

situation, a project somewhat similar in purpose to that stated in section 1003 (a) will be undertaken as an activity of the Joint Financial Management Improvement Program. An agreement to undertake such a project was reached at a meeting of the principals of this program, that is, the Secretary of the Treasury, the Director of the Bureau of the Budget, the Comptroller General, and the Chairman of the Civil Service Commission on April 29, 1968.

The project agreed upon, while not of the breadth contemplated in section 1003(a), involves a review of the requirements and procedures in effect for accounting, auditing, and reporting under grant programs and development of recommendations leading to simplification and better coordination of the financial aspects of these programs.

The project team will be staffed by representatives from the three fiscal agencies—the Bureau of the Budget, the Treasury Department, and the General Accounting Office and by representatives from the four largest agencies involved in grants to States and local governments. These agencies are the Department of Health, Education, and Welfare, the Department of Housing and Urban Development, the Department of Labor, and the Office of Economic Opportunity. The Assistant Secretary-Comptroller, Department of Health, Education, and Welfare, has strongly endorsed this project.

Because of another pressing priority in this field, the project will not be started until probably sometime in June. In the meantime, we plan to have members of the project team visit with members of your subcommittee staff to explain in more detail the features of this project. Having made the decision to go ahead with such a project, we believe that a statutory requirement for such a joint study as outlined in section 1003(a) is not needed at this time.

Section 1003 (b) and (c) would lay upon the Comptroller General functions of management involving financial relationships between executive agencies and States and political subdivisions, which are the primary responsibility of the executive agencies in the administration of their programs. The assumption of these functions by the Comptroller General would, in addition, tend to negate the independence and detachment from operational responsibility which the Congress intended for him in the review and evaluation of agency performance. Thus in our view the concept of subsections (b) and (c) is inconsistent with the statutory role of the General Accounting Office.

In a practical sense the requirement of subsection (b) to study and review the accounting and auditing systems of the many States and political subdivisions which are the recipients of Federal aid programs would be an undertaking beyond the resources of our Office, considering our other responsibilities. In addition, subsections (b) and (c) imply that the Comptroller General has prescribed principles, standards, and related requirements concerning accounting and auditing by the States and political subdivisions with respect to the expenditure of Federal aid funds. Such is not the case, and we do not believe that it would be appropriate for the Comptroller General to prescribe such standards and procedures for adoption by State and local agencies. These are matters which should be worked out by the executive agencies and the State and local bodies and made a part of the grant agreements entered into under individual programs.

It is not clear what is intended in subsection 1003(c) by the provision that executive agencies, upon certain determinations specified in the subsection, may substitute for their accounting and auditing the accounting and auditing performed by States and political subdivisions. Regardless of the acceptability of the accounting of the States and political subdivisions, each Federal agency must account separately to its management and to the Congress for its financial operations of which aid programs with States and political subdivisions are only a part. Moreover, in most if not all Federal agencies the accounts maintained for Federal aid programs are in summary form based on reports and documentation taken from the more detailed accounts of the States and subdivisions.

As to auditing, it is doubtful that Federal agencies would or should accept auditing done by States and political subdivisions without periodic tests to provide reasonable assurance that the prescribed rules and regulations were being adequately followed. At the present time there is some movement in certain Federal agencies toward placing considerable reliance on audits performed by others, but with tests as to the adequacy of such audits.

Also, to reduce the total manpower necessary to perform the audit function and to lessen the impact of Federal auditing on non-Federal organizations, many Federal agencies have entered into cross-servicing arrangements under which the agency having a predominant financial interest in Federal programs at an individual non-Federal entity, performs the audit function, particularly as to overhead