76-77. The majority of this, \$2.5 million, resulted from Home Health Services. Initially, DHEC officials explained that the home health surplus could not be used for services because of possible Federal audit

exception in excess of \$800,000 under the Medicaid and Medicare Programs. Home health care is designed to help maintain people in their homes and avoid institutionalization. In spite of the availability of a \$2.5 million surplus, DHEC estimated it only served 40% of the individuals needing home health care in FY 75-76.

Non-Legislated Expansion

DHEC used about \$1.3 million of "accumulated Medicare and Medicaid earned funds" for permanent improvements at the State Park Health Center from June 1973 to May 1976. Since these funds were a result of duplication, the Legislature had no direct involvement in the decision to utilize them. The "modernization" project was initially approved by the Budget and Control Board at an estimated cost of \$1.8 million. However, by May 1976, due to high bids and a series of changes made by the agency, the cost had increased 72% to nearly \$3.1 million. "Earned funds" (\$1.3 million) were used to pay the difference. If the agency had not accumulated the "earned funds", it would have had to request funds from the Legislature before undertaking such a major improvement project. Under the existing budgetary process the Legislature was not involved in the determination of the need for extensive improvements even though the agency acted in accordance with existing State procedures.

Inefficient Allocation of Federal Funds Between Administrative and Program Costs

DHEC submits an indirect cost allocation plan and obtains some reimbursements for its administrative expenditures. However, the agency does not allocate funds for the full allowable cost of administration. In its FY 75-76 Budget Request, DHEC estimated that its central administrative cost would rise by more than \$1.5 million over the FY 74-75 level. The request indicated that the entire increase would have to come from State funds. However, the agency did not mention that it had the option of using Federal funds to pay the additional costs. The Council estimates that DHEC could have used more than \$1.1 million from Federal and other funds to pay administrative costs in FY 75-76.

In addition, DHEC estimated to the Legislature that it would not receive administrative cost reimbursements for FY 75-76. Actually the agency received \$196,603. DHEC's administrative cost reimbursements are not always spent before State appropriations. Often they are placed in an agency contingent fund. At the end of FY 75-76 DHEC had \$468,077 in such accounts. These funds, when combined with the other reimbursements DHEC could have obtained, would have supported DHEC's entire administrative cost increase. No increase in State appropriations would have been needed.

DEPARTMENT OF JUVENILE PLACEMENT AND AFTERCARE (JP&A)

Underestimation of Revenue

JP&A's revenue from Federal and other sources for FY 75-76 was underestimated by \$68,220. Although the agency estimated it would receive \$27,967 of Federal and other revenue, it actually received \$96,187.

Duplication of Federal, State and Other Funding

The Council found that JP&A received both State appropriations and \$70,083 of Federal (Title XX) reimbursements for the same services.

Accumulation of Excess Funds - Contingent Funds

The Council observed that no significant surpluses existed at the end of FY 75-76.

Non-Legislated Expansion

JP&A used Title XX reimbursements in FY 75-76 to establish a new Special Service Division consisting of three secretaries, four counselors and an accountant. The agency also set up three new satellite offices in Aiken, Rock Hill and Conway. The first knowledge the Legislature had of JP&A's expansion came several months after the new staff had been hired and new satellite offices opened. For FY 75-76 JP&A had requested of the Legislature additional State funds to set up satellite offices and hire counselors and secretaries. The Legislature reacted as it had in the previous year and did not approve increased State funding.

DEPARTMENT OF SOCIAL SERVICES (DSS)

Underestimation of Revenue

The Council found that DSS overestimated its Federal and other revenue by \$44.2 million. However, the Budget and Control Board reduced the DSS estimation resulting in an underestimation of \$31 million.

Duplication of Federal, State and Other Funding

Duplicate funding occurred in DSS as a result of the accumulation of a large amount of unexpended reimbursements from Federal programs. DSS retained approximately \$12.3 million for FY 74-75 in an account labeled "Earned Funds." The Earned Funds account is a conglomeration of Title IV-A, VI and XX reimbursements as well as some Federal payments for Food Stamps and other social services. DSS also received \$10.6 million in Title IV-A, VI and XX funds. Therefore, DSS had available (1) \$12.3 million in earned funds from FY 74-75 and (2) FY 75-76 social service reimbursements of \$10.6 million for a total of \$23 million. Only \$9.5 million was used to provide social services in FY 75-76, and DSS carried forward approximately \$12.3 million of unexpended revenue in the Earned Funds account at the end of FY 75-76.

DSS also received duplicate funding for the costs of administering the Title XX program. The agency was appropriated \$5 million for supportive services which included staff to administer the Title XX program. DSS also deposited payments from State and local agencies of five percent (5%) of the costs of Title XX services (\$1 million) in a Project Overhead account. The 5% charge was intended to defray costs incurred by DSS

in administering Title XX contracts. Thus DSS had available (1) \$1 million in Title XX administrative cost payments from other agencies and (2) \$5 million of State appropriated funds for administration. DSS spent the State appropriations and carried forward \$1,043,134 of surplus revenue in the Project Overhead account at the end of FY 75-76.

Accumulation of Excess Funds - Contingent Funds

DSS accumulates excess funds in its Earned Funds account. In this account the agency carryforward increased from \$7.6 million in FY 73-74 to approximately \$12.3 million in FY 75-76.

DSS officials explained that the Earned Funds account operates as a revolving fund. By definition a revolving fund is established at a specified level. The amount of funds should remain constant because the amount of funds being placed in the account should equal the flow of funds out of the account. The Council found that the Earned Funds account is not strictly a revolving account because the year-end balance has increased.

The Earned Funds account is outside legislative control and provides DSS with excess operating funds. DSS officials cannot explain why or how the Earned Funds account was established. One financial official said it dated back to the 1940's. The Legislature makes no appropriation for the account and the yearly carryforward of funds remains outside the legislative budget process and has complicated the financial administration of DSS. This has resulted in the agency obtaining more

State, Federal and other funds than it expends delivering social services.

Two cases illustrate the ability of DSS to use the Earned Funds account for contingencies. The Council found that in FY 74-75 about \$2.5 million of the Earned Funds account carry-forward was transferred to the Medicaid account to pay increased costs. In another case, the Budget and Control Board ordered DSS to reduce its FY 76-77 budget by \$13 million in November 1976. DSS financial officials said that about \$5 million out of the Earned Funds account would be transferred to the agency's general operating account to offset a portion of the reduction. While a number of DSS officials warned that the budget reduction would have a drastic impact, one official admitted that the \$5 million transfer from the Earned Funds account would not adversely affect the operation of Federal programs.

DSS officials contend that if the Earned Funds account were removed from DSS, an account of a similar nature would have to be maintained by the State Treasurer to pay administrative expenditures prior to the time of requesting Federal reimbursement for such costs. If such an account is necessary, the Council believes it should be under the control of the State Treasurer to ensure its proper and efficient administration.

DEPARTMENT OF MENTAL HEALTH (DMH)

Underestimation of Revenue

DMH's revenue from Federal and other sources for FY 75-76 was underestimated by \$2.4 million. The agency estimated to the Legislature that it would have available \$11.8 million of Federal and other revenue. The agency, in fact, reported actual available funds of \$14.2 million, an underestimation of 21 percent.

Duplication of Federal, State and Other Funds

DMH received State appropriations and Federal reimbursements for the same social services for FY 75-76. Community health services and drug and alcohol counseling received duplicate funding of an estimated \$1.3 million.

Accumulation of Excess Funds-Contingent Funds

At the end of FY 75-76, Mental Health had available a total of \$2.2 million in surplus Federal reimbursements which were carried forward into FY 76-77. Mental Health did not include the surplus funds in either the FY 76-77 or FY 77-78 budget requests. The surplus funds have remained outside of legislative control.

DMH used surplus funds to support administrative staff. In November 1975, DMH was directed by the Budget and Control Board to reduce its State appropriations approximately 7.2% as a result of an anticipated statewide revenue deficit. The Division of Administrative Services' proportionate share of this reduction was approximately \$165,000. To offset the reduction of State appropriations, DMH transferred \$96,608 of surplus Title XX reimburse-

ments to the Division of Administrative Services Office to support \$84,404 of personal services and \$12,204 of operating expenses. By accumulating Title XX reimbursements and using them to offset a budget cut in administration, Mental Health prevented these funds from being used to provide social services.

Inefficient Allocation of Federal Funds Between Administrative and Program Costs

The Council did not review DMH procedures and plan for the allocation of Administrative costs to the programs funded from Federal and other sources. However, it was found that DMH did not inform the Legislature of \$101,022 of administrative cost reimbursements for FY 75-76.

DEPARTMENT OF MENTAL RETARDATION (DMR)

Underestimation of Revenue

DMR's revenue from Federal and other sources for FY 75-76 was underestimated by \$2.4 million. The agency reported that it anticipated receiving \$6.9 million in revenue from Federal and other sources. During FY 75-76 DMR actually had available a total of \$9.3 million. The agency underestimated its Federal and other revenue by 36 percent.

Duplication of Federal, State and Other Funds

The Council observed that the agency received both State funds and Medicaid reimbursements for the same services.

Accumulation of Excess Funds - Contingent Funds

As a result of receiving both Medicaid reimbursements and State funds, DMR accumulated and carried forward into FY 76-77 \$1.7 million.

Inefficient Allocation of Federal Funds Between Administrative and Program Costs

DMR did not forecast \$607,659 of administrative cost reimbursements for FY 75-76. However, the Council found that DMR did properly allocate its Federal and other funds between administrative and program activities.

THE STATE AGENCY OF VOCATIONAL REHABILITATION (VR)

Underestimation of Revenue

Vocational Rehabilitation's revenue from Federal and other sources was underestimated for FY 75-76 by \$3.4 million (18%). The agency estimated that \$19.7 million of such funds would be available during the fiscal year, and the Budget and Control Board reduced that estimate to \$18.9 million. However, \$22.3 million was reported to be available.

Duplication of Federal, State and Other Funding

VR obtains Federal and State appropriated funds to provide the same services. Because of this the agency is able to carry forward several hundred thousand dollars yearly.

Contingent or Surplus Funds

VR carried forward \$305,008 from FY 74-75 and \$534,170 from FY 75-76 of non-appropriated funds. The agency plans to carry forward at least \$300,000 from FY 76-77 and \$150,000 from FY 77-78.

Inefficient Allocation of Federal Funds Between Administrative
and Program Costs

The Council found that VR used \$682,060 of administrative cost reimbursements to supplement its case services appropriation. The Council's review also disclosed that VR did not fully allocate allowable Federal funds to pay the costs of administration. The agency requested an increase in State appropriations for General Administrative services of \$61,837 for FY 75-76. Such increases are eligible administrative costs, proportionably chargeable to the Federal and other programs administered by the agency. The Council estimates that VR could have allocated the requested amount from its Federal funds to cover necessary increases in administrative costs.

COMMISSION ON ALCOHOL AND DRUG ABUSE (ADA)

Underestimation of Revenue

The Council observed that ADA's Federal and other revenue was underestimated for FY 75-76 by \$2.6 million. The Commission estimated that \$1 million of revenue from Federal and other sources would be available. Actual available revenue from these sources during FY 75-76 totaled \$3.6 million. Thus the Commission understated its anticipated revenues by 255 percent.

Duplication of Federal, State and Other Funds

The Commission received State and Federal funding for the same administrative costs. The extent of this duplication was found to be \$190,810.

Accumulation of Excess Funds - Contingent Funds

During FY 75-76 ADA accumulated \$29,084 and carried that amount into FY 76-77.

Inefficient Allocation of Federal Funds Between Administrative and Program Costs

The Commission's FY 75-76 budget request indicated that all administrative costs would have to be paid with State appropriations. However, the agency received \$190,810 in administrative reimbursements. They were able to hire new staff and increase administrative expenditures. Within the present system the legislature did not have an opportunity to determine the need for these additions.

CHAPTER III

DUPLICATE FUNDING - A CASE STUDY OF FUNDING FOR SOCIAL SERVICES

INTRODUCTION

The Legislative Audit Council examined the coordination between Federal funding for social service programs and the legislative budget process as a case study of legislative control of Federal funds. Social service programs were selected primarily because the State began a new \$43.5 million program in October 1975 under Title XX of the Social Security Act (Public Law 93-647). Under Title XX the State receives Federal payments for up to 75 percent of the cost of a broad range of social services.

OVERVIEW

This case study illustrates the need for the Legislature to review all spending plans of State agencies and to authorize each fiscal year total agency expenditures including Federal funds. At present the Legislature does not control the establishment of priorities and allocation of a substantial amount of resources for social services.

Before detailing the case study, it is helpful to review the major conclusions reached by the Audit Council during its six month study of State and Federal funding for social service programs.

- (1) State Agencies providing social services had available in FY 75-76 at least \$21 million in Federal social service programs which were not included in the legislative budget process. The Legislature appropriated funds to those agencies for social services without being

aware that the same services would also receive funding from the Federal government. This resulted in at least nine State Agencies receiving duplicate funding, State appropriations and reimbursements from Federal programs to support the same social services.

- (2) By the end of FY 75-76 at least four of these State Agencies had accumulated \$17.6 million of surplus funds in Federal accounts. Vague and conflicting State laws allowed agencies to control the use of these surplus funds. If agencies had been required to return surplus funds to the General Fund during FY 75-76, the State would have had a year-end budget surplus instead of a \$16.3 million deficit.
- (3) State Agencies have used social services reimbursements from Federal programs to bypass legislative intent and alter legislative priorities. State Agencies used such funds in FY 75-76 to begin new programs and hire additional personnel without the Legislature's approval.
- (4) A loophole in State law allows State Agencies which participate in the Title XX program to bypass securing legislative approval for new or expanded programs. Present State law is based upon a misconception that the expenditure of Title XX reimbursements is restricted by Federal Regulations and cannot be used in place of State appropriated funds. Actually, Title XX reimbursements can be used just as other State revenues to support general operating expenses of State Government. Without

accurate, timely information and the authority to approve the use of Federal funds, the Legislature is unable to effectively control when Title XX reimbursements will be used to offset State appropriations and in which cases Title XX funds will be used to expand the level of social services.

BACKGROUND OF THE TITLE XX PROGRAM IN SOUTH CAROLINA

A principal Federal source of reimbursements for social services is the Title XX program. Title XX of the Social Security Act became effective on October 1, 1975, and replaced social service programs funded under Title IV-A (Aid to Families with Dependent Children) and Title VI (Aid to the Aged, Blind and Disabled).

Unlike previous social service programs, states may select a range of Title XX programs that suit their special situations directed to these five broad goals:

- "- to help people become or remain economically self-supporting;
- "- to help people become or remain able to take care of themselves;
- "- to protect children and adults who cannot protect themselves from abuse, neglect, and exploitation and to help families stay together;
- "- to prevent and reduce inappropriate institutional care as much as possible by making home and community services available; and
- "- to arrange for appropriate placement and services in an institution if this is in an individual's best interest."

The Federal law gives to states the authority to determine what services will be provided to whom.

Under the Title XX program, the Federal Government provides up to 75 percent of the cost for a long list of social services programs such as child day care, foster care, and social programs for the aged, mentally handicapped, alcoholics, and drug addicts. The program provides a 90 percent Federal match for family planning programs. For South Carolina the annual Federal financial participation is \$32.8 million and when matched with State and local funds the State's Title XX program totals \$43.5 million annually.

The Department of Social Services (DSS) is the designated single State Agency responsible for administering the Title XX program. DSS contracts with other State and local agencies to provide \$22.7 million of Title XX services. DSS contracts with the Division of Health and Social Development within the Governor's Office for planning and evaluation services.

A DESCRIPTION OF FEDERAL REIMBURSEMENTS FOR SOCIAL SERVICES

Under Federal programs such as Title IV-A, VI and XX, State Agencies expend funds to provide social services. When the State Agency documents that the social services are eligible under a Federal program, the Federal Government reimburses the State Agency for a portion of its cost of social services. These reimbursements from the Federal social service programs become State revenue once received by State Agencies. The State, has in a sense, "earned" the reimbursements by providing social services eligible under Federal programs. Once the State fulfills the Federal requirements by providing eligible social services, the State's use of the reimbursements is not restricted by Federal law or regulations.

DUPLICATION OF STATE AND FEDERAL FUNDING

Nine of ten State social service agencies studied by the Council had available during FY 75-76 at least \$21 million in reimbursements from the Federal Government which were not reported to the Legislature (Table 1). This required the Legislature to make budgetary decisions without complete knowledge of all social services funding. As a result, the Legislature appropriated State funds to provide social services which were also funded under Titles IV-A, VI, and XX. At least nine State Agencies (Table 1) examined received duplicate funds through the receipt of both State appropriations and Federal reimbursements to support the same social service programs.

The Budget and Control Board has instructed State Agencies that "all agency revenue must be included" in budget requests. Reimbursements from Federal social service programs are agency revenues. If agency revenue is included in a budget request, then it can be used to offset the need for State appropriated funds. Because the current budgetary process is "open ended" regarding Federal and other funds many State Agencies circumvent the Budget and Control Board's instructions.

TABLE 1

REIMBURSEMENTS FROM FEDERAL SOCIAL SERVICE PROGRAMS

NOT REPORTED TO THE LEGISLATURE

<u>Agency</u>	<u>Federal Social Service Reimbursements (Title IVA, VI, XX) included in FY 75-76 Budget Requests</u>	<u>Actual Reimbursements Available During FY 75-76</u>	<u>Funds excluded from Legislative Budget Process</u> (Column 2 - Column 1)
Commission on Aging	-	\$ 531,651	\$ 531,651
Alcohol & Drug Abuse	-	837,927	837,927
Corrections	-	199,795	199,795
Health & Environmental Control	-	457,551	457,551
Juvenile Placement & Aftercare	-	70,083	70,083
Mental Health	-	1,571,166	1,571,166
1974-75 Carryforward	-	834,336	834,336
Vocational Rehabilitation	-	332,358	332,358
Youth Services	\$ 180,000	863,918	683,918
1974-75 Carryforward	-	1,698,631	1,698,631
Social Services			
a. Earned Funds Account	-	12,301,120	12,301,120
b. Title IVA, VI and XX	10,315,121	10,643,954	328,833
c. Project Overhead Account	-	<u>1,043,134</u>	<u>1,043,134</u>
TOTAL	\$10,495,121	\$31,385,624	\$20,890,503

Duplicate funding of social service programs causes two additional problems. First, State Agencies accumulate large reserves of surplus reimbursements from Federal social service programs. Secondly, agencies use such reimbursements to bypass legislative intent and begin new programs or expand existing social services without legislative approval.

ACCUMULATION OF SURPLUS FUNDS

A major result of the duplication of State and Federal funding for social services is the accumulation of surplus funds in agency accounts. Agencies pay social service program costs with State funds and accumulate reimbursements from Federal programs in Federal accounts. Surplus funds in Federal accounts are automatically carried forward and can accumulate from year to year. At the end of FY 75-76, four social services agencies carried forward at least \$17.6 million in surplus revenue (see Table 2).

State Agencies' interpretations of vague and contradictory State laws are contributing causes that allow agencies to accumulate large reserves of surplus funds. In the last few years, the Legislature has included in the Appropriation Act (Section 92 of the 1975-76 Act) a provision requiring that in "all State institutions where institutional revenue is available for operation, such revenue shall, as far as practicable, be used before appropriations from the State's General Fund are requisitioned." Agencies which carried forward surplus revenue did just the opposite of what appears to be this provision's intent; General Fund appropriations were spent before revenue. The term "institutional revenue" is vague and it is unclear whether reimbursements from Federal social service programs are included.

TABLE 2
SURPLUS FUNDS IN SOCIAL SERVICE AGENCIES

<u>Agency</u>	<u>Type of Account</u>	<u>Surplus Funds as of 6/30/76</u>
Mental Health	Community Mental Health	\$ 562,276
	Morris Village	669,648
	Orientation to Independent Living	91,497
	S. C. State Hospital	19,833
	IV-A Earned Funds	851,153
Health & Environmental Control	Title XX Reimbursements	305,875
Social Services	Earned Funds	12,301,120
	Project Overhead	1,043,134
Youth Services	Earned Funds	<u>1,728,518</u>
TOTAL		<u><u>\$17,573,054</u></u>

In addition, another section of the Appropriation Act has allowed agencies to retain surplus reimbursements to "provide additional similar services" (refer to p. 61). This provides an incentive for agencies to spend State appropriated funds and retain surplus funds in Federal accounts.

State Agencies could be operated with smaller State appropriations if agencies utilized all available revenue before using State appropriated funds. Reimbursements from the Federal Government for social services are State revenue and can be used generally to support the cost of operating State Agencies. Taxpayers expect that State Government will collect only revenue that is necessary to provide services to the public. If any agency obtains more State revenue than it needs and thereby has surplus funds, the surplus should be returned to the State's General Fund. As a result, no agency would accumulate surplus funds and State Government could be operated more efficiently.

In contrast, social service agencies carried forward from FY 75-76 at least \$17.6 million in surplus State revenue. This surplus revenue was in addition to the carryforward of unexpended State appropriations. These agencies had more than sufficient surplus State revenue in Federal accounts to offset the overall FY 75-76 budget deficit of \$16.3 million. Instead of operating as public agencies whose surplus revenue returns to the General Fund and belongs to all State Government, these agencies acted as if they were private corporations and surplus revenue was profit to be used at their discretion.

Each year every social service agency asks the Legislature for an increase in State funding based upon what they perceive to be

the increasing needs of the State's disadvantaged population. However, this is not consistent with the accumulation of surplus funds. If the Legislature had control of all Federal and other funds, these surplus funds could support other worthwhile government services or could be used to offset budget deficits and reduce the possibility of future tax increases.

AGENCIES USE PAYMENTS FROM FEDERAL SOCIAL SERVICE PROGRAMS TO
BYPASS LEGISLATIVE CONTROL AND ALTER LEGISLATIVE PRIORITIES

Interviews with officials at various levels of management in numerous State Agencies revealed confusion, contradictory interpretations, and a general misunderstanding of the way social service reimbursements from the Federal Government should be expended. In this environment of confusion, agencies have circumvented the Legislature's authority to control State spending by using social service reimbursements for purposes that were never approved by the Legislature.

Existing State policies place few controls on the expenditure of reimbursements from Federal programs. Under current laws and regulations and the DSS contracting process, neither HEW nor DSS is able to control how other State Agencies expend funds reimbursed under Title XX. Furthermore, Title XX reimbursements are placed in a Title XX Federal account, and whenever agencies decide to start new programs or hire additional personnel, transfers are made from Title XX or Federal accounts to personnel or operating accounts. Mental Health officials stated that there had been "no problems" obtaining such transfers. According to Department of Youth Service officials, there are "absolutely no Federal or State limitations or restrictions" on the use of reimbursements to the State for Federal social service programs.

The Legislative Audit Council studied several State Agencies during the course of this audit. The examples described in Chapter II illustrate specific State Agencies that have taken advantage of existing State laws and the "open-ended" budgetary process to assume control over reimbursements and to use those funds for purposes not approved by the Legislature.

A MISCONCEPTION ABOUT TITLE XX AND A LOOPHOLE IN STATE LAW

State policy is based upon a misconception that the use of Title XX reimbursements is governed by Federal Regulations. The Legislature has been erroneously advised by State Agencies that Federal Regulations prohibit the reduction of an agency's State funding due to the availability of Title XX reimbursements. A provision in State law based upon this misconception has allowed agencies to build large reserves of Title XX reimbursements and to spend those funds outside of legislative control.

The State law is Section 45 of the FY 76-77 Appropriation Act.

Any agency receiving any Federal reimbursement for the costs of social services delivered during Fiscal Year 1975-76 in accord with Purchase of Service Agreements and Contracts entered into with the Department of Social Services pursuant to the provision of the Federal Social Security Act, as amended, may use such funds to provide additional similar services.

To implement this legislation the Comptroller General's Office requires State Agencies to place Title XX reimbursements in Federal accounts, to carry forward surplus reimbursements, and to expend reimbursements to provide "additional similar social services."

The statutory provision that Federal reimbursements may be used to provide additional social services originated prior to the Title XX program. In FY 71-72 DSS received approval from HEW to purchase social services from other State Agencies including

Mental Health and Youth Services under the Title IV-A and VI programs. This action made Federal reimbursements available for 75 percent of the cost of programs dealing with drug abuse, alcoholism, mental illness and juvenile corrections. These programs had been long established responsibilities of State Government.

Other states also obtained approval to purchase social services from State Agencies, and several states used Federal reimbursements to transfer ongoing costs of social services from the State to the Federal Government. By purchasing services in such areas as mental health and juvenile corrections, these states used Federal reimbursements for 75 percent of social service costs and replaced State funding without affecting the types or level of services provided to the public. For example, Illinois made up a budget deficit of \$140 million in FY 71-72 by covering the costs of a number of social service programs with Title IV-A and VI reimbursements, thereby reducing State funding of social services.

The South Carolina Legislature was not made aware of the possibility of replacing State funding for social services with reimbursements from Federal programs. Instead, DSS officials advised the Legislature that State Agencies had to be allowed to use Federal reimbursements to "provide additional similar services."

The Title XX program replaced the Title IV-A and VI programs in October 1975. Based on the advice of DSS officials, the FY 75-76 and FY 76-77 Appropriation Acts continued to provide that agencies receiving Federal reimbursements "may use such funds to provide additional similar services."

This statutory provision allowing agencies to use Federal reimbursements to expand social services has provided agencies a

loophole to avoid legislative control over some social service spending. The Federal reimbursements have accumulated in Federal accounts or have been used to "provide additional similar services." Thus, agencies have gained wide latitude in deciding the additional social services that are provided. Due to the loophole agencies are not required to submit spending plans for additional social services to the Legislature and can therefore begin or expand programs that are inconsistent with State priorities established by the Legislature.

The Council's study of Title XX regulations fail to find any requirement that Title XX reimbursements must be expended to provide additional similar services. HEW officials responsible for Title XX payments to the State confirmed that Title XX regulations do not contain any requirement that a State expend Title XX reimbursements to provide additional similar services.

DSS and Mental Health officials stated that a Title XX "maintenance of effort" provision prevents the Legislature from reducing an agency's budget due to the availability of Title XX reimbursements. However, this is not a correct interpretation of Title XX regulations.

Title XX regulations contain a maintenance of State effort requirement. (45 CFR Part 228.18)

Each State which participates in the program shall assure that the aggregate expenditures from appropriated funds from the State and political subdivisions for the provision of services during each services program year with respect to which payment is made under this Part is not less than the aggregate expenditures

from such appropriated funds for the provision of services during the fiscal year ending June 30, 1973, or the fiscal year ending June 30, 1974, with respect to which payment was made under the plan of the State approved under Title I, VI, X, XIV, or XVI, or Part A of Title IV, whichever is less.

According to an interpretation published by HEW, the purpose of the maintenance of effort provision is to assure a continued level of State and local effort in the Title XX program. This is accomplished by computing the total State and local expenditures from appropriated funds for the provision of services under the Social Security Act (Titles I, IV-A, VI, X, XIV, or XVI) during FY 72-73 and FY 73-74. The year with the small expenditure becomes the base year. Compliance with the maintenance of effort in any subsequent year is determined by comparing State and local expenditures in that year to the base year.

HEW officials in Atlanta responsible for Title XX funds paid to South Carolina said the State has had no difficulty in complying with the maintenance of effort requirement. Since FY 73-74 State and local support for social service programs eligible under Title XX has increased two hundred percent (200%) above the amount required by HEW.

Appropriations to social service agencies could be reduced in several ways and the State would still comply with the maintenance of effort requirement. Since the base year is an aggregate amount of State and local spending, reductions in State appropriations can be offset by increases in local expenditures. Alternatively, appropriations to several agencies receiving Title XX funds could be reduced and the aggregate amount would not change if appropriations to other agencies were increased. Finally, the Legislature

could reduce appropriations to all agencies with Title XX reimbursements to the base year, FY 73-74, amount.

CONCLUSION

Legislative review of all Federal programs including the Title XX program would provide a means of eliminating wasteful duplication between State and Federal funding for social services. With legislative control Title XX reimbursements can be used to reduce State appropriations or to support other necessary social services. Legislative control of Title XX funds will prevent agencies from using their own discretion to begin new or expand existing programs. The Legislature will then have an opportunity to conduct a detailed review of the cost effectiveness of Title XX projects from the perspective of overall State priorities.

RECOMMENDATIONS

CHANGES IN THE BUDGETARY PROCESS RECOMMENDED IN CHAPTER I REQUIRE THAT ALL FEDERAL REIMBURSEMENTS FOR SOCIAL SERVICES BE INCLUDED IN THE LEGISLATIVE BUDGET PROCESS.

STATE FINANCIAL POLICIES SHOULD REQUIRE THAT FEDERAL REIMBURSEMENTS FOR THE COSTS OF SOCIAL SERVICES BE USED IN THE SAME MANNER AS OTHER STATE REVENUE.

- (A) THE FOLLOWING PROVISION IN THE PROPOSED
1977-78 APPROPRIATION ACT (HOUSE BILL NO. 2210)
SHOULD BE REPEALED.

SECTION 45

DEPARTMENT OF SOCIAL SERVICES. PROVIDED,
FURTHER, THAT ANY AGENCY RECEIVING ANY
FEDERAL REIMBURSEMENT FOR THE COSTS OF
SOCIAL SERVICES DELIVERED DURING FISCAL
YEAR 1976-77 IN ACCORD WITH PURCHASE OF
SERVICE AGREEMENTS AND CONTRACTS ENTERED
INTO WITH THE DEPARTMENT OF SOCIAL SER-
VICES PURSUANT TO THE PROVISIONS OF THE
FEDERAL SOCIAL SECURITY ACT, AS AMENDED,
MAY USE SUCH FUNDS TO PROVIDE ADDITIONAL
SIMILAR SERVICES.

- (B) THE COMPTROLLER GENERAL'S OFFICE SHOULD REQUIRE
THAT ALL STATE AGENCIES EXPEND REIMBURSEMENTS
FROM FEDERAL PROGRAMS FOR THE COSTS OF SOCIAL
SERVICES BEFORE APPROPRIATIONS FROM THE STATE'S
GENERAL FUND ARE REQUISITIONED.
- (C) ALL CARRYFORWARDS OF UNEXPENDED REIMBURSEMENTS
FROM THE FEDERAL GOVERNMENT FOR SOCIAL SERVICES
SHOULD BE ELIMINATED. AGENCIES SHOULD BE
REQUIRED TO PLACE REIMBURSEMENTS IN ACCOUNTS
WHERE YEAR-END BALANCES LAPSE TO THE STATE'S
GENERAL FUND.

THE PROVISION IN SECTION 45 OF THE PROPOSED 1977-78
APPROPRIATION ACT (HOUSE BILL NO. 2210) PERMITTING
AGENCIES TO TRANSFER "5% OR OTHER PERCENTAGE DETER-
MINED TO BE APPROPRIATE" TO DSS TO DEFRAY ADMINISTRATIVE

COSTS OF TITLE XX CONTRACTS SHOULD BE ADOPTED. THIS PROVISION PROVIDES DESIRABLE CONTROL OVER THIS FEE BY REQUIRING THE PERCENTAGE TO BE "ADJUSTED AT LEAST ANNUALLY TO COMPENSATE FOR UNDER OR OVER RECOVERIES." IN ADDITION, FEES COLLECTED SHOULD BE DEPOSITED TO THE GENERAL FUND.

CHAPTER IV

AGENCY CONTINGENT OR SURPLUS FUNDS

Duplicate Federal, State and other funding for identical costs allows agencies to develop large contingent funds. When an agency receives funds from two sources to support the same costs, funds from one source can be placed in Federal accounts and accumulated from year to year. Agency contingent funds are unnecessary, tie up State funds that could be used to support other State programs, and remove the pressure for agencies to operate efficiently. Contingent funds in several agencies are large enough to allow officials to cover up costly management errors or initiate major new programs without legislative approval or knowledge.

The case study of Federal and State funding for social services identified four State Agencies which carried forward a combined total of \$17.6 million in reimbursements at the end of FY 75-76 (see Table 2). In addition to those funds, Table 3 summarizes other unrestricted funds accumulated by State Agencies in Federal accounts. At least \$24.3 million of unrestricted surpluses existed in agency accounts as of June 30, 1976. Based on information from agency financial officials, the Council estimates that at least \$13.3 million of surplus funds will exist at the end of the current fiscal year. The difference between actual FY 75-76 surplus funds and the estimated FY 76-77 surplus is approximately \$11 million. This difference is mainly due to actions taken by the Budget and Control Board during FY 75-76 to offset an anticipated budget deficit.

TABLE 3

AGENCY CONTINGENT FUNDS

<u>Agency</u>	<u>Social Services Reimbursements (Table 2)</u>	<u>Other Funds</u>	<u>Total 6/30/76 (Column 1 & Column 2)</u>	<u>Estimate 6/30/77</u>
Mental Health	\$ 2,194,407	-	\$ 2,194,407	\$ 2,550,000
Health & Environmental Control	305,875	\$3,391,205	3,697,080	300,000
Youth Services	1,728,518	-	1,728,518	400,000
Social Services	13,344,254	-	13,344,254	8,300,000
Vocational Rehabilitation	-	534,170	534,170	300,000
Mental Retardation	-	1,688,028	1,688,028	1,175,000
Technical & Comprehensive Ed.	-	864,111	864,111	280,000
Department of Labor	-	162,282	162,282	-
Commission on Aging	-	63,085	63,085	-
Alcohol & Drug Abuse	-	29,084	29,084	-
TOTAL	\$17,573,054	\$6,731,965	\$24,305,019	\$13,305,000

State Agencies are motivated to accumulate surplus funds because they can exercise discretion over the use of the funds. Agency officials do not explicitly classify reserve funds as contingent funds. Instead, several agencies including the Department of Social Services, Mental Health, Youth Services, and the Board of Technical and Comprehensive Education label reserves as "Earned Funds." The Council found that agencies frequently did not have definite plans for the use of these surplus funds. Officials often explained that the funds might be needed to cover unanticipated needs such as a reduction in State or Federal funding or Federal audit exceptions.

If not for the existence of agency contingent funds, the annual appropriation process could be a more effective method for monitoring the performance of State Agencies. If agencies needed additional funds to cover management mistakes, pay Federal audit exceptions, or to support cost overruns in State programs the Legislature would require them to justify their request through the budget process.

The existence of agency contingent funds also distorts the allocation of State resources. This is because an agency with contingent funds receives more State appropriations than needed to support its programs. If the General Assembly prevented agencies from accumulating contingent funds, then those funds could be used by the Legislature to support worthwhile programs or to offset a shortfall in tax revenue.

The practice of allowing some State Agencies to establish contingent funds penalizes other agencies that are managed effi-

ciently. For example, when the Budget and Control Board or the Legislature is forced to make across the board budget reductions, agencies can use contingent funds to offset such reductions. In FY 75-76 all State Agencies were ordered to make an eight percent (8%) budget reduction. Agencies with contingent funds such as the Department of Youth Services, Health and Environmental Control and Vocational Rehabilitation utilized surplus funds in Federal accounts to maintain staff and operating levels. Agencies which did not have contingent funds had to make reductions in staff and operating expenditures.

Officials in several State Agencies justified the existence of contingent funds as necessary to cover possible audit exceptions in Federal programs. As a condition of accepting Federal funds, State Agencies agree to comply with Federal laws and regulations governing the expenditure of those funds. Proper administration of Federal funds can be a difficult task because each Federal program has a different set of regulations. The regulations are often vague and interpretations from Federal agencies are often conflicting and misleading. If an audit of a Federal program finds that a State Agency has not fully complied with Federal Regulations, then the Federal agency can require the State Agency to repay improperly expended Federal funds.

The amount of contingent funds shown in Table 3 exceed any reasonable estimate of probable Federal audit exceptions. Of the agencies reviewed, the Department of Youth Services was the only one which paid an audit exception from contingent funds during

FY 75-76. DYS transferred to DSS \$176,634 from its "Earned Funds" account. The transfer paid audit exceptions for FY 71-72 applicable to reimbursements under Title IV-A of the Social Security Act. According to DSS officials, the audit exception occurred due to the lack of documentation from DYS for social service costs and expenditures for ineligible services.

The Departments of Mental Health and Health and Environmental Control face the possibility of audit exceptions in Federal programs. Officials in both agencies stated that contingent funds were needed because the agency could not go before the Legislature to request funds to pay an audit exception. One Mental Health official stated that "those people downtown (Legislature) would not understand and would think there had been mismanagement here." A top DHEC official said that if contingent funds were eliminated and he had to ask the Legislature for funds to pay an audit exception, the Legislature would "probably want to fire me."

There is no State law or uniform procedure for agencies to follow in resolving audit exceptions. The normal reaction of a State Agency is to delay the return of Federal funds by appealing the audit exception, to negotiate with the Federal agency in an attempt to lower the amount of funds covered by the exception, and to resolve the exception without the Legislature becoming aware of it.

There is a need for the Legislature to monitor the management of Federal programs including the resolution of Federal audit exceptions. Federal audit exceptions are often the result of agency

mismanagement or negligence and may involve fraud or other illegal behavior. On the other hand, Federal audit exceptions may be based on an interpretation of Federal law and regulations which the State Agency believes is not consistent with actual Federal law and regulations. In these cases it may be in the best interest of the State to refuse to return Federal funds until the issue is decided by the court.

CONCLUSION

Recommendation 3 (Chapter I) eliminates contingent funds and establishes a uniform, statewide procedure for the resolution of audit exceptions in Federal programs. An independent investigation by the Legislative Audit Council would provide the basis for deciding whether agencies should be allowed to utilize lapsed State appropriations or the Reserve Fund to pay Federal audit exceptions. Should the Budget and Control Board conclude that the investigation revealed mismanagement, then the bonds of State officials responsible for mismanagement should be held liable for payment of audit exceptions.

CHAPTER V

NON-LEGISLATED EXPANSION - A CASE STUDY OF

THE LAW ENFORCEMENT ASSISTANCE

ADMINISTRATION (LEAA) PROGRAM

INTRODUCTION

The LEAA program was selected as a case study by the Legislative Audit Council because it is a Federal program designed specifically to expand the State criminal justice system. The purpose of the program is to improve the State's criminal justice system through a coordinated planning and programming effort. State and local criminal justice agencies work with the Office of Criminal Justice Programs (OCJP), the designated State criminal justice planning agency. LEAA is a relatively small Federal program financed primarily through the block grant. A block grant authorizes Federal aid for a wide range of activities within a broad functional area. It gives the State substantial discretion in administration, fiscal reporting, planning and other activities. State criminal justice agencies participate in the LEAA program. These agencies represent State level law enforcement, the judiciary, adult corrections, juvenile justice and related social services. LEAA programs in South Carolina for FY 75-76 totaled \$8.3 million (\$6.1 million Federal Funds and \$2.2 million State matching funds). Of this amount, \$2.5 million went to the State Agencies. The remainder was awarded to local governments and private nonprofit agencies.

In contrast to the newness of the Title XX Social Services Program, the LEAA Program has been in existence since 1968. This has given LEAA a chance to eliminate many of its initial problems and to develop a fairly sophisticated planning process. However,

problems resulting from the lack of legislative involvement were found to exist.

LEAA LEADS TO EXPANSION OF STATE GOVERNMENT

The LEAA program is another Federal program that has made it difficult for the Legislature to control the rate and direction of growth of State Government. It is designated as an executive program and is supervised by the Governor's Committee on Criminal Justice, Crime and Delinquency. LEAA funds are not intended to replace existing State expenditures. The Federal strategy is to expand existing law enforcement and criminal justice activities and to stimulate new programs.

State Agencies have used LEAA funds along with other Federal monies to expand their agencies. LEAA programs are begun without legislative approval because they are designated as executive, and because the Office of Criminal Justice Programs (OCJP) in the Governor's Division of Administration receives a "lump sum" appropriation for match and provides the first year match for the grant recipient. Generally, after three years of gradually decreasing Federal funding, the Legislature is asked to continue projects totally with State money. It is difficult for the Legislature to make an informed decision on the continuation of LEAA programs because little if any independent information is now available to the Legislature.

State Agencies indicated to the Legislative Audit Council that continuation of programs after LEAA funding terminates has presented few problems for them. Officials at the Budget and Control Board could not recall any cases where the Board recommended discontinuation of an LEAA project. An Advisory Commission on Intergovernmental Relations (ACIR) survey in 1975 on the LEAA program found that the ability of the governmental unit to support the project was a greater influence on continuation than the proven success of the project.

Approximately \$1 million of new LEAA programs are begun each year for State Agencies. First year grants are 90% federally funded, decreasing to 80% the second year and to 65% the third year. Given the way the LEAA program is structured, if Federal funds terminate after the third year and the State continues all the programs, annual State spending will increase from \$100,000 to over \$3.6 million in six years. (For a detailed calculation, see Appendix B.)

State revenue may not be able to keep pace with the State's budgetary requirements and may impose the need for tax increases if the trend continues. The State must be prepared to continue the programs which are desirable and eliminate those that are not. These decisions will require greater legislative involvement in the planning and evaluation processes.

LEAA PROGRAM IS PLANNED AND ADMINISTERED WITH LIMITED LEGISLATIVE INVOLVEMENT

The Legislature has had limited input into the planning and administration of the LEAA program in South Carolina. The policy-making board for the program is the Governor's Committee on Criminal Justice, Crime and Delinquency. There are two State Representatives appointed to the committee by the Governor because of their involvement in some aspect of the South Carolina criminal justice system. They are not appointed as legislative representatives.

Legislative involvement in the LEAA planning process has been apparently non-existent in the past. The FY 77-78 planning process includes legislative involvement in two Governor's Conferences. Plans also call for legislative review of the comprehensive criminal

justice plan that will be developed this year. In November 1976 OCJP adopted a policy requiring Budget and Control Board approval of new positions funded by LEAA. Although a commendable effort, this was found not to have been fully implemented.

In the past year Congress has closely examined the effectiveness of the LEAA program, trying to determine the future of the program. The conclusion reached by Congress is that for the program to be effective, LEAA programs must be brought more closely into the states' planning and budgetary processes. In 1976 Congress passed a law that requires each legislature to enact a law creating its state criminal justice planning agency by December 31, 1978. Statutory recognition of the planning agency offers the Legislature the opportunity for greater involvement in the LEAA program. The Advisory Commission on Intergovernmental Relations (ACIR) has developed "Suggested State Legislation to Establish the Criminal Justice Planning Agency." The model legislation recommends legislative representation on the supervisory board and legislative review of the State Criminal Justice Plan.

THE LEGISLATURE DOES NOT RECEIVE ADEQUATE LEAA INFORMATION

The budgetary process permits agencies to use LEAA funds without effective legislative oversight. Budget data is often incomplete and unreliable. In their budget requests agencies make poor estimates of Federal and other revenue. Seventeen State Agencies estimated that they would receive \$1.6 million of LEAA funds when, in fact, their "actual" budget information (FY 77-78 Budget Requests) indicates that they received \$2.8 million. This is an underestimation of \$1.2

million (42%). Twelve of the seventeen agencies estimated that they would receive no LEAA monies for FY 75-76 (see Table 4). The Legislature was unaware of over \$1.1 million of LEAA funding for State Agencies when appropriations were approved for FY 75-76. State officials told the Audit Council that currently there is no mechanism to reconcile agencies' revenue estimates with data from the administering agency.

Inclusion of accurate LEAA funding estimates in the budget document is difficult. The LEAA block grant is awarded to OCJP in October and subgranted in accordance with the annual plan. Funding corresponds to the new Federal fiscal year (October 1 - September 30) but grants are awarded by OCJP throughout a three-year funding period. Discretionary grants are also awarded throughout the year. If criminal justice planning and funding are to be fully coordinated, accurate LEAA funding information needs to be included in agency budget requests.

Even the information provided under the budget request heading "Collections-Actual" was found to be inaccurate. The table that follows shows a comparison of "actual" agency receipt of LEAA funds with "actual" OCJP allocation of LEAA funds to the agencies. The total figures differ by less than \$150,000 but seven agencies showed discrepancies of over \$50,000.

TABLE 4

COMPARISON OF ESTIMATED AND ACTUAL LEAA
FUNDING OF STATE AGENCIES FOR FY 75-76

<u>AGENCY</u>	<u>ACTUAL</u>	<u>ESTIMATE</u>	<u>DIFFERENCE</u>
State Law Enforcement Div.	\$ 574,224	\$ 192,553	\$ 381,671
Department of Corrections	977,564	1,263,145	(285,581)*
Attorney General	158,009	-0-	158,009
Department of Youth Services	479,948	-0-	479,948
Department of Juvenile Placement & Aftercare	24,749	-0-	24,749
State Agency of Vocational Rehabilitation	191,391	-0-	191,391
Probation, Parole & Pardon Board	113,218	78,080	35,138
Judicial Department	29,069	-0-	29,069
Patriot's Point Development Authority	23,805	-0-	23,805
Highway Department	-0-	-0-	-0-
Department of Mental Health	31,442	-0-	31,442
Human Affairs Commission	-0-	-0-	-0-
John De La Howe School	3,307	4,000	(693)*
Commission on Alcohol & Drug Abuse	-0-	-0-	-0-
Criminal Justice Academy	-0-	-0-	-0-
University of South Carolina	123,127	-0-	123,127
Board for Technical & Comprehensive Education	<u>83,620</u>	<u>105,050</u>	<u>(21,430)*</u>
TOTAL	<u>\$2,813,473</u>	<u>\$1,642,828</u>	<u>\$1,170,645</u>
	(100%)	(58%)	(42%)

* () = Overestimation.

TABLE 5
COMPARISON OF ACTUAL LEAA FUNDING FOR
FY 75-76 AS REPORTED BY OCJP AND STATE AGENCIES

<u>AGENCY</u>	<u>REPORTED OCJP ALLOCATION</u>	<u>REPORTED AGENCY REVENUE</u>	<u>DIFFERENCE</u>
State Law Enforcement Div.	\$ 824,164	\$ 574,224	\$ 249,940
Department of Corrections	781,961	977,564	(195,603)*
Attorney General's Office	330,437	158,009	172,428
Department of Youth Services	467,590	479,948	(12,358)*
Department of Juvenile Placement & Aftercare	22,814	24,749	(1,935)*
State Agency of Vocational Rehabilitation	136,066	191,391	(55,325)*
Probation, Parole & Pardon Board	113,218	113,218	-0-
Judicial Department	57,763	29,069	28,694
Patriot's Point Development Authority	20,588	23,805	(3,217)*
Highway Department	124,804	-0-	124,804
Department of Mental Health	18,171	31,442	(13,271)*
Human Affairs Commission	16,661	-0-	16,661
John De La Howe School	3,307	3,307	-0-
Commission on Alcohol & Drug Abuse	3,000	-0-	3,000
Criminal Justice Academy	22,309	-0-	22,309
University of South Carolina	547	123,127	(122,580)*
Board for Technical and Comprehensive Education	12,562	83,620	(71,058)*
TOTAL	<u>\$2,955,962</u>	<u>\$2,813,473</u>	<u>\$ 142,489</u>

* () = Agency's figure is greater.

As stated, LEAA grants are awarded throughout the year so it is possible that agencies are unaware or unsure of LEAA funding when budget requests are submitted. However, actual figures presented by the agencies and OCJP should be the same.

Discrepancies arising from misinformation and incomplete information make it difficult for the Legislature to allocate State resources efficiently. Duplication of LEAA funding and State funding may occur because of this resulting in surplus money at the discretion of agencies without legislative approval.

Duplication may also occur because there is no mechanism in the LEAA planning process to inventory existing programs. Emphasis is placed on analyzing needs rather than programs. LEAA may fund a program in one agency that overlaps a program in another agency. The Legislature does not receive adequate information to analyze possible wasteful duplication of programs between agencies. Officials at OCJP agreed that duplication of programs could occur under the current system.

Federal Regulations regarding match for LEAA grants require that "the nonfederal share of the cost of any such program or project...shall be of new money appropriated in the aggregate." (Emphasis added) This means that the matching funds should be appropriated as a line item to prove that the match was "new money appropriated in the aggregate." OCJP receives a lump sum appropriation from the Legislature for match for first year LEAA grants. Currently, all agencies (except the Attorney General's Office) do not identify match for second and third year grants as separate line items.

If proper information had been available DYS could have been prevented from using Federal reimbursements (earned funds) rather than appropriated funds to match an LEAA program (see also p. 32). In its grant application for the Deinstitutionalization of Status Offenders, DYS stated under "Source of Matching Funds": "The Department of Youth Services has a sufficient amount of non-appropriated, non-allocated funds deposited in the State Treasurer's Office to be used for matching purposes. These funds are available at any given time during the two-year period of the grant. Funds were secured by reimbursements for State funds used with a contract with the Department of Social Services. There are absolutely no Federal or State limitations or restrictions on the use of these funds since they came from a reimbursement source."

Match decisions for LEAA projects and decisions regarding continuation of programs when LEAA funds terminate are made without complete and timely information. Budget and Control Board analysts do not receive adequate data about the LEAA program and budget requests provide the Legislature minimal information. In addition, no useful budget review is performed by OCJP to analyze LEAA funding or program information presented by State Agencies. At one time, the OCJP staff attempted to review budgets but concluded that there was simply not enough information.

All LEAA programs are evaluated at least annually by OCJP. However, neither the Budget and Control Board nor the Legislature received reports of the results. The Legislature has only the information presented by the agency which may differ from an independent evaluation. For example, the Probation, Parole, and Pardon Board

received a poor evaluation for its Upper Savannah Regional Office. However, in its FY 77-78 budget request the Board stated that "positive results have been obtained from this project" and asked for funds for the project. Under the current system the Legislature must make its funding decision without being aware of alternative points of view.

Currently, there is no evaluation done after the third year of an LEAA program. Data collection is required but because LEAA funds are terminating, OCJP does not see evaluation as critical. This indicates a possible lack of concern about the fiscal impact of these programs on the State. For the State, as a whole, the third-year evaluation is the most important evaluation because the Legislature must decide whether or not to continue the projects with 100% State funding.

CONCLUSION

The Council must conclude that greater legislative involvement is necessary for the LEAA program, particularly because of the future commitment of State funds and the possibility of wasteful duplication. This case study is supportive of the need for a budgetary system which takes into account and coordinates the use of the total resources of the State.

RECOMMENDATIONS

- (1) A BUDGET REVIEW OF AGENCIES RECEIVING LEAA FUNDING SHOULD BE PERFORMED TO:
 - (A) ENSURE THAT REVENUE ESTIMATES ARE REASONABLY ACCURATE.

(B) RECONCILE ANY DISCREPANCIES BETWEEN AGENCY REVENUE ESTIMATES AND OCJP ALLOCATIONS.

(C) CONDUCT HISTORICAL IMPACT STUDIES TO ANALYZE THE OVERALL PROGRAM EFFECTIVENESS.

(3) THE LEGISLATURE SHOULD ESTABLISH THE STATE CRIMINAL JUSTICE PLANNING AGENCY BY LAW. THIS AGENCY SHOULD ENABLE THE PROGRAM TO BRIDGE THE LEGISLATIVE, EXECUTIVE, AND JUDICIAL BRANCHES OF GOVERNMENT AS THE CRIMINAL JUSTICE SYSTEM DOES.

CHAPTER VI

INEFFICIENT ALLOCATION OF FEDERAL FUNDS FOR ADMINISTRATION

INTRODUCTION

State Agencies are often given the responsibility to administer Federal programs. All programs have two basic categories of costs: those incurred to provide services (direct costs) and those incurred to administer the program (indirect costs). The Federal Government will permit State Agencies to use a portion of the total funds for the costs of administration. To do this, the agency files an "indirect cost allocation plan." The agency can use Federal funds to pay for administrative costs which benefit Federal programs including costs incurred by other State Agencies. Whether or not to file an indirect cost allocation plan is now an agency option. Current State law does not require the administering agencies to use any Federal funds to help pay for administration. The State may (and often does) bear the entire administrative expense.

For purposes of illustration, assume that the State is awarded a \$1,000,000 Federal grant, and also assume that it costs \$100,000 to administer this grant. If no Federal grant funds are used to pay administrative costs, then the State must pay the entire \$100,000. Thus, a \$1,000,000 program costs \$1,100,000. These State funds are no longer available to the Legislature to meet State priorities. Rather, they have been used to accomplish Federal goals.

In this example, the alternative is to use the Federal money to pay the administrative costs. This reduces the services provided under the grant, but it frees \$100,000 which the Legislature can appropriate to other programs. Currently, agencies have the choice, but the decision should rest with the Legislature.

The Legislative Audit Council estimates that in FY 75-76 the State could have recovered approximately \$30 million from Federal program funds to pay the administrative costs associated with those programs (see Appendix C). Only \$14.1 million was actually obtained through the use of indirect cost allocation plans. Thus, agency directors in a sense deprived the Legislature of its right to appropriate State resources of at least \$15.9 million. An additional effect is that an accurate cost effectiveness analysis of an agency cannot be performed. This is because the amount of funds the agency actually employs in its yearly operations is made flexible through the accumulation of State funds in Federal accounts. For the Legislature to manage State resources based upon objective and accurate interpretations of need/cost/benefit, it is mandatory that program costing be accomplished.

The Council's survey of ninety State Agencies and a review of State budgetary documents indicated several areas of concern to the Legislature.

- (1) Many agencies did not use Federal funds to pay for administrative costs.
- (2) Agencies which did file indirect cost allocation plans obtained large sums of money which were outside the budgetary process. This permitted agencies to avoid legislative control over expenditures.
- (3) Existing State laws and regulations allow agencies (rather than the Legislature) to decide how to allocate funds.

Agencies Which Did Not Use Federal Funds for Administration

Of 56 agencies which reported administering Federal programs, 29 agencies (52%) did not report using any Federal indirect cost reimbursements for administration during FY 75-76. As a result State appropriations paid for the administration of the programs.

Agencies decided to use State appropriations for administration rather than Federal funds. This decision should have been made by the General Assembly.

Agencies Which Did Allocate Federal Funds for Administration

In most cases where agencies file indirect costs allocation plans, the Federal Government pays its share of administration by reimbursing the State Agency. The State Agency incurs the initial costs using State appropriations and is then paid back out of grant funds. The Legislature has little control over how agencies use these reimbursements.

The Audit Council survey revealed that in FY 75-76 27 agencies (48% of those receiving Federal funds) obtained such reimbursements. However, these agencies did not always obtain the full amount allowable. Some agencies did not inform the Legislature that Federal funds could be used for administration or treated administrative funds as if they were surplus funds.

Administrative costs reimbursements can be estimated in agency budget requests but numerous agencies have not provided such information to the Legislature. They have not indicated that Federal grant funds can be used to support administration. The following table compares agencies' reimbursement estimates to actual amount obtained:

TABLE 6

REIMBURSEMENTS: ESTIMATES VS. ACTUAL FOR FY 75-76

<u>Agency</u>	(1) <u>Estimate Indirect Cost Reimbursements Identified In FY 75-76 Budget Request</u>	(2) <u>Actual Indirect Cost Reimburse- ments Available</u>	(3) <u>Funds Available But Not Brought To Attention of Legislature</u>
DSS	\$ -0-	\$ 9,123,532	\$ 9,123,532
VR	615,000	682,060	67,060
DMR	-0-	607,659	607,659
DHEC	-0-	196,603	196,603
ADA	-0-	190,810	190,810
DYS	-0-	160,689	160,689
DL	-0-	128,780	128,780
MH	15,214	116,236	101,022
COA	-0-	91,449	91,449
TOTAL	\$630,214	\$11,297,818	\$10,667,604

These agencies did not identify \$10.7 million of revenue in their requests to the Legislature (Column 3). In some cases the funds were used in addition to appropriations to expand administrative and other agency operations, or accumulated as contingent funds (see Chapters II and IV). This underestimation also indicates that duplicate funding of \$10.7 million could have occurred for the administrative costs of these agencies.

Other State Agencies have completely informed the Legislature of administrative cost reimbursements and have used such funds to offset the need for State appropriations. The University of South Carolina was one agency studied which informed the Legislature of the availability of administrative cost reimbursements. This example

indicates that other State Agencies are capable of accurately estimating administrative cost reimbursements from Federal programs.

The State funding of administrative personnel to support Federal and other programs places a burden on the State. Personnel who are paid totally with State funds to administer non-State programs are difficult to remove when the non-State programs they administer are terminated or reduced. Administratively, it is difficult to remove personnel because the individuals may have performed acceptably and may file for a grievance proceeding. Also, agency directors do not pursue reductions in agency staff; they prefer expansion. This places the burden of personnel reduction with legislators who are not provided information to know which positions should be eliminated.

Existing State Laws and Regulations

Agencies have the option to obtain indirect cost reimbursements, to request State funding for the costs which could be paid with these funds, and to receive State and non-State funds for identical administrative costs. State laws and regulations do not control the recovery and use of administrative reimbursements.

The FY 76-77 Appropriation Act contained the first law specifically stating the Legislature's intended disposition of funds recovered from Federal and other sources for administration. The law was a result of the Council's preliminary report released April 15, 1976, which cited administrative funding of Federal and other programs as an area of concern to the Legislature. Section 13 of the Appropriation Act for 1976-77 states in part:

Provided, Further, That the General Assembly has been made aware of the fact that various State Agencies and departments have received Federal and other monies as reimbursement for administrative expenses paid from the General Fund of this State. It has also been found that these monies are retained by the State Agencies and departments in special funds rather than being returned to the General Fund. It is hereby declared the intent of the General Assembly that as soon as practicable, reimbursement of administrative or overhead expenses paid from General Fund appropriations, whether received from the Federal Government or other sources, including but not limited to the "Statewide Cost Allocation Plan", shall be deposited with the State Treasurer to the credit of the General Fund. In order that this might be accomplished, the Budget and Control Board is directed to study the various State Agencies and departments receiving Federal and other monies and to develop a positive plan to require compliance with the intent of the General Assembly as expressed in this proviso. (Emphasis Added)

This law requires agencies to return to the General Fund all administrative reimbursements from Federal and other sources.

To achieve the intent of the law, the Budget and Control Board in its 1977-78 Budget Preparation Manual required agencies to provide the following additional revenue information:

An additional category has been added to Item 1, Revenue Retained and Expended in Budgeted Operations, entitled "Indirect and/or Overhead Cost Recoveries." Indicate in the column headed "Actual 1975-76" all balances from the previous year, all receipts during the year, and all balances carried forward. In the columns headed "Estimated 1976-77", indicate all balances from the previous year, all receipts during the year, and all balances transferred to the General Fund. Note in the sample budget that in the column headed "Estimated 1977-78" there are no amounts shown. These amounts are included in a new category under Item II, Revenue for Credit to General Fund, "A. Federal Funds--Indirect and/or Overhead Cost Recoveries" in the column headed "Estimated 1977-78." This indicates that full compliance with the mandate of the General Assembly will begin July 1, 1977.

This procedure is to enable the Budget and Control Board to identify the funds for return to the General Fund.

It is very unlikely that "full compliance" will be achieved by July 1, 1977. Agencies estimated in their FY 77-78 budget requests that \$5.3 million would be returned to the General Fund. The Council estimates that full compliance should return \$30 million to the General Fund.

The Office of the State Auditor prepares a yearly plan for the allocation of "statewide indirect costs." These are costs which benefit Federal programs but which are incurred by central administrative State Agencies. The following statement is provided with the plan:

The purpose of the Allocation Plan is to allow each State Agency to count its share of indirect State Government costs toward meeting the matching requirements of federally financed programs.

This statement indicates that agencies are allowed to use their statewide indirect cost allocation as match. If used for this purpose, agencies should require less direct State appropriations for matching requirements. The Council found that some agencies were using the reimbursement to reduce State appropriations. This practice in itself, however, does not improve the Legislature's position. The Legislature needs to know its funding options when agencies obtain or propose new Federal programs.

CONCLUSION

The loss of legislative control over the administrative expansion, of State Government is directly attributable to the State's admin-

istrative involvement with programs funded from Federal and other sources. In order for the Legislature to perform its authorized duties efficiently, a system must be implemented to ensure the necessary control and consistent treatment of all agencies in the planning and budgeting of administrative costs. Such a system will have to address the following weaknesses.

- (1) Not all agencies recover indirect costs.
- (2) Agencies which do recover indirect costs do not always recover the proper amount.
- (3) Not all agencies inform the Legislature that Federal and other funds are available for administration.

See p. 23, Recommendation 4.

APPENDIX A

Underestimation of Agency Revenue for FY 75-76

The following table is a computation of the statewide underestimation of Federal and other revenue. Column A is the Budget and Control Board estimate of Federal and other revenue provided to the Legislature for the FY 75-76 appropriation decision. Column B is the actual Federal and other revenue available to agencies during FY 75-76. Column B includes both reported expenditures and funds carried forward at the end of FY 75-76. Column C is the underestimation computed by subtracting Column A from Column B. No State appropriated funds are included in this Table.

	(A) <u>Recommended</u>	(B) <u>Actual Available</u>	(C) <u>Underestimated</u>
Governor's Office	\$ 30,884,074	\$ 57,722,413	\$ 26,838,339
Attorney General's Office	-0-	226,402	226,402
Adjutant General's Office	634,332	717,617	83,285
Budget & Control Board	7,972,361	8,961,881	989,520
Commission on Higher Education	185,000	250,833	65,833
University of South Carolina	8,267,100	12,621,451	4,354,351
USC - Auxiliary Services	3,959,598	5,670,188	1,710,590
USC Regional Campus System	3,379,000	4,718,863	1,339,863
Clemson University	5,058,000	7,702,682	2,644,682
Clemson - Auxiliary Services	4,652,683	5,847,464	1,194,781
Medical University	<u>23,640,227</u>	<u>26,357,374</u>	<u>2,717,147</u>
Sub Total	\$ 88,632,375	\$130,797,168	\$ 42,164,793

Table continued

	(A) <u>Recommended</u>	(B) <u>Actual Available</u>	(C) <u>Underestimated</u>
The Citadel	\$ 1,512,741	\$ 1,572,961	\$ 60,220
Citadel-Auxiliary Services	2,972,866	4,338,892	1,366,026
Winthrop College	1,276,000	3,844,115	2,568,115
Winthrop-Auxiliary Services	1,647,980	2,377,623	729,643
S. C. State College	918,500	1,380,407	461,907
S. C. State - Auxiliary Services	2,016,967	2,661,876	644,909
Francis Marion College	728,100	1,160,758	432,658
College of Charleston	1,185,000	2,823,548	1,638,548
College of Charleston - Auxiliary Services	1,042,180	1,961,782	919,602
Lander College	775,275	997,581	222,306
Lander-Auxiliary Services	629,000	1,028,565	399,565
Educational Department	93,442,799	117,324,771	23,881,972
Adv. Council on Voc. & Tech. Ed.	60,000	110,999	50,999
Bd. for Tech & Comp. Ed.	23,240,466	28,997,362	5,756,896
School for the Deaf & Blind	357,576	518,557	160,981
Dept. of Archives & History	185,485	274,850	89,365
State Library	622,845	1,329,678	706,833
Dept. of Health & Environmental Control	22,681,440	31,671,230	8,989,790
Dept. of Mental Health	11,752,940	14,189,554	2,436,614
Dept. of Mental Retardation	<u>6,852,173</u>	<u>9,304,017</u>	<u>2,451,844</u>
Sub Total	\$173,900,333	\$227,869,126	\$ 53,968,793

Table continued

	(A) <u>Recommended</u>	(B) <u>Actual Available</u>	(C) <u>Underestimated</u>
Commission on Alcohol & Drug Abuse	\$ 1,010,445	\$ 3,587,699	\$ 2,577,254
Dept. of Social Services	311,042,221	342,085,225	31,043,004
State Agency of Vocational Rehabilitation	18,853,219	22,277,925	3,424,706
John De La Howe School	96,141	233,950	137,809
Commission on Aging	2,468,914	3,175,808	706,894
S.C. Commission on Human Affairs	26,508	356,782	330,274
Dept. of Corrections	2,447,463	4,440,739	1,993,276
Probation, Parole & Pardon Board	78,080	396,225	318,145
Dept. of Youth Services	922,871	3,933,131	3,010,260
Dept. of Juvenile Placement & Aftercare	27,967	96,187	68,220
Law Enforcement Training Council	1,552,871	2,588,027	1,035,156
Water Resources Commission	128,500	378,226	249,726
Land Resources Conservation Commission	-0-	266,501	266,501
Forestry Commission	1,301,571	2,290,261	988,690
Dept. of Agriculture	28,500	1,485,360	1,456,860
Dept. of Wildlife & Marine Resources	6,109,723	8,852,173	2,742,450
Dept. of Parks, Recreation & Tourism	3,101,150	4,670,028	1,568,878
Development Board	50,500	231,718	181,218
Public Railway Commission	<u>301,731</u>	<u>514,285</u>	<u>212,554</u>
Sub Total	\$349,548,375	\$401,860,250	\$52,311,875

Table continued

	(A) <u>Recommended</u>	(B) <u>Actual Available</u>	(C) <u>Underestimated</u>
Public Service Commission	\$ 253,281	\$ 477,831	\$ 224,550
Workmen's Compensation Fund	-0-	54,058	54,058
Second Injury Fund	252,384	717,659	465,275
Insurance Department	-0-	320,874	320,874
Dept. of Labor	670,554	808,643	138,089
Aeronautics Commission	19,417	96,187	76,770
Employment Security Commission	16,309,653	19,707,695	3,398,042
Educational Television Commission	308,000	1,952,569	1,644,569
Other State Agencies ⁽¹⁾	<u>631,869</u>	<u>897,560</u>	<u>265,691</u>
Sub Total	<u>\$ 18,445,158</u>	<u>\$ 25,033,076</u>	<u>\$ 6,587,918</u>
TOTAL ⁽²⁾	<u><u>\$630,526,241</u></u>	<u><u>\$785,559,620</u></u>	<u><u>\$155,033,379</u></u>

(1) State Agencies with underestimations less than \$50,000.

(2) Six State Agencies overestimated Federal and other revenue available for FY 75-76 by a total of \$25,479,620 which includes an overestimation by the Highway Department of \$25,207,361. Agencies with overestimations of Federal and other revenue are not included in the above table.

APPENDIX B

AN ILLUSTRATION OF THE EFFECT THE CONTINUATION
OF LEAA PROGRAMS COULD HAVE ON THE STATE'S BUDGET

	<u>PROGRAM*</u>	<u>FEDERAL FUNDS</u>	<u>FEDERAL MATCHING RATIO</u>	<u>STATE FUNDS</u>	<u>STATE MATCHING RATIO</u>
YEAR 1	A	<u>\$ 900,000</u>	90%	<u>\$ 100,000</u>	10%
YEAR 2	A	\$ 800,000	80%	\$ 200,000	20%
	B	900,000	90%	100,000	10%
		<u>\$1,700,000</u>		<u>\$ 300,000</u>	
YEAR 3	A	\$ 650,000	65%	\$ 350,000	35%
	B	800,000	80%	200,000	20%
	C	900,000	90%	100,000	10%
		<u>\$2,350,000</u>		<u>\$ 650,000</u>	
YEAR 4	A	\$ -0-	0%	\$1,000,000	100%
	B	650,000	65%	350,000	35%
	C	800,000	80%	200,000	20%
	D	900,000	90%	100,000	10%
		<u>\$2,350,000</u>		<u>\$1,650,000</u>	
YEAR 5	A	\$ -0-	0%	\$1,000,000	100%
	B	-0-	0%	1,000,000	100%
	C	650,000	65%	350,000	35%
	D	800,000	80%	200,000	20%
	E	900,000	90%	100,000	10%
		<u>\$2,350,000</u>		<u>\$2,650,000</u>	
YEAR 6	A	\$ -0-	0%	\$1,000,000	100%
	B	-0-	0%	1,000,000	100%
	C	-0-	0%	1,000,000	100%
	D	650,000	65%	350,000	35%
	E	800,000	80%	200,000	20%
	F	900,000	90%	100,000	10%
		<u>\$2,350,000</u>		<u>\$3,650,000</u>	

* Program A begins in Year 1, Program B begins in Year 2, Program C begins in Year 3, etc.

APPENDIX C
AN ESTIMATION OF THE MISALLOCATION OF
ADMINISTRATIVE COSTS FOR FY 75-76

To avoid controversy in the computation of this estimate, the Council selected several methods for estimation.

- (1) 4% of the total reported Federal funds received per the Council's questionnaire.

$$4\% \text{ of } \$747,622,374 = \underline{\$29,904,895}$$

- (2) 30% of the Federal funds reported for personal service per the Council's questionnaire.

$$30\% \text{ of } \$89,509,718 = \underline{\$26,852,915}$$

- (3) 30% of the Federal and other funds for personal service per the FY 76-77 State Budget.

$$30\% \text{ of } \$165,964,212 = \underline{\$49,789,264}$$

- (4) 20% of the Federal and other funds for personal service per the FY 76-77 State Budget.

$$20\% \text{ of } \$165,964,212 = \underline{\$33,192,842}$$

- (5) 4% of actual Federal and other funds for FY 75-76 as reported in the FY 77-78 State Budget.

$$4\% \text{ of } \$979,582,449 = \underline{\$39,183,298}$$

Based on the five computations above, the Council concluded that a conservative estimate of indirect cost recovery would be \$30 million.

APPENDIX D

LIMITED EFFECTIVENESS OF THE TITLE XX PROGRAM

This audit was designed to provide a case study of Federal and State funding of social services rather than a management audit of the Title XX program. However, in the course of examining funding of social services, the Council became aware of several problems which have limited the effectiveness of the Title XX program. The following paragraphs are therefore a commentary to assist Title XX policymakers and managers.

The Title XX program places a ceiling on the total Federal funds available for social services. Effective management of limited resources requires that program objectives and the allocation of funds promote those social services most beneficial to persons needing help. In contrast, the Council found that high administrative costs and the duplication of Title XX and State funding have diminished the portion of Title XX funds supporting the delivery of services. In addition, the inability to accomplish program objectives and the failure to evaluate the impact of services on people's lives have made it virtually impossible to shift funds from less effective to more effective services.

HIGH ADMINISTRATIVE COSTS

The Council has determined that administrative costs account for an unusually high percentage of total Title XX costs. Administrative costs account for at least nineteen percent (19%) and may account for as much as twenty-seven percent (27%) of total Title XX costs. This represents about \$8 million to \$12 million spent on administration.

The administrative cost rate for Title XX can be broken into four different types of costs. Included as administrative costs are; (1) the overhead cost to DSS for administering Title XX, (2) the cost of planning

Title XX services, and (3) the administrative costs incurred by other State and local agencies which contact with DSS to provide Title XX services. (4) Another type of administrative cost is determining the eligibility of persons for Title XX services. Social workers who determine eligibility also perform other tasks. However, the exact cost of this task is not recorded by DSS. The Council estimates that by including the full cost of eligibility determination total administrative costs would amount to 27% of total Title XX expenditures.

As expenditures for administration increase, funds available for the delivery of social services decrease. An estimated 1.35 million persons in South Carolina are eligible for services under Title XX. The needs and problems of these people are much greater than the available Title XX resources. To maximize services to help the State's poor, blind, aged, and disabled citizens administrative costs should be kept as low as possible.

Detail Analysis of Four Administrative Cost Areas

Overhead Costs - \$5.1 million

One component of the overall Title XX administrative cost rate is DSS overhead costs. DSS is the single State Agency responsible for administering the Title XX program. Each year a portion of Title XX funds is allocated to DSS for overhead costs. For FY 76-77 the DSS overhead amount is \$5.1 million of a total \$43.5 million. Other states that administer Title XX programs much larger than South Carolina's program have much lower overhead costs for the State Agency administering the program.

COMPARATIVE TITLE XX OVERHEAD COSTS

(FY 76-77)

<u>STATE</u>	<u>TOTAL TITLE XX FUNDS (in millions)</u>	<u>OVERHEAD COSTS (in millions)</u>	<u>OVERHEAD COST RATE</u>
South Carolina	43.5	5.1	11.7%
Georgia	85.0	4.0	4.7%
Florida	98.2	4.8	4.9%
North Carolina	63.4	2.8	4.4%
Kentucky	52.0	4.42	8.5%

The Council could not investigate all the reasons for the high DSS overhead costs. One reason appears to be duplication of effort and high costs in the contracts management and fiscal affairs sections. This problem has been brought to the attention of DSS officials. DSS agreed to review its organization for managing contracts, but the agency has not taken any action at the close of this audit to reduce its Title XX overhead costs.

Planning - \$686,000

Planning is a second type of administrative cost, and \$686,000 was spent to prepare the FY 76-77 Title XX Comprehensive Plan. Total planning costs can be separated into three types. One hundred twenty thousand dollars (\$120,000) is spent to support a Title XX planning staff at DSS. DSS also contracts at a cost of \$207,543 with the Governor's Office, Division of Health and Social Development for the production of a model comprehensive Title XX plan. Further, DSS contracts with the Councils of Government in each of the ten planning regions to conduct Title XX

planning at a cost of \$358,333. Substantial planning costs are usually necessary to plan the broad range of new services provided in the first year of a new program. However, planning costs should decrease in subsequent years because many of the service programs developed in the first year are continued.

Provider Administrative Cost - \$1.4 million to \$1.8 million

A third area of administrative costs occurs in other State and local agencies which contract with DSS to provide Title XX services. DSS contracts with some agencies that have high administrative cost rates. For example, the Department of Corrections has a 25.2% approved rate for FY 76-77, the Commission on Alcohol and Drug Abuse a 23.07% rate, and the Commission for the Blind a 60.3% rate. Title XX administrative costs could be reduced if DSS contracted with providers which administered social services more efficiently.

Case Management

A fourth area of administrative cost is case management. Case management services are those activities of social workers related to determining eligibility, assessing the needs, and developing a service plan for persons eligible under Title XX. For FY 76-77 none of the \$4.7 million allocated to case management was identified as administration. However, DSS officials admit that a portion of case management services "should be considered an administrative feature of the DSS program rather than a service delivery function."

Conclusion

Taken as a whole these four types of administrative costs account for at least 19 to 27 percent of Title XX funds or \$8 million to

\$12 million. This leaves at the most \$35.5 million to support the delivery of social services. This estimate is conservative due to the difficulty of identifying the portion of case management which is administration. Regardless of the exact amount for FY 76-77, the Title XX program should keep administrative costs at the lowest feasible level.

DUPLICATION OF TITLE XX AND STATE FUNDING FOR IDENTICAL SOCIAL SERVICES

The effectiveness of the Title XX program has been further diminished because Title XX funding has duplicated other State and local funding for identical social services. The intent of Congress appears to be to give states latitude under Title XX to expand services to the poor. According to the FY 76-77 annual plan, Title XX funds are to diminish the gap between the level of existing social services and the needs of the State's citizens.

Agencies are motivated to obtain Title XX funding for State supported social services because agencies can then obtain duplicate Title XX and State funding for identical social services. With duplicate funding, social service costs can be paid with State appropriations and agencies are free to exercise discretion over the use of Title XX reimbursements. In such cases, Title XX funds do not serve to meet the objectives of the program.

During the course of the audit the Council informed DSS of duplicate Title XX and State funding. In response, DSS is placing in all contracts beginning July 1, 1977 a clause which ensures

that Title XX services are expansions of services and do not duplicate services provided with State funds. This clause appears to diminish the discretion agencies will have over the use of Title XX reimbursements. Under this clause, the Legislature can expand or reduce the total level of social service by increasing or decreasing State funding for those services.

INABILITY TO ACCOMPLISH PROGRAM OBJECTIVES

Twelve services accounting for more than one-third of Title XX funds are currently provided by DSS. With current management practices, DSS cannot assure that these social services will accomplish the objectives established by the Title XX planning process.

DSS cannot be certain that Title XX program objectives will be accomplished because funds are allocated according to a time study conducted after services are delivered. DSS officials explained that the time study allocates Title XX funds to services based upon the time employees actually spent delivering various services. The time study cannot control costs or be used to increase the level of one social service and decrease the level of another service because it is made after services are delivered.

Managing the Title XX program effectively requires DSS to be able to control expenditures and the number of clients served by the social services it provides. Assume that by increasing one social service, for example protective services for children, other social problems would decrease. It would then be desirable to change program objectives allocating more Title XX funds to pro-

tective services so that the number of children receiving services would increase. Currently, DSS does not have sufficient programmatic control to implement such a change in program objectives.

Increasing the effectiveness of Title XX services requires that program objectives and the allocation of funds promote social services with the greatest benefit to the public. Careful planning and rigorous evaluation can help decision-makers allocate funds to provide worthwhile social services. But all of these efforts are wasted if agencies providing social services do not expend Title XX funds to achieve the program objectives established by the planning and evaluation process.

FAILURE TO EVALUATE THE TITLE XX PROGRAM

The Legislative Audit Council found that the effectiveness of the Title XX program has not been evaluated. In November 1976 the Division of Health and Social Development (HSD) completed a study of the Title XX program which stated that it had attempted to evaluate the effectiveness of the program but was unable to do so because available information was not reliable to support sound conclusions on the impact of Title XX. The Council is aware that the current organization of the State's human service system does not facilitate evaluation. However, the circumstances noted by the Council in previous paragraphs indicate that a thorough evaluation of the efficiency and impact of Title XX services is needed.

RECOMMENDATIONS

DSS SHOULD MAKE IMPROVING THE EFFECTIVENESS
OF THE TITLE XX PROGRAM A HIGH PRIORITY.

- (A) DSS WORKING WITH THE SOCIAL SERVICES ADVISORY COMMITTEE SHOULD ESTABLISH AN ADMINISTRATIVE COST RATE CEILING FOR THE TITLE XX PROGRAM BASED UPON COMPARABLE TITLE XX PROGRAMS OF OTHER STATES, AND ADMINISTRATIVE COSTS OF OTHER FEDERAL PROGRAMS. THIS ADMINISTRATIVE COST RATE SHOULD BE SET AT THE LOWEST FEASIBLE LEVEL. DSS SHOULD DEVELOP A PLAN INCLUDING A SPECIFIC TIMETABLE FOR REDUCING TITLE XX ADMINISTRATIVE COSTS TO THE LOWEST FEASIBLE LEVEL. THIS PLAN SHOULD INCLUDE;
- (1) A REDUCTION OF DSS OVERHEAD COSTS TO A LEVEL COMPARABLE TO OTHER STATES,
 - (2) A SHIFT OF A PORTION OF PLANNING COSTS TO SERVICE DELIVERY,
 - (3) A REDUCTION IN ADMINISTRATIVE COSTS PAID TO OTHER STATE AND LOCAL AGENCIES PROVIDING TITLE XX SERVICES, AND
 - (4) AN ASSESSMENT OF THE COST EFFECTIVENESS OF CASE MANAGEMENT.
- (B) DSS WORKING WITH THE SOCIAL SERVICES ADVISORY COMMITTEE SHOULD DESIGN AND IMPLEMENT MANAGEMENT CONTROLS THAT WILL ASSURE THAT THE TITLE XX SERVICES PROVIDED BY DSS WILL ACCOMPLISH THE PROGRAM OBJECTIVES ESTABLISHED IN THE TITLE XX COMPREHENSIVE ANNUAL SERVICE PLAN. THESE MANAGEMENT CONTROLS MAY REPLACE OR SUPPLEMENT THE EXISTING COST ALLOCATION PLAN AND TIME STUDY.

(C) DSS SHOULD MAKE THE NECESSARY CHANGES IN ITS ADMINISTRATION OF THE TITLE XX PROGRAM IN ORDER TO IMPROVE THE ABILITY TO ASSESS PERFORMANCE AND EVALUATE IMPACT.

IN ADDITION, THE DIVISION OF HEALTH AND SOCIAL DEVELOPMENT SHOULD REVIEW ITS ORGANIZATION TO ASSURE THAT A THOROUGH, RIGOROUS EVALUATION OF THE TITLE XX PROGRAM CAN BE PERFORMED DURING FY 77-78.

APPENDIX E

A REVIEW OF THE EFFECT OF STATE CARRYFORWARD FUNDS

State carryforward funds complicate the financial planning, administration and control of State resources. These funds are unspent appropriations which an agency is not required to return to the General Fund at the end of the fiscal year. State Agencies carried forward almost \$18 million of unexpended State appropriations at the end of FY 75-76.

STATE FUNDS

CARRIED FORWARD AT THE END OF FY 75-76

<u>Agency</u>	<u>State Carry- Forward Funds</u>
Governor's Office	\$ 1,750,998
Budget and Control Board:	
Finance Division	181,570
General Services Division	145,930
Medical University of South Carolina	1,243,144
Board for Technical and Comprehensive Education	240,445
Department of Education	810,483
Department of Health and Environmental Control	1,664,171
Department of Mental Health	535,343
Department of Mental Retardation	376,821
Department of Social Services	10,531,368
Wildlife and Marine Resources Department	106,856
All Others	365,651
	<u>\$17,952,780</u>

This situation occurs because agencies are allowed to carry forward unexpended State funds. Provisions which specify the type and amount of funds which may be carried forward are found in the Appropriation Act and in the South Carolina Code of Laws.

Carryforward provisions undermine the Legislature's oversight function because agencies can use the funds without prior legislative approval. Also, the General Assembly cannot efficiently appropriate State resources because it makes that decision without adequate information about the amount of carryforward funds.

Recommended governmental accounting principles address the problems created by the carryforward of unexpended State appropriations. In light of these problems, the National Committee on Governmental Accounting (NCGA) recommends the return of unexpended appropriations at the end of the fiscal year:

In view of the fact that continuing appropriations carryforward funds complicate financial administration and diminish effective planning and control of expenditures, the lapsing of unspent appropriations at the end of each fiscal year is recommended by the Committee as the preferred financial procedure.⁽³⁾

Carryforward funds allow agencies to obtain a monetary cushion which is often in excess of operating needs. Because agencies can obtain broad discretion over the use of these funds, they can use the money for agency determined priorities which may be in conflict with legislative priorities established in the Appropriation Act. Also, because there is limited legislative control over carryforward money, the funds may be used to conceal management mistakes. These funds are susceptible to manipulation, and can impair proper cost analysis and planning because of unreliable financial data.

(3) National Committee on Governmental Accounting, Governmental Accounting, Auditing, and Financial Reporting (Chicago: Municipal Finance Officers Association, 1968), p. 6.

An agency with State carryforward funds does not justify its entire requested increase in appropriations from one fiscal year to the next because the carryforward funds conceal the true increment. Over several years an agency can substantially build up its annual appropriation simply by accumulating these funds. Such unjustified budget expansion prevents the General Assembly from controlling the growth of State Government. (For a more detailed discussion, see the Legislative Audit Council's Management Audit of the Medicaid Program in South Carolina, January 1977.)

RECOMMENDATION

IT IS RECOMMENDED THAT THE GENERAL ASSEMBLY ENSURE THAT NO AGENCY FUNDED IN WHOLE OR IN PART WITH STATE APPROPRIATIONS BE ALLOWED TO CARRY FORWARD ANY PART OF THE APPROPRIATION MADE FOR PERSONAL SERVICES OR OPERATING EXPENSES (EFFECTIVE JUNE 30, 1977). ALL UNEXPENDED AND UNENCUMBERED STATE APPROPRIATIONS AS OF THE LAST DAY OF THE FISCAL YEAR SHOULD LAPSE TO THE GENERAL FUND.

COMMENT: IT SHOULD BE NOTED THAT THE HOUSE WAYS AND MEANS COMMITTEE ELIMINATED ALMOST ALL OF THE CARRYFORWARD PROVISIONS FROM THE FY 77-78 APPROPRIATION BILL. OFFICIALS AT THE BUDGET AND CONTROL BOARD STATED THAT BY THE NEXT FISCAL YEAR ALL OF THE CARRYFORWARD PROVISIONS ARE LIKELY TO BE ELIMINATED.

APPENDIX F

AGENCY RESPONSES TO LAC STUDY

As a part of this study the Council requested a response from various State Agencies and other appropriate officials. In the process of obtaining agency comments the Council was unable to distribute the full body of the report to these agencies. Each agency was provided a brief description of the problems noted which the Council felt exemplified the existing weakness in the budgetary system. Therefore, in some cases, agency comments may not specifically address the issue as it relates to the entire report. Also, it should be noted that the Council has considered each agency's response and made changes in the final report where it was considered appropriate.

The Council received numerous and lengthy responses from agency officials. In order to publish these responses it was necessary to condense the comments to address the major issues described in this report. Responses from the following agencies or divisions are included:

Department of Youth Services

Department of Health and Environmental Control

Department of Juvenile Placement and Aftercare

Department of Social Services

Department of Mental Health

Department of Mental Retardation

Department of Vocational Rehabilitation

S. C. Commission on Alcohol and Drug Abuse

Office of the Governor, Office of Criminal Justice Programs

Office of the Governor, Division of Health and Social Development

State Board of Technical and Comprehensive Education

DEPARTMENT OF YOUTH SERVICES

Grady A. Decell, Director

April 27, 1977

Comments:

Underestimation of Revenue: The Council found the Department of Youth Services had underestimated its revenue from Federal and other sources for fiscal year 1975-1976 by \$3,010,260. First of all, I think it should be said that the Department of Youth Services has never deliberately tried to conceal any funds in its budget request. Any underestimation of funds on budget requests was made with what knowledge was available at the time of the budget report. All correctional agencies have for years been underfunded and this was the case with this Agency for many, many years. We realized this was a disservice to the children of South Carolina who found themselves in conflict with the law. Consequently, and with the approval of the Board of the South Carolina Department of Youth Services, we proceeded to make every effort to increase the services to the children whom we are mandated to serve. This has certainly cost money. Estimating revenue, and more especially Federal revenue, is uncertain at best and disastrous at worst. As you know, our budget requests are made a year in advance and consequently, the budget request for the fiscal year 1975-1976 had to be made with knowledge available as of August 1974. That makes it tough for even the best of administrators, and I think you will agree with that. Below is a report of our estimated revenue for the fiscal year 1975-1976.

	On Budget Re- quest Estimated Revenue for F.Y. 1975/1976 as of 8/74	On Budget Re- quest Estimated Revenue for F.Y. 75/76 as of 8/75	Actual Revenue Received 75/76
Balance Funds			
Fwd. Revenue			
7/1/75	768,383	1,592,098	1,592,098
Estimated Revenue			
75/76	653,810	1,791,774	2,341,033
Balance Forward			
6/30/76	499,322	1,478,782	1,698,631

At this point we would like to explain the difference between the estimated revenue as of August 1974 and August 1975 for fiscal year 75-76.

Federal Grants: When the budget request was made in August 1974, all approved Federal grants were due to end June 30, 1975. We had no concrete knowledge then of any Federal grants for the Agency for 1975-1976 and therefore no estimated revenue was shown.

During the fiscal year 1974-1975, the Agency applied for Federal grants for 1975-1976. When the budget request was prepared in August 1975, all known Federal grant requests were shown for 1975-1976. The Federal grant monies estimated then was \$432,300.

Title IV and Title VI: The estimated balance brought forward of \$499,322 from 1974-1975 to 1975-1976 represented Title IV and VI funds under the Social Security Act. Although the Agency was participating in this program through the Department of Social Services, it was doubtful as to whether we could use these funds. Every payment we received from that department was marked "Subject to Audit" and we were in the process of being audited for the fourth quarter of 1971-1972 funds and had been told that we would be required to return most of the funds collected for that period. As it turned out, we returned \$176,634 of the total \$254,149 collected for that period (keeping only 27 percent of the funds). Under these circumstances the Director of Fiscal Affairs as well as the Director of the Agency were doubtful concerning the continuation of our participation in this program and the possibility of having to refund most of what had been collected. Therefore, no plans were made to spend a substantial portion of these funds. It was felt that the Agency should retain most of the funds in the event of an audit exception. We felt this was a fiscally sound position and one that we could not ignore. The Agency continued in the program and entered the Title VI program as well as Title IV. Consequently, our revenue increased. The difference between that estimated in 1974 for 1975-1976 and 1975 for 1975-1976 was \$470,000 due greatly to the program being expanded to include Title VI as well as Title IV funds.

Other Funds: All other revenue estimates were based upon past experience and we could not predict the increase in revenue which we experienced. The difference here was \$235,664. In summary, the difference in revenue as shown in 8/74 and 8/75 was \$432,300 in Federal grants, \$470,000 in Title IV and Title VI money and \$235,664 in all other areas for a grand total of \$1,137,964. The Agency reassessed its position in 8/75 showing this expected increase in revenue. At the end of fiscal year 1975-1976 our actual revenue was \$2,341,033 which represented an increase of \$549,259 over the estimated amount reported and shown on the budget request of September 1975. The increase was as follows:

Federal Grants:	There was an increase of \$147,668 due to the new deinstitutionalization of status offender grant for the Youth Bureau (\$108,276 expended 1975-1976) and an increase in the CETA Program (\$37,559 and other grants of \$11,833).
Title IV, VI, and XX:	This program was expanded to include the Youth Bureau and thus resulted in an increased revenue of \$213,918.
Other Funds:	Revenue in all areas increased much more than we had anticipated. The school lunch revenue increased \$46,672; Title I and II Programs included \$46,775 and even our farm products sales increased. Revenue from other funds increased \$94,226.

Thus, the increase between that which was estimated in August 1975 and our actual revenue received for 1975-1976 was \$147,668 in Federal grants, \$213,918 in Title IV, VI, and XX, and \$187,673 in other funds for a grand total of \$549,259. If one looks at the estimated revenue as reported in August 1974 well over a year in advance and the revenue actually received in 1975-1976, there is an increase in revenue of \$1,687,223, but certainly not \$3,010,260 as reported by the Legislative Audit Council.

It might be also added that our expenditures have increased. Operating and maintenance expenditures in our institutions (this does not count Youth Bureaus) increased by \$62,285 from 1974-1975 to 1975-1976. Total expenditures for operating and maintenance for 1975-1976 in the institutions where no new programs were added were \$1,533,796. The state appropriated \$1,068,652 were further reduced by \$103,402 when we had to use part of this for 1974-1975 expenditures. Thus, had we not had some revenue to fall back on, the Department of Youth Services would have been \$568,546 underfunded for operations and maintenance alone.

Duplication of Federal, State, and Other Funding: The Legislative Audit Council states that the Department of Youth Services received \$863,918 of Title IV-A, VI, and XX reimbursements for 1975-1976. This is certainly true. They also state that only \$180,000 was budgeted to offset the need for state appropriated funds. This \$180,000 represented estimated revenue for 1975-1976 as of August 1974. Contrary to this our records show that we transferred \$194,863 from these funds directly into the state appropriated account. We did this because this was the year the Department received an 8 percent budget cut and this represented the amount over and above the revenue that we had received to take care of this. We did this in an effort to keep our programs at the level that existed at that time. In addition, \$533,598 was spent in the institutions and Youth Bureaus directly from these funds. This was spent because state appropriations were insufficient to take care of the necessary expenses, if we were to continue programs that had demonstrated themselves as being successful. Breaking this down, this means that \$44,850.48 were spent in administration, \$43,921.73 were spent in the units, and \$444,825.74 was spent in the Youth Bureau Program.

It is true that in August of 1975 the Department of Youth Services applied for \$1.5 million LEAA grant for the deinstitutionalization of all status offenders in South Carolina. This was done after a conference with the Governor and members of the Budget and Control Board, and it was with their full knowledge and consent that we should pursue this money so that this might be done in South Carolina. We also indicated to everyone concerned that we did have some money with which we could match these funds and we felt like this was the program South Carolina should be involved in and as matter of fact must be involved in if the State was to receive monies under the Juvenile Delinquency Prevention Act of 1974. To say that no further legislative action was necessary is a fact in that in 1972 the Department of Youth Services was mandated to coordinate with other state and local government agencies and the courts in an effort to develop plans and facilities as may be necessary to implement an effective program of youth delinquency prevention throughout the State. We felt that we were

mandated to provide services for the children and this was done openly and with the approval of the state officials, Federal officials (most notably Senator Strom Thurmond), and the Board of Youth Services. Quite frankly, we are proud of the fact that we qualified for one of the largest grants of this kind in the country and we were selected on the basis that we were able to convince the Federal Government that we had the capacity to deinstitutionalize children as we said we could. When the Youth Bureau legislation was passed by the legislature we met with many members of the Legislature and indicated to them that we felt that we could introduce this program into South Carolina with Federal dollars. We never presumed to believe that Federal funding would go on forever and we felt that an increase in the revenue in the State would be available to pick up programs that had demonstrated their effectiveness. We have been encouraged all along by state officials to pursue exemplary programs with Federal funds and we have done this over the years with full knowledge and at least tacit consent of many, many legislators. I must say that all agencies have had to do this in South Carolina because of our low tax base and when the decision was made to seek Federal funds, agencies were allowed to do this because they were the only ones who were permitted to do it. If there is a way that the State can seek Federal revenues in a continuous fashion and inject those Federal revenues into exemplary State programs, then this would make it much easier for administrators at all levels. I do not believe any administrator would say that he likes to spend an inordinate amount of time in developing funding through a variety of sources to promote programs that are needed. There is no question in our mind that the legislature and certainly our subcommittee assigned to this Agency were aware that we were expanding our community programs, and it was made perfectly clear to them that we were doing this in the best interest of the children of South Carolina. We have always indicated that we would much rather have State funding, but we felt that any money we generated because of hard work and ingenuity should accrue to the Agency to support its own programs. This is in line with good business practices and those who work receive compensation and when State Agencies are involved, this compensation goes into programs. If the legislature wishes for this Agency to cease and desist in our efforts to generate Federal funds, we should be told this but we should have the opportunity to show the legislature that children have been served and their needs met; the programs were not designed for any selfish interest on the part of the Agency, but were designed because money was available to provide the programs and we felt that they were needed and many, many members of the legislature openly concurred with us. I dare say that if we had not been willing to pursue these programs, we would have been sued and placed under court order as were the great states of Indiana, Texas, Mississippi, Alabama, ad infinitum. We see an obligation to treat children who find themselves in conflict with the law and I think we were fulfilling this mandate with the monies that we had accumulated with our own ingenuity and sweat.

Misallocation of Federal and other Funds Between Administrative and Program Costs: It was not until the budget request for 1977-1978 that the Department of Youth Services was completely aware of any requirement to report indirect costs to the Budget and Control Board. Some Federal grants (LEAA and HEW) do not use indirect cost rates. Some Federal grants have one or two administrative positions written into the grant. These are direct expenditures while other Federal grants do not take administrative costs into consideration at all. The Department of Youth Services does use indirect cost rates in its Title IV, VI, and XX reports for reimbursement. Because these reports are uncommonly complicated, and more especially for this Agency, the reimbursement for indirect costs are hard to compute.

When preparing the budget for 1977-1978, we were advised that the Budget and Control Board would not ask for any reimbursement of these costs until 1977-1978. Therefore, our budget request did reflect the \$121,881 which was to be returned to the general fund. This is an estimated amount. However, since that time the Budget and Control Board has required the Department of Youth Services to return \$918,106 which were estimated carry-over funds from 1976-1977, and whether this amount will include administrative costs has not been determined. This money, of course, could have been used for an exception in any audit which we are sure to receive. As a matter of fact, we are now being audited by Title XX people and we in all probability will receive an audit exception. Now that this money has been turned over to the State Government, we do not have any idea where the funds will come from if there is an audit exception. We felt that we should hold back some money in order to be fiscally sound, but when we did this, the money was taken over by the State and now if we experience an audit exception, we will have to look to the State for a refund. Our other recourse will be to continue to seek Federal funds and if we have an exception, have these monies taken out of funds which we might expect to receive, but may not receive.

Frankly, this Agency would like to get out of this kind of funding. If we thought we could continue our existing programs which we feel to be successful, we would be happy to do without Federal funds. However, this money was granted by the Federal Government because the people wanted services to other people and we feel that if services are wanted and needed and we are all taxed for them, then South Carolinians should not be denied the opportunity to live at a level commensurate with the rest of the country.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

E. Kenneth Aycock, M.D., M.P.H., Commissioner

April 28, 1977

Comments:

In general, the issues discussed in your report are viable and I take no strong exception to its conceptual foundation. As with most management/policy type studies, however, the report simplifies a complex problem. More importantly, the tone implies "calculation" on the agency's part to mislead, misrepresent, and/or otherwise interfere with the legislative appropriation process. That is simply not the case.

Our earnings policy, up until last fall, was founded on the premise that what was DHEC's was South Carolinas. We made no effort to project earnings, instead we chose to budget on hand revenue as there was no State policy to follow. Current year earnings were deposited in the general fund where they accumulated interest for the State. In retrospect, I have now come to realize that this policy did not reflect good fund management principals, and we have since altered our policy - in large part due to your intervention. The point I am attempting to make is that we did not deliberately plan to mislead anyone, certainly not the legislature. We applied a conservative internal fiscal policy where external (State) policies were not available to direct us.

1) Underestimating of Revenue

Our estimate of Federal to other revenue(s) is made some 8-10 months prior to the start of a fiscal year and is based upon current year revenue. We often receive unannounced, unexpected revenue. For example, FY 75/76, the WIC (Women, Infant and Child Nutritional Program) grant increased by over 1 million dollars. As WIC was at the time a year to year proposition (the program was subject to annual renewal), we weren't even sure there would be any WIC funds available.

2) Duplication of Funding

Agency policy is to collect all federal funding possible, "duplicate" or otherwise. We assume that it is still appropriate.

3) Accumulation of Excess Funds

a) Factors contributing to 76/77 Home Health Services carryforward include: the freeze (really slowdown) on hiring imposed by Budget and Control Board; a \$375,000 settlement from Blue Cross/Blue Shield covering prior years (1969-1974), and internal agency policy which required that 1/3 of the annual operating budget be held as contingency for audit exception and cash flow management. The quoted statement that "flaws in the financial management system" prohibited expending these funds is not accurate and I would hope it will be deleted. Finally, it should be mentioned that of this total carryforward, only 549,000 was officially under the jurisdiction of central office - the balance was in District accounts under the control of District Medical Directors.

b) The remainder of DHEC's "accumulation" was scattered throughout the agency's programs. There were approximately 50 individual budget centers with some portion of the total balance. I certainly hope you do not have the impression that these funds are in one aggregate fund under the direct control of DHEC administration. Our policy was, and is, that funds earned in a program area are to be utilized in that area. (mandated by Federal law)

4) Non-Legislated Expansion

Before initiating any construction project, the agency must receive approval from the Budget and Control Board. Further, any change to the original approval for construction must be approved by the Budget and Control Board. Finally, the Budget and Control Board knew full well where the money was to come from for this construction effort.

5) Misallocation of Federal Funds Between Administrative and Program Cost

DHEC collects every possible dollar from the Federal Government. To switch, at this time, program funds into administrative areas would

terminate dozens of employees and the services they render. All new Federal grants pay indirect costs. The ones that do not are quite old - actually holdovers from a different period of management philosophy. If program funds were cut to pay administrative expenses (which I concur would be, in concept, the most appropriate management practice) I expect the legislature would increase program allocations to match the adjustment.

DEPARTMENT OF JUVENILE PLACEMENT AND AFTERCARE

Harry W. Davis, Jr., Director

April 28, 1977

Comments:

1. Underestimation of Revenue

The budget request for fiscal year 1975-76 presented by the Department of Juvenile Placement and Aftercare to the Budget and Control Board contained an accurate determination as to those funds from extra-state sources available. At that time, some nine months before the new fiscal year, the previous Director was not aware that funds under Title XX were available to this Agency, and he authorized this Agency to apply for such funds only at the suggestion of the Department of Social Services. Therefore, it was impossible for this Agency to forecast the existence or amount of these Federal funds prior to the budgetary cycle.

II. Duplication of Federal, State, and Other Funding

Essentially, the Department of Juvenile Placement and Aftercare provides only one service: juvenile parole counseling. Title XX funds were not used to duplicate the services authorized by State appropriations. Rather, they were used to supplement our parole counseling services. If our Counselors, under State funding, carry caseloads of 80 youths, and this number is reduced to 65 because of the addition of Federally-funded Counselors into the field, we cannot consider this a duplication of services. We are simply improving our services by combining the various resources available.

III. Non-Legislated Expansion

This Agency's budget request for fiscal year 1975-76 included a request for additional funds to increase its counseling staff; however, the Legislature, because of general revenue constrictions, did not appropriate the necessary monies to fund such a proposed expansion. Additional funds were then requested of Title XX, our first venture into this field, and an award was made which gave this Agency the capability to open additional offices and hire additional personnel.

The "Special Service Division," so referred to in your report, was a label attached to the group of Counselors and secretaries which we were able to send into the various communities which desperately needed expanded parole services. During the period in question, this writer believes that the personnel of the Department of Juvenile Placement and Aftercare was not informed of any established procedure relating to obtaining Legislative approval before hiring new personnel. In fact, this Agency has generally operated under the authority of Section 55-50.21, Code of Laws of South Carolina, 1962, which states in part, "The Department (Juvenile Placement and Aftercare) shall be composed of a Director, Assistant Director, necessary clerical help, and not less than 14 Counselors. The number of Counselors or other personnel may be increased as the need therefor may be determined by the Board."

DEPARTMENT OF SOCIAL SERVICES

Robert D. Floyd, Interim Commissioner

April 6, 1977

Comments:

The Case Study of State and Federal Funding for Social Service Programs addresses several other State agencies. We can not make comment upon their funding practices or their accounting procedures. Our comments will only pertain to those made in the reports about the Department of Social Services.

The Case Study of State and Federal Funding for Social Service Programs

1. During the review of the audit of the Medicaid program by the Legislative Audit Council, we noted that you and your staff had taken exception to the budgeting process currently used by the State agencies and promulgated by the Budget and Control Board. We have in presentations made to the Social Services Advisory Committee and members of the Governor's Office indicated our concern, as you have in your report, that the allocation of Title XX funds as well as the planning for the allocation of Title XX funds takes place long after each State agency is required to submit its State budget to the Budget and Control Board and the Legislature for approval.

As you are aware, the Department of Social Services includes its Title XX funding as a part of its budget; however, other State agencies, whose funds are determined by another allocation procedure, can not be assured an exact amount of Title XX funds and thereby report those funds in their State budget request. You are correct in your understanding that when these funds are allocated a corresponding reduction could be made in State funds with the exception of those State funds required to match the 75% or 90% Federal funds. There is some question as to whether this was the intent of

Congress, however. Our understanding of that intent, based on law and Federal Regulation, is that the latitude and freedom given States under Title XX is to assist the designated administering agency to expand services to the poor of the State and not to supplant services funding made by the State for them.

2. In general, the Legislative Audit Council finds that with respect to the Title XX program it is possible for agencies to supplement or modify the various programs and priorities established by State Legislature. It should be pointed out that, from the perspective of the Department of Social Services, the Department is attempting to purchase those services needed for its clientele from agencies who have an expertise or long experience in providing a particular service which the Department does not provide directly to its clients. The Department requires assurance through its contracts that such services are delivered to the clientele referred to the various agencies with whom the Department contracts. At the present time, if such services are delivered to clients referred to other agencies, the Department of Social Services makes reimbursement for the incurred expense. Under the current provisions of Federal Law and Regulations and the Departmental contracting process, the Department is not able to control the expenditure of funds reimbursed to various other State agencies as a result of their provision of services to the clients of the Department of Social Services. It is enlightening but yet disconcerting to the Department of Social Services to find, as a result of the Legislative Audit report on Title XX, that some agencies have not utilized funds available through Title XX from the Department of Social Services to expand their ability to provide services to the people of the State of South Carolina. This conflicts with the intent of the Title XX Law and Regulations and with the intent of the Department of Social Services in developing a contract with various other agencies within the State. The Department thus concurs that stronger controls over the utilization of funds reimbursed to various State agencies for provision of services is necessary. While the Department's powers to enforce this are limited, it is placing within all contracts developed between itself and other State agencies a clause which ensures that services provided to the clients of the Department are indeed expansions of services and not merely supplanting State funds allocated for the provision of such services.
3. The Earned Funds account is utilized primarily as a revolving account. As noted in the report, the account has had amounts withdrawn from it at times at the request of the Budget and Control Board. Were the entire account to be removed from the Department of Social Services, an account of a similar nature would have to be maintained by the State Treasurer, thereby allowing the Department of Social Services to incur its administrative expenditures prior to the time of requesting Federal reimbursement for the Federal portion of those expenditures.

4. Your staff mentioned in their report the utilization of the 5% administration fee charged on all Title XX contracts. This fee was initially implemented, as noted in your report, and was "intended to defray cost incurred by DSS in administering Title XX contracts." At the present time, with Budget and Control Board approval, the Projects Overhead funds are used to pay:
 1. The match portion of the costs of the Fiscal Grants Management Section,
 2. The match portion of the Contracts, Grants and Child Development Division,
 3. The match portion of the Governor's Office contract for planning and evaluating contracts and services,
 4. The match portion of the Title XX reporting system pertaining to contracts, and
 5. The portion of case management costs pertaining to contracts in accordance with time study data.

It should be clearly noted that these funds can be used solely for these purposes and that any attempt to move these funds in bulk directly to the State Treasurer without appropriate justification will invoke a review by Federal officials who have stated that these funds can only be collected from providers to be used in the manner already specified. Beginning July 1, 1977 all employees and expenses paid out of these funds will be funded with State dollars through the normal State budgeting process. At the end of each quarter, as these costs are accumulated, analyzed and allocated, a prorata portion of these costs associated with the administration of contracts will be directly reimbursed to the State Treasurer through the Project Overhead account. Therefore, the only transactions to be noted in the account will be basically those of receipts from the individual providers and disbursements to the State Treasurer.

Limited Effectiveness of the Title XX Program

1. We have reviewed the comments made by your staff pertaining to administrative costs incurred by the Department of Social Services. As you know, our Agency administrative costs are allocated on the basis of a Department of Health, Education and Welfare approved allocation plan. The allocation is based upon the number of personnel providing direct services to clients; therefore, since approximately 40% of the Department of Social Services personnel working in the field provide Title XX services, 40% of the administrative costs are allocated to the Title XX program. Based upon this Department of Health, Education and Welfare approved cost allocation plan, there is no way that the costs allocated to Title XX can be reduced unless the Title XX employees in the field providing services to clients are reduced.

It has been suggested from time to time that the Department of Social Services reallocate some of these costs to other program areas. As you realize, not following the HEW approved cost allocation plan would ultimately result in Federal audit exceptions with the State of South Carolina being requested to pay back funds to the Federal Government. It should be pointed out that at the present time the administrative costs associated with Title XX receive a 75% Federal match rate and a 25% State match rate. If these costs were, in fact, reduced by the transfer or the reduction of the Title XX staff, these administrative costs would then be allocated to programs with a 50% Federal match rate and a 50% State match rate thereby doubling the cost to the citizens of the State of South Carolina. This is not to say that the Department of Social Services is not concerned about the administrative costs noted or associated with the Title XX plan; however, based on all the aforementioned, it is not possible at this time to foresee a reduction in the administrative costs of Title XX because, as you have noted in several instances in your report, personnel in the field are being asked to engage in more and more Title XX activities rather than less Title XX activities. We will address this issue further in the time study comment.

2. In reference to your comments about case management, the Department of Social Services is aware of the need to separate administrative functions and expense from those classified as strictly service related case management functions and expense. The Federal reporting requirements state that the time spent in arranging for a service should be counted as a part of the service and not an administrative expense. In addition, the Arthur Andersen Consulting Firm has appointed a project team to study the entire case management function. This study should be completed with recommendations to the Department of Social Services Board by May 15, 1977.
3. Your staff has addressed the current controversy surrounding the use of the time study by the Department of Social Services. As you are aware, we currently use a time study as part of our cost allocation methodology one week per month (three weeks per quarter) to allocate our administrative and other costs. The subject of the time study is being addressed by a project team working with the Arthur Andersen Consulting Firm. The project team has drawn up a form that they believe could possibly be utilized by Department of Social Service workers in the field. This form would account for 100% of the workers' time; thereby increasing the accuracy of the time study methodology utilized in the cost allocation process by the Department of Social Services.
4. We noted in your report that \$686,000 was spent to prepare the 1976-77 Title XX Comprehensive Plan. The Legislative Audit Council has suggested that an extensive examination of the planning and evaluation activities associated with the Title XX

program would be in order. The Department of Social Services concurs with this position. Formal activities in planning the program within DSS currently are estimated at an approximate cost of \$100,000. At present, there is no concerted effort or unit established to do evaluation of the program. The Department currently has two (2) contracts associated with these activities. The first is approximately \$358,000 associated with planning support to be divided by the ten regional Councils of Government. The second is a contract with the Office of the Governor for an estimated \$415,000 for the coming program year for planning and evaluation support services. It is estimated for the fiscal year 1977-78 that these two (2) contracts alone will total more than \$773,000. This amount, added to the over \$100,000 associated with direct planning costs incurred by the Department of Social Services, brings the total for planning and evaluating the program to over \$900,000. The Department of Social Services agrees that this amount for planning is an excessive amount and cannot be matched by any other State in the Southeast. The number of staff engaged in planning the Title XX program in South Carolina alone far exceeds the total number of staff associated with planning the program in the rest of the entire Southeast of the U.S. The Department of Social Services is required by state law to contract with the Office of the Governor for support services in planning and evaluating the Title XX program. Since the Department concurs with the Legislative Audit Council's findings that the cost of planning the program are excessive and that very little attention has been given to evaluating the impact of services on clients, that a reassessment of priorities for planning and evaluating the program should be made. The Advisory Committee may be an appropriate forum to begin this initial assessment. Perhaps a general reassessment should be made by the General Assembly for the administration of the planning and evaluation efforts associated with Title XX. It should be pointed out that, in the opinion of key Department of Social Services staff, focus of these two (2) activities should be moving more from the planning emphasis to an emphasis on evaluation of the impact of services on clients to assure that better decisions are made with respect to the types of services that are being provided.

EARNED FUNDS

Balance per books June 30, 1976	\$5,554,419.20
Plus: Net earnings for 4th Quarter '76 transferred in FY 77	<u>6,746,701.00</u>
Total Earned Funds relating to FY 76	\$12,301,120.20
Less: Expenditures for 1st Quarter FY 77	<u>*(12,209,422.00)</u>
Balance October 1, 1976	\$91,698.20

Plus: Federal Reimbursement for 1st Quarter	\$12,209,422.00
Funds available for 2nd Quarter 77 Operations	<u>\$12,301,120.20</u>
Less: Expenditures for 2nd Quarter FY 77	* <u>(10,987,257.00)</u>
Balance January 1, 1977	\$1,313,863.20
Plus: Federal reimbursement for 2nd Quarter '77	10,987,257.00
Funds available for 3rd Quarter '77 Operations	<u>\$12,301,120.20</u>
Less: Funds remitted back to Budget & Control Board	(4,900,000.00)
Net funds available for 3rd Quarter Operations	<u>**\$7,401,120.20</u>

*The decrease in expenditures from the 1st to 2nd quarter is mainly attributable to the extra pay period in 1st quarter.

**Due to the fact that this will not cover total expenditures for the quarters, the Federal share of all contracted costs are being paid directly out of Maint. & Soc. Serv. instead of Earned Funds.

DEPARTMENT OF MENTAL HEALTH

William S. Hall, M.D., Commissioner

Comments:

Underestimation of Revenue

The Department of Mental Health does recognize that we underestimated, two years in advance, our anticipated revenue for Fiscal Year 1975-76. I must point out the uncertainty which exists in any budget estimate.

The facts point toward two areas where underestimation occurred and had the largest impact.

Medicaid Collections

Our contract with D.S.S. is primarily one of cost reimbursement of Medicaid eligible patients. The reimbursable cost of a Medicaid eligible patient is determined by total eligible cost divided by total patient days. During preparation of the Fiscal Year 1975-76 budget the average daily patient census was determined to be 5169. We estimated a slight decline in census by Fiscal Year 1975-76 by indicating the average daily census to be 4980. As a result of the new Mental Health laws regarding patients as well as deinstitutionalization efforts our actual average daily patient census by the close of Fiscal Year 1975-76 was 4,114. This represents a decline of 20.4%. In an attempt to meet staff/patient ratios dictated by the Alabama court case we knew we needed to reduce patient population while maintain the same level of staff and expenditures. Therefore, if average daily patient census declines and expenditure levels remain constant the cost per patient per day increases and our Medicaid reimbursement increases. The understandable underestimation of Medicaid revenue amounts to \$1.8 million.

Title XX

In the absence of clear guidelines regarding the use of Title XX, as experienced with Title IV-A funds, this department was reluctant to rely on this source of funds to support existing, new, or expanded services. Without proper experience concerning the use of Title XX this department did not include these funds in its budget as our budget was prepared more than one year prior to the signing of our Title XX contract.

Accumulation of Excess Funds - Contingent Funds

Title XX	-	\$ 1,358,000
Title IV-A	-	850,000
		<u>\$ 2,208,000</u>

As mentioned in the section entitled Underestimation of Revenue, this department's hesitancy to plan new programs is based upon the lack of concrete information regarding not only the uses of these Federal funds but also the amounts of funds to be realized. . It is perhaps wise that we did not expend all of the Title IV-A available for the result of the Federal audit recently performed indicates we will have to refund approximately \$500,000 of Title IV-A to the proper Federal authorities.

As a result of insufficient time and information, Title XX funds were not budgeted for Fiscal Year 1975-76 and only a small portion was expended during that Fiscal Year. The surplus was carried forward into Fiscal Year 1976-77 where we have in fact budgeted our net contract amount. Insofar as Fiscal Year 1977-78 we have as of this date no contract for Title XX. A major change in the statewide Title XX plan has made the availability of Title XX even more uncertain for Fiscal Year 1977-78. The unbudgeted Title XX and IV-a funds are in fact available to the scrutiny of the State Auditor's office, Legislature, Governor's Office, etc. since they appear in special earmarked accounts in the State Treasurer's Office and are not comingled with other Operating Funds of the Department.

Non-Legislated Expansion

In November of 1975, the Department of Mental Health was directed by the Budget and Control Board to reduce its State Appropriations approximately 7.2% as a result of an anticipated statewide revenue deficit. The Division of Administrative Services' proportionate share of the reduction amounted to approximately \$165,000. The impact of this reduction was lessened by the substitution of Title XX funds and through the use of funds from vacant positions. No expansion of Administrative Services was realized as a result of Title XX.

Your comments referable to the duplication of Federal, State and Other Funds as well as unreported administrative cost reimbursements for Fiscal Year 1975-76 are not specific enough to enable this Department to prepare a reply.

DEPARTMENT OF MENTAL RETARDATION (DMR)

Charles D. Barnett, Director

Comment:

Underestimation of Revenue

For FY 75-76 revenue was estimated at \$6.68 million. Actual receipts were \$8.99 million; a difference of \$2.31 million or 26% underestimation. The Council statement inconsistently compared forecasts of receipts to actual receipts plus the prior year balance.

Forecast was made in July, 1974 while receipts were through June of 1976. New Federal programs came into being, notably CETA, which added \$406,983. The Department's Medicaid program, which had been moving with moderate progress, was greatly accelerated during the year because of changes in eligibility determinations and procedures. When the forecast was made (July, 1974), the following experience was available:

	<u>FY 73-74</u> <u>Actual</u>	<u>FY 74-75</u> <u>Actual</u>	<u>FY 75-76</u> <u>Forecast</u>
Medicaid	135,000	260,160	933,120

The actual reimbursement for Medicaid, \$3,149,763, a difference of \$2.2 million, approximately equals the total underestimation,

The first opportunity to revise the estimate to the Legislature was July, 1975; at that time, revenue for the year in question was estimated at \$8.39 million or 93% of actual receipts.

Duplication of Federal, State and Other Funds

Medicaid funds are retained by the Department and used along with State appropriations to defray the cost of residential long-term care. This is highly advantageous to the State. In FY 1975/76 residential service not meeting Medicaid standards cost the State \$17.38 per person per day. Services which met Medicaid standards cost a total of \$32.27 a day; however, the Federal Government (Medicaid) paid \$21.00 of this leaving only \$11.37 as the State's share. Thus, through participation in Medicaid, the State can provide improved services at less cost to the State's taxpayer. Therefore, attainment of Medicaid standards in service and maximizing Medicaid reimbursement have been high priority programs for DMR.

The Medicaid program is financed 73.58% through Federal funds and 22.42% through State funds. DMR provides the State match from appropriated funds. If in a given year the Department gains additional funds through rate increases or through success in qualifying additional buildings for Medicaid, the surplus has been used to further accelerate the Medicaid program. By this, we mean that the additional staff required is hired

to create the needed programs and the supplies and equipment are purchased to support these programs and to maintain the environment required. This use of funds has been explained to all agencies of the State and Legislature before which we have appeared in support of our budget. It has also been the cornerstone of our request for additional funds for capital improvement projects. A statement of this philosophy is contained in the Preamble of our most recent Budget Request (FY 1977-78).

Accumulation of Excess Funds - Contingent Funds

Medicaid funds received as reimbursement late in the fiscal year were carried forward and reported in July, 1976. Of this amount, \$189,532 was required for prior year obligation (fringe benefits) and paid. In addition, \$975,000 in State appropriations were returned to the general fund offsetting a like amount of the carry forward.

Misallocation of Federal Funds Between Administrative and Program Costs

The Department did inform the Legislature of this reimbursement. The amount was included under receipts in Budget Request submitted to Budget and Control Board in September, 1976. The amount was not forecast in July 1974, as it was not known at that time if an administrative reimbursement would be allowed. The circumstances were as follows: In FY 73-74, we had received \$18,655 in indirect cost; however, we were notified by DSS that we would not receive administrative cost reimbursement in the future unless a rate was approved by HEW. In FY 74-75, we received no administrative cost reimbursement; hence, in July, 1974 we could not forecast a receipt in this category for FY 75-76. On November 13, 1974, our indirect cost rate (administrative reimbursement rate) was approved by HEW. The following budget request cycle (July, 1975) we revised our estimate to show our anticipated reimbursement in this category. All reimbursements earned by the Department are deposited to the Department accounts in the earmarked ledger of the State Comptroller General. Transfer to Department's accounts are made through the Budget and Control Board using their Form 300.

DEPARTMENT OF VOCATIONAL REHABILITATION

J. S. Dusenbury, Commissioner

Comment:

Underestimation of Revenue

Under the State budgetary cycle, it is necessary that our Agency make budget estimates by mid-September of each year for the following State fiscal year. Therefore, this makes it necessary to estimate Federal funds a minimum of nine months in advance (under the new Federal fiscal year, this estimation must be made twelve months prior to the beginning of the Federal fiscal year). With the uncertainty of Congressional action and because of the difficulties in predicting final Congressional funding levels, we are given estimates of Federal funds by RSA officials in Washington. Since the Federal estimate is given by Federal officials, to criticize us for reporting those figures is inappropriate since they are as accurate as possible as of the date requested.

At the end of the year, we have been able to obtain additional Federal funds not utilized in other states because of restrictions placed upon them by their state governments. Advance appropriations by a state of all funds, including Federal funds, has seriously restricted other states. Therefore, because of our present legislatively approved funding mechanisms, we are able to secure additional Federal funds for our citizens at the very latest date in the fiscal year. Therefore, it is true that we secured more Federal funds than Federal officials predicted would be available. Frankly, we feel we should be applauded for these efforts and are shocked that anyone would imply that we should have done otherwise.

It should also be pointed out that during FY 75-76, this Department was also asked to engage in a substantial CETA Program by the Office of the Governor. This accounted for a new program of over \$500,000 for which there was no way to anticipate our involvement in August of 1974. It should also be pointed out that during the dates in question we had only recently begun a limited work activities program for severely mentally retarded individuals. Because of the initial success of that program, we received an additional \$500,000 to expand in that area during FY 75-76. Again, because of our success and our expertise, we were requested and provided funds to expand that area of service.

Duplication of Federal, State and Other Funding

It should be clearly pointed out that our program is a Federal-State partnership which requires matching funds. Therefore, by definition, we must obtain State and Federal funds to be eligible under our State Plan to operate a Vocational Rehabilitation Program. The amount of Federal funds that we can get is based upon the amount of State funds made available for matching purposes with a maximum amount of Federal funds determined by Congress.

The South Carolina Code of Laws, 1976 revision, in Section 43-31-130, states that "the acceptance of Federal funds and other funds and their use for vocational rehabilitation is hereby authorized." Furthermore, Section 43-31-140 further provides "the General Assembly shall appropriate for Vocational Rehabilitation such sums as are necessary, along with available Federal and other funds, to carry out the purposes of this chapter."

Contingent or Surplus Funds

Your attention is also called to the General Appropriations Bill as passed by the General Assembly for each of the past several years in which an identical provision appears which states "that a sum not exceeding five percent of the amount appropriated for other than personnel services to the State Agency of Vocational Rehabilitation may be carried forward and expended for the same purposes in the following years."

Misallocation of Federal Funds Between Administrative and Program Costs

We were appalled that your reference to our providing funds for direct case services to handicapped citizens would be reported under a heading entitled "Misallocation of Federal Funds". We do apply administrative cost reimbursements into the operation of our Department, but it must be recognized that

these funds have for years been clearly identified in our budget and have traditionally enabled us to provide additional services to handicapped clients because of our willingness to engage in contract activities for which we earned administrative cost reimbursements. It is true that we have utilized such funds for case services but again we feel we should be praised for our willingness to do so rather than be subjected to an insinuation that this is a misallocation of funds.

Your reference that we should allocate Federal funds to pay the costs of administration are practically mute questions for an Agency which operates a joint Federal--State matching program. Due to the limitations on Federal funding, no gain would be realized by the State by diverting Federal funds from program costs to administrative costs and simultaneously switching State funds to service programs. Your estimate that we could allocate several hundred thousand dollars more from Federal funds to cover administrative costs would have absolutely no effect to the cost to the State and, therefore, that statement is completely misleading and implies a potential savings which does not exist.

S. C. COMMISSION ON ALCOHOL AND DRUG ABUSE

William J. McCord, Director

April 27, 1977

Comments:

I am concerned that the writers of your report and perhaps the Council itself may not understand the indirect cost mechanism as it was intended when the Federal Government created it, and I am concerned too about implications that if the Legislature doesn't appropriate specific funds it is thereby disapproving the purpose for which the requested funds were intended. I am further deeply concerned that your Council may be making after-the-fact judgments, viewing 1975 actions from a 1977 perspective, and completely overlooking procedures created by the General Assembly which are as much a part of legislated intent and State law as is the Appropriations Bill.

Underestimation of Revenue

ADA appreciates the LAC recognition that "Sometimes State Agencies do not know how much Federal money they will receive..." but is concerned that LAC in the same paragraph suggests that "agencies have an incentive to underestimate their revenues..." and "...some State Agencies have exaggerated their need for State appropriations," without making any attempt to differentiate agencies that are victims of one condition or, perhaps, guilty of the other. However, any statement or inference that ADA was among the latter group which underestimated for advantage is totally untrue.

The report is quite correct that "ADA underestimated its Federal and other revenues for FY 75-76 by \$2.6 million," or "understated its anticipated revenues by 255 percent." What was left unstated is the fact that the estimates were required to be submitted by September 13, 1974, and therefore represent the best judgment of this agency as of the first of that month. Since the auditor's office has never encouraged, and in fact has offered frequent discouragement for, the inclusion of revenue receipts 10-22 months hence unless their anticipation is essentially firm by way of grant, contract or other formal or informal affirmation, ADA included only those funds which would fit that criteria. The major part of those funds were our expected Alcohol and Drug Abuse Formula Grant funds which totalled approximately \$804,000. Other amounts included in our estimated \$1.01 million were \$42,000 for our Military and Occupational Alcoholism Grant from the National Institute on Alcohol Abuse and Alcoholism (NIAAA), \$70,000 for an Integrated Drug Abuse Reporting Process contract from the National Institute on Drug Abuse (NIDA), \$62,000 for a Student Training Grant from NIAAA and \$32,000 for a State Prevention Coordination Grant from NIAAA.

The biggest items of actual Federal revenues received during FY 76 which had not been included in the estimates were nearly \$400,000 of Alcohol Formula Funds which had been impounded by President Nixon and later released, and also nearly \$800,000 in Title XX purchase of service reimbursements which were initiated in October, 1975, under contract with the Department of Social Services even though this source was completely unknown to our agency in September, 1974, when the budget request including estimates was prepared and submitted. Another large amount was nearly \$400,000 of uninsured Motorist monies which we had expected to spend in the latter part of FY 75 through contract for local ASAP projects. Passage by the General Assembly in March, 1975, of the Provisional Driver License Bill mandating ASAP programs in every county necessitated an immediate change in funding strategies which dictated the carryover of these monies to the following fiscal year. Other significant amounts of revenue not projected in the estimate included \$70,000 in approved underrun monies from the Richland ASAP contract with DOT, \$54,000 of Appalachia funds, \$114,000 in a grant from the Governor's Highway Safety Office, \$49,000 from an NIAAA contract for a monitoring system and \$54,000 in NIDA pass-through funds for a methadone maintenance contract at Columbia Drug Response Operation inherited by this agency following the merger of the Office of Narcotics and Controlled Substances in July, 1974, but as then still unknown to us at the time of the projection. None of these monies could have been anticipated with any reliability in September, 1974.

Duplication of Federal, State, and other Funds

Your report states, "The Commission received State and Federal funding for the same administrative costs. The extent of this duplication was found to be \$190,810." This opinion by LAC is not consistent with the way ADA has treated the receipt and use of indirect cost monies derived from Federal projects. Rather than duplicating what is provided by State appropriation, ADA has been able to respond to other needs and thereby reduce its request for state monies.

Many grants and contracts allow for the inclusion of administrative line items as a direct cost, and many also provide indirect costs to permit

administering agencies some flexibility in meeting administrative costs which cannot be line-itemed or anticipated at the time of proposal. The LAC assessment does not indicate a clear understanding of the use of indirect costs as compared to administrative costs. The fact that ADA generated \$190,810 in indirect costs during the period is true, but so also is the fact that administrative costs on a line-item basis for the same period had been approved in the previous year through the legislative process. In no way is this duplication. In fact, indirect costs are an unpredictable funding source because there is no way to project accurately their amounts until grants and contracts are approved and their use in responding to administrative needs with some flexibility is a more practical consideration.

For example, when the General Assembly mandated that ADA create a statewide ASAP program and appropriated Uninsured Motorist monies for this purpose, the required programmatic expansion necessitated some increase in overhead expenses such as rent, travel, telephones, supplies, etc., but ADA was able to supplement its appropriations for these purposes with some indirect cost monies in order to retain more Uninsured Motorist dollars in the pool for contracting with local programs. When the Title XX contract with the Federal Government was delayed, thereby reducing the time available for development of subcontracts, ADA was nevertheless able to employ necessary staff to put into place a highly efficient system of statewide services by contracting with and providing the necessary management and training for 34 local subcontractors, actions made possible only by the prudent use of indirect cost monies and state policies enabling the procedures implemented. The installation of a Word Processing System to be addressed in further detail below, is another example of unduplicated uses of indirect cost monies, which have enabled ADA to keep pace with legislated program responsibility and inflationary cost increases without having to burden the Budget and Control Board and the General Assembly with small budget requests as required. An example of ADA's performance in this regard is its use of indirect cost monies to supplement rental costs of the agency. When the merger with the drug agency was mandated by legislation in 1974, it was necessary to move to new quarters to create efficient programmatic merger of staffs. The Budget and Control Board advised us of monies available through a special fund to supplement rental appropriations in such instances, but instead endorsed ADA's use of indirect cost monies for this purpose in approving the agency's new quarters lease.

In each instance in which indirect cost monies have been used for leasing of space or equipment, the appropriate clearances and approvals have been obtained from the Budget and Control Board's Division of General Services. In each instance in which personnel have been employed, position questionnaires have been submitted to and approved by the Division of Personnel, approval to hire was obtained and also, during the year in question while the job freeze was being implemented by the Budget and Control Board, approval for employment was also obtained under the processes established for filling all positions.

Accumulation of Excess Funds - Contingent Funds

Your report says, "During FY 75-76 ADA accumulated \$29,084 and carried that amount into FY 76-77." This amount resulted from the collection of \$190,810 and expenditures of \$161,726 (details of which are explained more fully in Misallocation of Federal Funds Between Administrative and Program Costs from Federal indirect cost revenues.

This balance of \$29,084 was left in our indirect cost account and transferred to FY-77 because there was no provision contained in the Budget Preparation Manual or other instructions from the Auditor's Office or received from our budget analyst at any time to handle this balance in any other manner. The agency had been doing this since its first indirect cost monies were received in FY-72, and at all times our treatment of such funds was consistent with what we were advised was the recommended procedure for handling such balances.

Misallocation of Federal Funds Between Administrative and Program Costs

ADA was surprised to read in the LAC report that ADA's "budget request indicated that all administrative costs would have to be paid with State appropriations." This is inconsistent with the operational schema of the agency as followed each year since indirect cost monies were received and as described in Duplication of Federal, State, and other Funds, whereby the agency has looked to indirect cost monies as does the Federal establishment which provides them for flexibility in meeting unanticipated overhead needs arising from the administration of Federal grants and contracts.

The question of whether or not other administrative expenditures have been increased is probably quite true, since it has been mentioned above that the agency experienced an extremely rapid growth because of the infusion of significant amounts of Federal monies for specific projects and the frequent mandates of the General Assembly to provide programmatic responses to legislatively-recognized needs in the field of Alcohol and Drug Abuse. The major increased expenditures for administrative purposes came about during the year in question in connection with the implementation of our Title XX contract. Of the entire amount of \$161,726 specified for administrative purposes, approximately \$40,000 in salaries for classified positions approved by the Division of Personnel were involved in the administration of our Title XX Contract and a significant amount of the \$20,000 used from these monies to support travel costs of the agency were also related to the Word Processing Center. Administrative costs paid for by indirect cost monies did include less than \$3,000 to supplement classified positions in the agency, some

\$6,600 to provide for part-time staff needs, \$8,700 for employee health benefits, \$8,300 for telephones, and one grant for \$10,000 to a local commission to be matched by local funds.

In further response to the final sentence, "The Legislature never had an opportunity to determine the need for these additions," we contend that the Legislature had numerous opportunities through many of the mechanisms addressed above. These include the approval of the establishment of positions and the filling of vacant positions through the authority of the Division of Personnel, the approval of leases for space and equipment as carried out by the Division of General Services, and the knowledge of and support by members of the Legislature on various committees with which we worked, including Title XX, the Legislative Governor's Committee on Mental Health and Mental Retardation, the Joint Legislative Committee on Narcotics and Controlled Substances, and other groups, all of which have been kept informed as to the directions and the mechanisms for implementation employed by this agency. We would hope that members of the General Assembly could attest to the fact that the Legislature has had frequent opportunity to offer input into the programmatic activities carried out by ADA, and we remain confident that they will continue to support and assist ADA in carrying out its legislated responsibilities.

OFFICE OF THE GOVERNOR
OFFICE OF CRIMINAL JUSTICE PROGRAMS

Lee M. Thomas, Executive Director

May 2, 1977

Comments:

It should be noted that the Office of Criminal Justice Programs initiated an agreement with the Budget and Control Board in an effort to insure coordination between LEAA funding and State funding. This approval by the Budget and Control Board of a State Agency's plan to apply for LEAA funds is required prior to OCJP accepting a grant application .

The Legislature has designated the Crime Study Committee to review the State's annual criminal justice improvement plan prior to its submission to LEAA. Proposed legislation to establish the program by statute and spell out the Legislature's role should be introduced in the next session of the General Assembly.

OCJP attempts to involve legislative committee staff members involved in all special plans or evaluations that impact on state funding and/or policy. Examples would be the development of a capital growth and development plan for the South Carolina Department of Corrections and an evaluation of Youth Service bureaus in the State.

State criminal justice agency budget review is performed for the Governor during the Budget and Control Board's budget development process.

There is no lack of concern by OCJP about the fiscal impact of programs on the state.

OFFICE OF THE GOVERNOR
DIVISION OF HEALTH AND SOCIAL DEVELOPMENT

John J. Zemaitis, Director

We preface our review and response to these reports by stating that the Governor's role in Title XX is clearly mandated by the Social Security Act (P. L. 93647) (Title XX), the State Constitution, and by State Law H-2650.

Our previous studies of the first - and second - year Comprehensive Annual Services Plan (CASP), dated June 22, 1975 and May 19, 1976, respectively, noted and concurred with the seven major areas addressed by the Legislative Audit Council (LAC) Reports.

- 1) Duplication of Funds - The LAC findings addressed this problem as related only to State Agencies. Our study indicated this problem also extended to other non-profit providers and their sub-contractors. Audits revealed that double billing for the same clients and services may exist with these providers.

Examples:

Food Cost - are considered allowable expenses under the Title XX Program, but some providers billed Title XX for the cost of food and then billed the U. S. Department of Agriculture for the same service.

Day Care for Children - Some providers have billed both the Title XX Program and the Headstart Program for the same Child Day Care service for the same client. (See letter attached requesting a federal audit - Attachment I)

Due to these findings, the Governor's Office took immediate corrective measures as follows:

- A) Developed the Title XX Fiscal Policies and Procedures Manual for Service Providers (FPPM). This manual was reviewed by the State Auditor and the LAC. It provides guidelines to be followed by all State Agencies and all Title XX providers, guidelines for day-to-day fiscal management of operations. This is accomplished by their following a standard Chart of Accounts and adhering to an adequate accounting system with the capability of providing the required fiscal data on a timely, accurate basis. The manual will eliminate duplication of funds through the implementation of the Total Budget Concept. Under this concept all providers are required to submit all sources of funds (federal, state, private, and local) by program and also to show the use of funds. This information is now required to providers at the time of their application for Title XX funds.

- B) The Governor's Office also instigated revision of the Request for Proposal (RFP) to bring it into compliance with the FPPM. This cooperative effort with the Department of Social Services (DSS) resulted in the RFP containing for the first time a complete definition of services, the units of service, the standards of service and procedures for contracting with the DSS.

The above activities clearly show the role of technical assistance provided by the Governor's Office to the Department of Social Services. In this capacity we recommended that DSS hold workshops to instruct all prospective Title XX providers (State Agencies, Profit and Non-Profit) on how to implement the requirements of the FPPM and thereby eliminate the problems under discussion. The Governor's Office recruited independent CPA's and a professor from the University of South Carolina to conduct the workshops. It should be noted that we found that most providers resisted the Total Operating Budget Concept.

- 2) Accumulation of Surplus Funds - This area was addressed in our studies of June 22, 1975, and May 19, 1976. As result we implemented for the first time the summary sheet for the sources and use of funds detailed below:

TITLE XX SOURCE OF FUNDS

Title XX	\$32,500,000
WIN Entitlement	700,000
CWS Grant (IV-C)	788,000
State and Local Appropriations (Match)	11,744,324
5% Administrative Fee Carry Over	400,000
75-76 Title XX Administrative Fee	<u>1,359,976</u>
TOTAL SOURCES OF FUNDS	<u>\$47,492,300</u>

TITLE XX USE OF FUNDS

TOTAL Contracting Agency Services	\$19,732,853
TOTAL D.S.S. Direct Services	14,424,791
TOTAL Child Care Services (D.S.S.)	7,466,666
TOTAL D.S.S. Administrative Services	5,352,986
RESERVE FUNDS	<u>515,004</u>
TOTAL USE OF FUNDS	<u>\$47,492,300</u>

ALL COSTS ARE ON AN ANNUAL BASIS

The management at the Department of Social Services at this period of time refused to implement this concept or acknowledge the existence of these funds in a meeting attended by staff from DHSD, DSS, and by a member of the Legislature. The LAC findings substantiated our point in this matter. Note that other states have endorsed the sources and use of funds concept.

In the matter of the earned funds accounts we again concur with the LAC finding. We noted this problem earlier and requested officially reviewing the account in letters dated June 4, 1976, August 31, 1976, September 1, 1976, and September 17, 1976, addressed to the Department of Social Services.

Regarding the Title IV-A Program (Aid to Families with Dependent Children), we agree with the LAC opinion. Upon our review of the proposed State Plan for Title IV-A and the Assistance Payments Program, we suggested a series of changes which we believe will result in the closing of loopholes that permit certain non-needy people to become eligible for Public Assistance.

Because of fiscal realities in South Carolina, the State has been unable to increase the level of grants to Public Assistance recipients since April 1, 1972. We are convinced, however, that to a certain extent the State has erred by attempting to spread our limited resources so as to serve an ever-growing welfare caseload. By spreading our resources so thinly, we are not providing adequately for truly needy recipients of Public Assistance.

We believe and have so recommended in our review, that a general tightening of the State's Public Assistance policy would permit the State to increase grants significantly to the needy without a corollary requirement to seek additional tax revenues from our citizens.

- 3) Use of Federal Reimbursements to Bypass Legislative Intent - We agree with the LAC findings and feel that implementation of the requirements of the FPPM will institute an effective control system to close these loopholes by specifying use of Title XX funds.
- 4) Lack of Legislative Control Over Title XX Funds - See answer to Number Three Above.
- 5) High Administrative Costs - We agree with the LAC findings, as illustrated in our previous studies, but would also point out these additional findings:
 - A) DSS in its first CASP Plan (1975-1976) requested allocating \$8,538,955 for administrative costs and later for the year 1976-1977, they requested \$8,874,168. The Governor noted this high administrative cost and requested immediate action. The figures have been reduced to \$5.1 million, which we still feel is too high.

- B) Providers' High Administrative Cost - We agree with LAC findings and feel that FPPM will provide DSS with an effective management tool.
- C) Case Management - We agree that this should be considered as administrative cost, and we brought this to the attention of DSS in June, 1975. The DSS agreed and we are cooperating in a complete study of this matter.
- 6) High Planning Costs - Although these high amounts may have been justified in the first year, certainly there should be a reduction in these costs by the third year. With a plan drawn, the need for large numbers of planners has been reduced. Reduced planning costs would free up funds to be used by the needy. However, the Title XX legislation does require the development of a comprehensive annual services program plan (CASP), and the process for preparation of this plan is lengthy and expensive since broad participation is sought.

The statement that the contract with DHSD is for the production of the model plan is incomplete and misleading, since the contract requires many other additional activities. Under this contract DHSD also has the responsibility of preparing a state human services inventory, quarterly performance assessments, an assessment of needs, an administrative cost study, a case management study and other special evaluation work. Moreover, DHSD works with DSS in carrying out a needs assessment process, a public review process, and regional planning process. Also the DHSD is charged with providing staff support to the SSAC.

- 7) Lack of Effective Evaluation of Title XX - Effective evaluation could not be accomplished because upon examining this data for its validity and comparability, numerous problems were discovered. The most significant problem discovered was that expenditure data had not been audited to determine its validity.

In his letter of March 18, 1977, Governor Edwards called the DSS Board Members' attention to this serious problem. "Since Title XX's inception two years ago there has been over \$75.8 million spent for services and administration, while only \$1.9 million of this amount has been completely audited to date." A review of the audited expenditures of some Title XX providers revealed a high percentage of overpayment. This prevented the DHSD from relying on the information provided as being valid and comparable. In addition to this serious deficiency, there was also no historic audited cost available for the Title XX program in its second year for use in the decision-making process.

To meet the contractual obligations of evaluation, the DHSD furnished DSS management with their findings and recommendations in a detailed report dated November 26, 1976. The most significant corrective measure developed by the DHSD was the Policies and Procedures Manual as previously mentioned.

The implementation of this corrective measure, along with those described in the Governor's cover letter addressed to the DSS Board (contained in the proposed Title XX CASP Plan for 1977-78), will provide reliable historical and comparable data to adequately evaluate the State's Title XX Program. Provision of this data will facilitate accurate management decisions on a timely basis for the 1977-78 CASP.

- 8) Federal Regulations do not prohibit the reduction of an agency's State funding due to the availability of Title XX reimbursements. They do, however, prohibit the reduction of overall state funding for social services.

State appropriations for social services can be reduced to those agencies receiving (or expecting to receive) Title XX funds. The intent of Congress was not to enable states to replace in a wholesale fashion state monies with Federal monies.

Since an agency's receipt of Title XX funds depends upon:

1. The services defined in the CASP Plan
2. An acceptable service proposal from an agency and
3. The successful implementation of that services proposal under contract to DSS.

There is still a problem of proper estimation of funds that will be available. The Title XX planners are moving as rapidly as possible to shift the planning process to more appropriately align with the State's budgetary process.

- 9) Recommendations
The recommendations are sound and desirable. However, it is possible that the 5% fee can be reduced to a more appropriate level.

General Comments and Observations: Limited Effectiveness of the Title XX Program

A program like Title XX raises significant administrative problems in a state like South Carolina whether it is managed efficiently or not. While it is true that this report speaks to some of those management deficiencies, it might be well to also address those other problems exacerbated by South Carolina's unusual organizational maze. Title XX funds are used by many different State Agencies and others to provide a variety of social services and yet it is only one of numerous Federal and State programs. Trying to plan and administer one program with no control over other similar or like programs is somewhat self-defeating.

"Provider Administrative Cost"

It should be made clear that simply stating that one agency's indirect cost rate is high and another is low because one contracted for 25% and another 60% is misleading. There is no single state definition on indirect cost rate. Therefore one definition may include numerous items that the other does not. However, it is generally felt that administrative costs are too high. Also it is not made clear that these indirect cost rates are not determined by any group within South Carolina. Rather they have been determined by the federal agency which provides the bulk of federal funds

to the department. Usually this will be either HEW or Commerce or HUD.

"Case Management"

While it is admitted by DSS that a portion of case management costs (eligibility) should be considered as administrative costs, it seems that in the calculation of administrative cost the full cost of casemanagement is included. Also it should be noted that DHS is in the process of conducting an indepth study of Title XX case management activities to determine their usefulness. It is anticipated that this study will be ready for release by July, 1977. Overall, though, the conclusion that administrative costs are too high is probably true.

"Conclusion"

The Title XX planners have sought in the CASP Plan currently being developed and finalized to reduce this problem by creating a more competitive proposal for Title XX services. By seeking "competitive" proposals for the same services the administering agency is able to compare costs.

"Failure to Evaluate the Title XX Program"

There appears to be some confusion over what evaluation is and what is actually being done in Title XX. DHS has carried out and completed an Assessment of the Title XX Program. This assessment does address the entire program; it does not, however, evaluate individual services in the program. DHS has more recently completed a Performance Assessment of current Title XX Providers. This is an Actual performance versus planned performance assessment.

An indepth service evaluation is currently underway for one Title XX service. However, impact evaluation is very time-consuming and costly, and because of that can and should be limited to special research area.

Essentially the Total Title XX program cannot currently be evaluated because some of its parts are not really "programs." For example, a Title XX service in the Department of Youth Services is impossible to isolate and study under the present structure; since the Title XX service, "Life skills education," is merged with identical services provided from other funding sources in DYS. If the Title XX program cannot be separately identified, its effects can certainly not be determined.

The DSS, pursuant to requirements laid out by the Governor, is currently in the process of improving their administration and reporting practices in order to facilitate performance assessment and evaluation.

Recommendations

The evidence is clear that there has been effective activity within the Governor's Office toward resolving the problems discussed by the LAC in these two reports. We are gratified that their findings have substantiated our earlier efforts and we look forward to closer cooperation in the future. Our major exception to the recommendations made by the LAC, however, is the approach to an ultimate resolution of the problems. The LAC seems to feel that problem resolution can best be accomplished by legislation. We feel that although some legislation may be necessary, the best solution lies in the installation of an effective, responsive statewide fiscal system.

STATE BOARD FOR TECHNICAL AND COMPREHENSIVE EDUCATION

G. William Dudley, Jr., Executive Director

Comments:

The section entitled "Board of Technical and Comprehensive Education" is somewhat misleading, however. The figure of \$1.1 million balance as of June 30, 1976 is a combination of Federal and State funds. I am sure you are aware that the 1975-76 Appropriations Bill allowed us to carry forward five percent of non-personal service items to be used for appropriate purposes during 1976-77. This carryforward provision amounts to \$240,445. The balance of the \$1.1 million is made up of \$864,111 of accumulated Federal funds. I am sure that after reviewing the budget request, you have recognized that these funds were budgeted in 1976-77 operations, thereby reducing the amount of State appropriations required. I am sure you will agree that the title of "Excess Contingent Funds" is inappropriate in this case.



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