

rates, for the Federal agencies having a financial interest at that entity. Insofar as the term "auditing" as used in the proposed Title X relates to financial audits, the expanded use of such cross-servicing arrangements could serve to further reduce the audit problem, and would enhance the feasibility of developing model audit manuals in particular areas and determining the degree to which reliance might reasonably be placed on the grantee's system of internal control, including auditing.

With regard to management-type audits, it is less likely that the Federal agencies would accept audits by States and political subdivisions since management-type audits go beyond the verification of expenditures and are concerned with matters of administration about which audits by States and political subdivisions might not be considered sufficiently objective.

We shall be pleased to discuss the above views in further detail if you desire.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., June 3, 1968.

HON. EDMUND S. MUSKIE,
Chairman, Subcommittee on Intergovernmental Relations, Committee on Government Operations, U.S. Senate

DEAR MR. CHAIRMAN: Subsequent to the issuance of our letter of May 8, 1968, presenting our views on the proposed amendment to S. 698 pursuant to your request of May 2, 1968, members of our staff spoke with Mr. Charles Smith, Staff Director of your Subcommittee, on the advisability of having an oral discussion of our views. Mr. Smith advised that there is no necessity for having a further discussion of this matter, but did request that we furnish the Subcommittee, for inclusion in the record, further details concerning the project mentioned in our May 8 letter to review the financial administration of grant programs. This letter is in response to Mr. Smith's request.

As we explained in our earlier letter, the project to review the financial management of grants-in-aid was approved by the principals of the Joint Financial Management Improvement Program at their annual meeting on April 29, 1968. A copy of the project proposal considered by the principals is enclosed. After some discussion as to the objectives of the project, the principals approved going ahead with it with some limitations on the stated scope. The principals agreed that the project team should concentrate on financial matters and that after the team had obtained sufficient information to do so, it would develop a work plan defining in more detail the scope of the study and the priority of coverage. This plan would be subject to further review and approval.

As mentioned in our May 8 letter, other priorities have required that the organization of the project team be delayed for several weeks. When the team is organized, I am sure that one of its first contacts will be with the staff of your Subcommittee to obtain such information and advice on problem matters and areas of concern as your staff may be able to offer. The project team will keep your staff advised of its progress and consult with them on its tentative conclusions.

We believe this to be a very important undertaking but because of our inability to obtain specific information about the kinds and degrees of the problems, we are unable to even conjecture as to the detailed operations which would be involved in this study. The General Accounting Office will probably be assuming the lead in this project and we will arrange for you to receive periodic progress reports.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

[Enclosure]

PROPOSED PROJECT ON REVIEW OF FEDERAL GRANT-IN-AID PROGRAMS

1. *Project Title.*—It is proposed that a project be initiated to be titled Joint Agency Study of Federal Grant-in-aid programs to State and local governments.

2. *Background.*—A large segment of public expenditures is represented by Federal grant-in-aid programs to State and local governments. BOB Special Analysis K estimates these expenditures for fiscal 1968 at \$18.4 billion and for 1969 at