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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE DEPARTMENTS OF LABOR AND HEALTH, EDUCATION, AND WELFARE

DANIEL J. FLOOD, Pennsylvania, *Chairman*

WILLIAM H. NATCHER, Kentucky
NEAL SMITH, Iowa
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EDWARD R. ROYBAL, California
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SILVIO O. CONTE, Massachusetts

HENRY A. NEIL, Jr., FREDERICK P. PFLUGER, ROBERT L. KNISELY, NICHOLAS G. CAVAROCCHI, and GEMMA M. WEIBLINGER, *Subcommittee Staff*

PART 6

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

General Departmental Management
Office for Civil Rights
Office of Human Development
Policy Research
Social and Rehabilitation Service
Social Security Administration
Special Institutions

Printed for the use of the Committee on Appropriations

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DEPARTMENTS OF LABOR AND HEALTH, EDUCATION, AND WELFARE APPROPRIATIONS FOR FISCAL YEAR 1977

MONDAY, MARCH 15, 1976.

SOCIAL AND REHABILITATION SERVICE

PUBLIC ASSISTANCE

WITNESSES

DON I. WORTMAN, ACTING ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE
NICHOLAS NORTON, ACTING COMMISSIONER, ASSISTANCE PAYMENTS ADMINISTRATION
M. KEITH WEIKEL, COMMISSIONER, MEDICAL SERVICES ADMINISTRATION
MICHIO SUZUKI, ACTING COMMISSIONER, PUBLIC SERVICES ADMINISTRATION
DAVID B. SMITH, ASSOCIATE ADMINISTRATOR FOR PLANNING, RESEARCH, AND EVALUATION
LOUIS B. HAYS, DEPUTY DIRECTOR, OFFICE OF CHILD SUPPORT ENFORCEMENT
SAMUEL E. MARTZ, ASSISTANT ADMINISTRATOR FOR FINANCIAL MANAGEMENT, SOCIAL AND REHABILITATION SERVICE
MISS ANNA L. PERKINS, DIRECTOR, DIVISION OF BUDGET, SOCIAL AND REHABILITATION SERVICE
WILORD FORBUSH, DEPUTY ASSISTANT SECRETARY, BUDGET

INTRODUCTION

Mr. FLOOD. We will now take up the Social and Rehabilitation Service. The presentation will be made by Don Wortman, the Acting Administrator for the Social and Rehabilitation Service. You have some people with you you would like us to know, Mr. Wortman?

Mr. WORTMAN. Yes, sir, I appreciate that opportunity. On my left is Michio Suzuki, Acting Commissioner, Public Services Administration. Next to him is Nicholas Norton, Acting Commissioner of the Assistance Payments Administration. And beyond him is David Smith, our Acting Associate Administrator for Planning, Research, and Evaluation. On my immediate right is Dr. M. Keith Weikel, Commissioner, Medical Services Administration; Louis B. Hays, Deputy Director of the Office of Child Support Enforcement; and an associate of mine whom you know and who has appeared at this table many times, Wilford Forbush, Deputy Assistant Secretary for Budget, and a gentleman who will be testifying with us tomorrow probably more

than today, Merwin Hans, our joint HEW and Department of Labor Executive Director of the WIN program.

To my rear I would like to identify Sam Martz, our Assistant Administrator for Financial Management, and over here, Dr. Victor Kugajevsky, who runs the quality control program.

OPENING STATEMENT

Mr. FLOOD. I see you have a prepared statement. How do you want to handle this?

Mr. WORTMAN. Sir, I would request the chairman's permission to put an overview which we provided to the committee staff, plus an 8- to 10-page public assistance statement in the record. I would like the opportunity to read a 4-page summary of the public assistance statement.

Mr. FLOOD. Without objection, that will be done. We will also include the biographical sketches of yourself and your colleagues.

BIOGRAPHICAL SKETCH OF DON I. WORTMAN

Position: Acting Administrator, Social and Rehabilitation Service.

Birthplace and Date: Lakota, Iowa, November 10, 1927.

Education: Macalester College, St. Paul, Minn., B.A., Economics, 1951. University of Minnesota, M.A., Public Administration, 1952. Industrial College of the Armed Forces, Fort McNair, 1961–1962.

Military service: Army Specialist Training Program, July 1945–January 1946. Army Air Force, January 1946–November 1947.

Experience:

January 1976: Acting Administrator, Social and Rehabilitation Service.

1973 to present: Deputy Assistant Secretary for Program Systems, Department of Health, Education, and Welfare—Development and operation of the Department's policy planning and policy coordination activities; design of activities to strengthening capacity of state and local government to plan and manage human resource programs; provision of and planning for data processing and statistical services for Office of the Assistant Secretary for Planning and Evaluation. Served in a variety of special assignments for the Secretary: Conference on Inflation, Energy Coordinator and Director, HEW Refugee Task Force.

1971–73: Economic Stabilization Program—Administrator, Office of Price Monitoring, Cost of Living Council; Director, Office of Operations, Price Commission—Review and action on requests for price increases, interpretations of the regulations and for monitoring profit margin performance of companies with annual sales over $50 million. Personnally created and directed staff of 250 auditors, accountants, economists, and lawyers to do this regulatory job.

1965–71: Office of Economic Opportunity—Controller; Director, Office of Community Actions Support; Associate Director for Program Operations, Community Action Program; Deputy Assistant Director for Research, Plans, Programs and Evaluation; Chief, Programs and Evaluation Division—for first two years at OEO, performed planning, program analysis, policy development and budget responsibilities. For next four years, served as an operating official in the Community Action Program in administering programs through ten Regional Offices. Concluded OEO phase as Controllers.

1953–65: Atomic Energy Commission—Director, Requirements and Facilities Division Albuquerque Operations Office; Director, Budget Division, ALO; Deputy Assistant Manager for Program Analysis and Budget, Division of Military Application; Management Intern through Senior Program Analyst—Develop professional skills in budget in a variety of assignments in the atomic weapons program both in Washington and in Albuquerque. Last assignment in AEC was directing staff of engineers in assessing production capacities and capabilities in meeting future workloads and new weapon designs.

Civic and church activities: Member, Rockville Citizens for Good Government, 1958, 1962, and 1965. Leader in various capacities in Rockville United

Church, 1969 to present. Member, Rockville Human Relations Committee, April 1970–November 1971. Creator of major fellowship program in honor of Dr. Dupre, former Dean of Macalester College.

Honors and awards: 1970—Distinguished Citizen Award from Macalester College. 1972—Distinguished Service Award—Price Commission. 1973—Meritorius Service Award, Federal Government Accountants Association. 1975—HEW Secretary's Special Citation.

Other: Married, father of three sons.

BIOGRAPHICAL SKETCH OF M. KEITH WEIKEL

Position: Commissioner, Medical Services Administration, SRS, DHEW.

Birthplace and date: Shamokin, Pa., March 9, 1938.

Education: B.S. (Pharmacy) Philadelphia College of Pharmacy and Science, Philadelphia, Pa., 1960. M.S. (Pharmacy Administration), University of Wisconsin, Madison, Wis., 1962. Ph. D. (Economics and Business Administration) University of Wisconsin, Madison, Wis., 1966.

Experience:

Aug. 1974 to Present: Commissioner, Medical Services Administration, SRS/DHEW.

1973–July 1974: Associate Administrator for Planning, Evaluation and Legislation, Health Services Administration, DHEW.

1970–73: Director of Health Evaluation, OS/DHEW.

1968–70: Manager of Health Economics Research, Roche Laboratories, Nutley, N.J.

1965–68: Marketing Research Analyst and Product Marketing Manager, Roche Laboratories, Nutley, N.J.

1964–65: Assistant Professor of Marketing and Economics, Philadelphia College of Pharmacy and Science, Philadelphia, Pa.

BIOGRAPHICAL SKETCH OF MICHIO SUZUKI

Position: Acting Commissioner, Public Services Administration.

Birthplace and date: Oakland, Calif., October 26, 1928.

Education: University of California, Berkeley, B.A.—Psychology 1949. University of California, Berkeley, M.S.W.—1952.

Experience:

January 1976: Acting Commissioner, Public Services Administration, SRS, HEW.

January 1974–January 1976: Acting Deputy Commissioner, Community Services Administration, SRS, HEW.

June 19–December 1973: Assistant Commissioner for Program Management, Community Services Administration, SRS, HEW.

May 1972–November 1973: Director, Division of Child and Family Services, Community Services Administration, SRS, HEW

1963–72: California State Department of Social Welfare.

1961–63: Director, Japanese American Community Services, Los Angeles, Calif.

1955–61: Director, Japanese Children's Home, Los Angeles, Calif.

1952–55: Caseworker, Jewish Family Service, New York, N.Y.

BIOGRAPHICAL SKETCH OF NICHOLAS NORTON

Position: Acting Commissioner, Assistance Payments Administration, Social and Rehabilitation Service.

Birthplace and date: North Westchester, Conn., January 7, 1931.

Education: Haverford College, Haverford, Pa. B.A., English, 1952. Loomis School, Windsor, Conn., 1948. Bacon Academy, Colchester, Conn., 1947.

Military service: 1952–56 U.S. Navy, Lt., USNR.

Experience:

January 1976: Acting Commissioner, Assistance Payments Administration, Social and Rehabilitation Service.

August 1975: Deputy Commissioner, Assistance Payments Administration, Social and Rehabilitation Service.
January 1973–January 1975: Welfare Commissioner, State of Connecticut.
June 1971–January 1973: Deputy Welfare Commissioner, State of Connecticut.
1967–71: Executive Assistant to Chairman of the Board, Security Insurance Group, Hartford, Conn.
1958–66: President, The C. H. Norton Company, North Westchester, Conn.
Other activities:
1972–74: Member, Northeastern Regional Committee on Human Resources, Council of State Governments.
1962–66: Member, National Defense Executive Reserve, U.S. Department of Commerce.
1963–66: Member, Board of Governors, American Paper Institute.
1963–71: Chairman, Board of Finance, Town of Colchester (Conn.).
1965–69: Representative, Southeastern Connecticut Regional Planning Agency.
1969–70: Chairman, Fund Raising Advisory Committee, Connecticut Heart Association.
1959–69: Board of Directors, Hartford County YMCA.
Married: Father of 4 children.

BIOGRAPHICAL SKETCH OF LOUIS B. HAYS

Position: Deputy Director, Office of Child Support Enforcement.
Birthplace and date: Burbank, Calif., June 2, 1945.
Education: University of Redlands; Redlands, Calif., B.A. in English 1966. School of Law of the University of California, Los Angeles, J.D.–1969.
Experience:
August 1975 to present: Deputy Director, Office of Child Support Enforcement.
July 1973–August 1975: Senior Legal Adviser, Social and Rehabilitation Service.
September 1969–July 1973: Deputy County Counsel, County of Los Angeles, Calif.

Biographical Sketch of David B. Smith

Position: Acting Associate Administrator for Planning, Research, and Evaluation.
Birthplace and date: Rhinebeck, N.Y., May 10, 1938.
Education: Columbia College, New York, N.Y., BA in Anthropology, 1959. University of Pennsylvania, Philadelphia, Pa., MA in Anthropology, 1962. Columbia University, New York, N.Y. Ph. D. in Anthropology, 1965.
Military service: None.
Experience:
May 1975 to present: Acting Associate Administrator for Planning, Research, and Evaluation, SRS.
April 1975–August 1975: Acting Assistant Administrator for Program Analysis and Evaluation, OPRE/SRS.
January 1973–April 1975: Director, Income Maintenance and Social Services Program Analysis, OPAE/OPRE/SRS.
March 1972–January 1973: Intermittent Consultant, Office of Child Development, DHEW.
August 1968–March 1972: Vice President, Education, Training and Research Sciences Corp., Washington, D.C.
May 1968–August 1968: Free lance consultant, New York, N.Y.
January 1968–May 1968: Research Associate, University Research Corporation, Washington, D.C.
May 1967–January 1968: Director of Research, Data Systems Research, Inc., New York, N.Y.
April 1966–May 1967: Director of Research, Educational Design, Inc., New York, N.Y.
August 1965–April 1966: Senior Research Associate, University of Notre Dame, South Bend, Ind.
September 1964–June 1965: Preparing Ph.D. dissertation.
June 1964–September 1964: Assistant Professor, University of Florida, Gainesville, Fla.
September 1963–June 1964: Instructor, Columbia University, New York, N.Y.

STATEMENT BY THE ACTING ADMINISTRATOR ON PROGRAMS OF THE SOCIAL AND REHABILITATION SERVICE

Mr. Chairman and members of the committee, thank you for the opportunity to appear here today to present our budget request for fiscal year 1977. The total budget request for the Social and Rehabilitation Service in the Labor-HEW appropriation bill is $18.4 billion. We will discuss with you, first, the $18 billion request for public assistance. As you know, this appropriation is determined primarily by the extent to which the States expend funds under the public assistance titles of the Social Security Act as implemented by Federal regulations. Also to be discussed are our budget requests of $315 million for work incentives and $63 million for the Federal administration of the Social and Rehabilitation Service programs.

HIGHLIGHTS OF SRS ACTIVITY

The following items are covered in a separate statement, but I would like to highlight at this point the broad trends and basic assumptions which underlie the 1977 Social and Rehabilitation Service budget request; they are:

(1) The AFDC caseload reflects the improving state of the economy. The fiscal year 1977 budget projects a modest decrease in caseload with increases amounting to about 10 percent, in average payments.

(2) AFDC cost will be partially held in check by the continuing Federal-State quality control programs giving increased emphasis to the adherence of State programs and plan material to Federal law and policy.

(3) The new child suport enforcement provisions are currently being implemented by the States, which are required by law to have in place fully operational programs by January 1, 1977, and the fiscal impact is reflected in the budget estimates.

(4) The cost of medical services, operating under wage/price controls through May 1, 1974, accelerated rapidly since that date when controls were removed. Cost increases account for almost all the medicaid increase from 1975 through 1977.

(5) The Department's medicaid quality control and utilization control systems will continue to be emphasized in 1977 as part of the overall efforts to improve medicaid management. Particular attention is directed to fraud, abuse, and State administrative practices in the medicaid program.

(6) Title XX legislation, effective October 1, 1975, continues the social services program, with a significant departure from previous legislation in that States have wider latitude and flexibility in determining the types of services that will be provided and to whom they will be provided. The budget request provides a small increase in fiscal year 1977 as more States move toward full utilization of their allocation within the $2.5 billion ceiling.

(7) The work incentive program continues to emphasize direct placement of AFDC recipients resulting in less resources being required for training activities.

In summary, Mr. Chairman, we are requesting $18,400,295,000: $18,022,200,000 for public assistance programs, $315 million for the work incentive program, and $63,095,000 for program administration.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions you or the committee may have.

STATEMENT BY THE ACTING ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE, ON "PUBLIC ASSISTANCE"

Mr. Chairman and members of the committee, the consolidated budget for public assistance includes funds for maintenance assistance, medical assistance, social services, State and local training, child welfare services, and public assistance research activities. The total amount requested in the 1977 budget is $18,022,200,000, which is $1,029,283,000 over our revised 1976 estimate of $16,992,917,000. The above amount is based primarily on an analysis of the States' August 1975 estimates.

The estimated program costs included in this request, Mr. Chairman, recognize the continuing oversight and management control efforts of SRS staff to insure effective, prudent use by the States of public assistance funds. These efforts include technical assistance to the States in interpretation and implementation of Federal regulations, financial reviews of States' claims, and specific initiatives such as AFDC quality control, medicaid quality control, utilization review, medi-

caid and social services management information systems and penalty assessments in such areas as AFDC, QC, and EPSDT.

MAINTENANCE ASSISTANCE

Our request for maintenance assistance for fiscal year 1977 is $6,215 million which includes $5,455,020,000 for payments to aid families with dependent children (AFDC), funding an average of 55 percent of the total costs, and $695 million for State and local administration. The child support enforcement program reimburses States at a rate of 75 percent for administration and training costs, and other maintenance administration activities are funded at a 50 percent rate. The balance of the request, $64,980,000, is for emergency assistance, adult category support for Guam, Puerto Rico, and the Virgin Islands, and assistance for repatriated U.S. nationals.

Funds requested for the AFDC program are based upon the State's estimates of August 1975, adjusted downward to reflect the application of the Federal regulations which provide that there shall be no Federal participation in the State assistance payments costs associated with ineligibility over the tolerance level of 3 percent and overpayment rates in excess of 5 percent. Using the quality control data base for the first half of fiscal year 1976, HEW will implement disallowances by requesting States to make adjustments to expenditure reports for the quarter ending June 30, 1976, affecting grant awards beginning with those to be issued for the first quarter of fiscal year 1977. The impact of this action on 1977 Federal costs is estimated at $220 million.

According to preliminary July to December 1975 data, the error rates were averaging 6.4 percent for ineligibility, 13.6 percent for overpayments, and 5.2 percent for underpayments. Comparable rates for the same period of 1974 were 8.5 percent for ineligibility, 19.7 percent for overpayments, and 5.2 percent for underpayments.

The estimates reflect a slight decrease in average monthly number of recipients in 1977 based on improved economic conditions. The AFDC estimates also include States' anticipated collections under the child support enforcement program.

The estimate for State and local administration is $695 million and represents an increase of $83,389,000 over our revised 1976 request. About one-half of the increase is associated with the child support enforcement program.

The new child support enforcement provisions are currently being implemented. All State plans have been submitted and 46 have been approved. Collections from absent parents, estimated at $150 million, are netted against the projected AFDC costs. The estimated cost of the State and local administration of the child support activity, $151,700,000, is included in the costs for State and local administration.

Mr. Chairman, we are continuing to stress improved management of the AFDC program. We are undertaking a major review and evaluation of State eligibility processes to determine how they can be improved and strengthened. We also monitor and analyze corrective action plans furnished by the States to determine improved methods of administration and furnish such information to all the States for their consideration.

I particularly want to point out our concerns about the growing costs of State and local administration for maintenance, and States' use of these funds in the most efficient and prudent manner. We have underway special efforts to assess the major factors involved in these costs. Administrative costs will be closely analyzed as we complete State surveys directed to reviewing the AFDC determination of eligibility process. The survey will identify in detail the policies and procedures used by each State for determination of eligibility. The survey results will be used, in conjunction with quality control data, to determine needs for technical assistance and to exchange among States ideas for improved management of the eligibility process.

MEDICAID

The medicaid program, title XIX of the Social Security Act, funds about 55 percent of the total cost of providing medical services to eligible needy persons, with State and local funds providing the remaining 45 percent.

Mr. Chairman, as you know, the President's 1977 budget proposes the financial assistance for the Health Care Act to consolidate 16 separate and categorical

health planning, construction, and service delivery programs, including medicaid, into a single block grant to the States totaling $10 billion.

The Department now is preparing legislation which would —

Distribute the funds among States according to formula based primarily on the poverty population of each State;

Gradually phase in any changes in the distribution of Federal funds to States in order to minimize major dislocations;

Protect Federal grantees against substantial reductions for a 3-year period; and

Require States to prepare a plan describing the personal health care benefits to be provided and defining the low-income population to be served.

Pending approval of this legislation, the budget before you is based on existing authorizing legislation.

This request for $9,292 million is $1,030,007,000 above our revised fiscal year 1976 estimate. Excluding the $78,278,000 used to complete fiscal year 1975, the increase for the 1977 program level is about 13½ percent over fiscal year 1976 program costs. Of this increase, it is projected that a little over 90 percent of the increase is due to prices and the remainder to increased recipients.

Mr. Chairman, as you know, responsibility for administration of the medicaid program is vested in the States, and each State designs its own program within broad Federal guidelines and is allowed wide latitude in how it will administer the program it has designed. From the Federal perspective, therefore, SRS has oversight responsibility for about 53 different versions of the medicaid program.

Simply stated, we are striving to insure that Federal and State payments are made only on behalf of eligible recipients, only for covered services, only for necessary services, and only in reasonable amounts. The States' program variability, serving 24 million eligible recipients, produces many millions of claims. Typically, individual medicaid claims are small in amount but in total now aggregate to about $16 billion annually.

To improve overall State program management of the medicaid program, SRS has focused on several specific areas. A primary thrust has been the establishment of improved automated claims processing and information retrieval systems. Public Law 92–603 provides 90 percent Federal matching for development and installation, and 75 percent matching for operation of such systems. Five States currently have approved systems in place, 17 States are in the process of installing approved systems, and 10 additional States have submitted planning documents requesting development funding. These 32 States represent 76 percent of the national title XIX client base.

The SRS-improved financial management thrust, initiated in 1972, located personnel in each regional office and in some of the larger States. This staff monitors the State's financial management activities to insure that claims for Federal reimbursement are made in accordance with Federal law, regulations, and the State plan. Fifteen financial review guides have been developed to assist this staff with the monitoring function.

In June 1975, we began the medicaid eligibility quality control program. Under this program, each State selects and reviews a statistical sample of paid claims to identify: (1) The level of ineligible recipients, (2) the associated amount of erroneous expenditures, and (3) their causes and required corrective actions. Training manuals have been developed, training sessions held with regional and State staffs, and onsite State reviews initiated.

Two national onsite validation surveys have been completed under the utilization control program. States are making substantial improvements in establishing controls necessary to assure that only those services which are necessary are provided to those who require them, for so long as they are required and in a setting most appropriate to their needs. This program will be supplemented by PSRO's, some of which have begun to function. There are already 65 conditional PSRO's which are performing reviews and another 55 in the planning stage.

An additional 108 staff authorized SRS in 1976 have been added to a special branch established within the Medical Services Administration to improve fraud and abuse surveillance through monitoring, technical assistance, and technology transfer. Audit guides have been developed and field-tested, and the evaluation of States' fraud and abuse systems has begun.

SOCIAL SERVICES

Title XX of the Social Security Act, which became effective October 1, 1975, continues the social services program previously authorized under titles IV–A and VI, with an overall limitation of $2,500 million for the fiscal year. Services directed at the five goals specified in the act are provided to eligible individuals based on income or public assistance status. Grants are made to States based on Federal matching rates of 75 percent for all services except family planning services which are matched at 90 percent.

Our request for social services in fiscal year 1977 is $2,400 million, an increase of $141,904,000 over our revised fiscal year 1976 program estimate. The comparable fiscal year 1976 total is $2,258,096,000; the estimate of $2,698,898,000 for fiscal year 1976 shown in the budget justification includes $440,802,000 to complete 1975 program requirements.

Title XX provides the States wide latitude and flexibility in determining the types of services that may be provided by the States and to whom they will be provided. At the same time, public accountability for social services is placed on the States through the publication of their annual comprehensive service plans. Public comment and reaction to the published State plan is also provided.

Activities currently being undertaken by SRS to insure effective program management include—

Policy interpretation through the issuance of program regulation guides;

Technical assistance to States' staffs in planning, reporting, and management;

Program monitoring and evaluation; and

The development of technical assistance materials, including an internal audit guide for use by Federal and State staff, which provides suggested principles and procedures for use in auditing States' social services programs.

Legislation is proposed which would replace the current title XX social services program with a block grant for financial assistance for community services. The $2,500 million ceiling would be retained, with an additional amount for the Trust Territories of Guam, Puerto Rico, and the Virgin Islands and State and local training efforts. In addition, State matching would no longer be required. The program would focus on the needy, with 75 percent of the Federal funds targeted for services to welfare recipients and persons below the poverty level.

STATE AND LOCAL TRAINING

The purpose of the State and local training program is to improve the efficiency and effectiveness of State public welfare staff and to help insure that an adequate supply of qualified persons are available for employment in cash assistance and social services. The 1974 Social Services Amendments authorized training directly related to the provision of social services for employees of the title XX agency, volunteers attached to the agency, and service delivery personnel of provider agencies.

The 1977 request is for $60 million, a decrease of $4,972,000 from our revised 1976 estimate. However, $11,816,000 of the 1976 funds were used to complete fiscal year 1975 requirements. The program level for fiscal year 1976 thus is $53,156,000 and the 1977 estimate represents an increase of $6,844,000 over the prior year. The appropriation language imposes a limitation of $60 million on this activity.

CHILD WELFARE SERVICES

The purpose of the child welfare services program is to promote the welfare of children. Each State is provided a minimum grant of $70,000 with the remaining Federal funds distributed by formula which takes into account the number of children in the State and the average per capita income.

The 1977 budget request is $46 million, a reduction of $6,500,000 from the 1976 appropriation. Due to the small share provided in Federal support to the States' programs—estimated at $691 million in 1977—we do not believe this reduction in Federal funding will significantly alter the number or quality of services rendered to or on behalf of children.

RESEARCH AND EVALUATION

Public assistance research and evaluation funds are used for two basic purposes: (1) to develop the analytic methodologies, the program data, and the

programmatic knowledge needed to evaluate and implement major policy and program options; and (2) to develop the methodology and technical knowledge necessary to improve Federal, State, and local administration and delivery of services for the public assistance programs.

The 1977 request of $9,200,000 remains at the 1975 and 1976 levels. The 1977 research and evaluation thrust will reflect a continuing emphasis on improvement of the management of the public assistance programs. A major effort in 1977, following preliminary investigation in 1976, will be to conduct comprehensive management studies in all the public assistance programs with the goal of reducing potentially disallowable costs and promoting effective and efficient administration. In addition, evaluation of the newly enacted title XX, social services program and title IV–D, child support enforcement program will be initiated.

SUMMARY

In summary, Mr. Chairman, we are requesting $18,022,200,000 for the 1977 public assistance programs—an increase of $1,029,283,000 over the 1976 revised estimate.

Mr. Chairman, this concludes my statement. We will be glad to answer any questions the commitee may have.

CONSOLIDATED BUDGET

Mr. WORTMAN. Mr. Chairman and members of the committee, the consolidated budget for public assistance includes funds for maintenance assistance, medical assistance, social services, State and local training, child welfare services, and public assistance research and evaluation activities.

The total amount requested in the 1977 budget is $18,022,200,000, which is $1,029,283,000 over our revised 1976 estimate of $16,992,917,000. The above amount is based primarily on an analysis of States' August 1975, estimates.

MAINTENANCE ASSISTANCE

Our request for maintenance assistance for 1977 is $6,215 million, which includes $5,455,020,000 for payments to aid to families with dependent children (AFDC) and $695 million for State and local administration. The balance of the request, $64,980,000, is for emergency assistance, support of the adult categories for Guam, Puerto Rico, and the Virgin Islands, and for assistance to repatriated U.S. national. Costs for the child support enforcement program are included in the maintenance assistance programs.

Funds requested for the AFDC program are based upon the States' estimates of August 1975, adjusted downward by $220 million to reflect application of the Federal regulations to disallow expenditures associated with ineligibility over the tolerance level of 3 percent and overpayment rates in excess of 5 percent.

The 1977 AFDC estimates reflect a slight decrease in average monthly number of recipients from 11.5 million in 1976 to 11.3 million in 1977, based on improved economic conditions. The average monthly payment per recipient is estimated to increase from $70 in 1976 to $77 in 1977.

Mr. Chairman, we are continuing to stress improved management of the AFDC program, particularly aimed at correcting errors in the caseload. At the same time, we are looking very closely at the growing costs of State and local administration. We are carrying out a study

of States' policies and procedures for determination of eligibility, and we are monitoring States' allocation plans and systems for accounting for costs.

MEDICAID

This request includes $9,292 million for medical assistance, administration, training and special medicaid research and demonstration projects. This request is $1,108,285,000 above our revised 1976 estimated requirements and represents an increase of about 13½ percent above the 1976 program cost level. The increase represents a little over $990 million resulting from increased prices and just under $140 million due to increased recipients. A small decrease of about $25 million, related to utilization, is expected as a result of some States' beginning to cut back on benefits or in eligibility.

In view of widespread charges of fraud and abuse associated with the medicaid program, I want to assure you, Mr. Chairman, that SRS is working closely with the States to effect improved overall State program management. A primary thrust has been the establishment of improved automated claims processing and information retrieval systems.

Five States currently have approved systems in place, 17 States are in the process of installing approved systems, and 10 additional States have submitted planning documents requesting development funding. These 32 States represent 76 percent of the national title XIX base.

Our financial management staff have been supplied financial review guides and are monitoring States' activities to insure that claims for Federal reimbursement are made in accordance with Federal law, regulations and the State plan.

The medicaid eligibility quality control system is being implemented, together with the utilization control program, and more recently with resources provided in 1976 the provision of technical assistance and improved monitoring of States' systems to detect fraud and abuse by providers. On fraud and abuse within the medicaid program and the AFDC program, in response to the request of this committee last year, we provided a few weeks ago statements on program integrity in both those programs.

SOCIAL SERVICES

Our request for social services is $2,400 million, an increase of $141,904,000 above our 1976 program cost estimate. This increase reflects an increase in the number of States moving toward full utilization of their allocation, within the $2.5 billion ceiling, resulting from the wider latitude and flexibility provided states under title XX to determine types of services and to whom such services will be provided.

STATE AND LOCAL TRAINING

The 1977 request for State and local training is $60 million, an increase of $6,844,000 above the 1976 program level. Appropriation language has been requested to cap expenditures for this activity at the level of $60 million.

The 1977 estimate is based on States' August 1975, estimates. The increase reflects the need for training and retraining of title XX agency personnel to assume the new responsibilities mandated by the Social Services amendments of 1974. Also, training opportunities have been expanded to include provider agency personnel, thus increasing the number of persons eligible for training under the the provisions of title XX.

CHILD WELFARE SERVICES

The 1977 request is $46 million, a reduction of $6,500,000 from the 1976 appropriation. Due to the small share provided in Federal support to the States' efforts for children, estimated at $691 million in 1977, we do not believe this reduction in Federal funding will significantly alter the number or quality of services rendered.

RESEARCH AND EVALUATION

The 1977 request of $9.2 million remains at the 1975 and 1976 levels. The thrust of SRS's research and evaluation activities will be toward continuing to improve the management of public assistance programs. Following preliminary efforts in 1976 the major efforts in 1977 will be to conduct comprehensive management studies in all public assistance programs with the goal of reducing potentially disallowable costs and promoting effective and efficient administration.

SUMMARY

In summary, we are requesting $18,022,200,000 for the 1977 public assistance programs.

Mr. Chairman, this concludes my statement. My associates and I will be happy to answer your questions.

GROWTH OF PUBLIC ASSISTANCE PROGRAMS

Mr. FLOOD. Recently you remember you were here testifying on a $2 billion supplemental for public assistance for 1976. Now, the 1977 budget shows an increase of a billion. Why do these welfare programs keep on increasing and increasing so much year after year? Why?

Mr. WORTMAN. A large share at program level, in going from 1976 program level to 1977, is in medicaid, where continued inflation is cranked into the budget, not as high as the prior year, but a continuing problem.

Dr. WEIKEL. The increase in medicaid is 12 percent over last year, just for increase in prices. Last year we were using a factor that amounted to 10½ percent. But certainly as you look at the medicaid budget increase, a very large portion—$994 million—of the approximately $1.1 billion increase is due to price inflation.

Mr. FLOOD. $994 million?

Mr. WEIKEL. Yes, sir.

Mr. FLOOD. Well, shouldn't this whole welfare system be overhauled? Whatever happened to all those welfare reform proposals—a whole litany of them. What happened to them?

Mr. WORTMAN. I can remember some of those going back to my days in the Office of Economic Opportunity, where some of the studies of the negative income tax proposals were done, which resulted in certain experiments that came before this committee for major funding, if I recall correctly. And more recently, the income supplement program, which we in HEW had developed. This has all led at this point in time to a major proposal, that the President has made in his state of the Union message, that would set up broad authorities, within limits established by Congress, so that some of that kind of reform could get going.

EMERGENCY ASSISTANCE SUPPLEMENTAL

Mr. FLOOD. You remember you supplied us all this additional information for the hearing record on the supplemental budget request.

Mr. WORTMAN. Yes, sir.

PRIOR YEARS' CLAIMS

Mr. FLOOD. You indicated in there that the increase in emergency assistance would be mainly due to the claims of prior years. Suppose you explain that a little bit further.

Some of these claims you have there go back to 1972.

Mr. WORTMAN. In emergency assistance?

Mr. FLOOD. That is right; back to 1972.

Mr. WORTMAN. Anna Perkins, our Budget Officer.

Mr. FLOOD. You said mainly due to the prior year claims.

Miss PERKINS. That was true for our emergency assistance activity.

Mr. FLOOD. That is what I am talking about.

Miss PERKINS. Most of that was because of prior year activity where the States had come in with their final expenditure reports for 1975 and we paid those in 1976.

Mr. FLOOD. What about these that go back to 1972?

Miss PERKINS. We have had a few of those pending.

Mr. WORTMAN. Our biggest problem on old claims, focus has been on those under titles IV–A and VI of the social services. There we have had claims going back to as far as 1970, 1971, and still have unresolved claims of $1.3 billion.

Mr. FLOOD. Back to 1971, $1.3 billion?

Mr. WORTMAN. Accumulated over time, under the old titles IV–A and VI—are currently what we would call deferred claims in the system, from the States, of $1.3 billion, and some of the key issues in those claims are embodied in a court suit which 14 States have brought against the U.S. Government.

Mr. FLOOD. What is the status of the suit?

Mr. WORTMAN. The judge has told our counsel that he hopes to have a decision by the end of April.

Mr. FLOOD. Is this in a Federal district court?

Mr. WORTMAN. Yes, sir.

Mr. FLOOD. Where?

Mr. WORTMAN. In Washington, D.C.

MEDICAID INCREASES AND DECREASES

Mr. FLOOD. You also provided for us as a result of the supplemental hearing, a list of increases and decreases in the medicaid program.

Mr. WORTMAN. Yes, sir.

Mr. FLOOD. This list showed that most States are increasing, and relatively few are reducing any services. Do you have any idea at all what the increase is going to cost us next year?

Mr. WORTMAN. To be very frank with the committee, if there was any area right now in terms of trends that might be developing—and Dr. Weikel will speak to this—that leaves us with a bit of uncertainty, that is the efforts going on in the States to curb their medicaid services package.

Mr. FLOOD. How has this been reflected in your medicaid estimates?

Mr. WORTMAN. At this point in time, we have only identified about $25 million that would be shown as a reduction in the estimates due to cutbacks in State programs.

Mr. FLOOD. Very few reductions in the States.

Mr. WORTMAN. I would like for Dr. Weikel to comment on that. We are a little unclear as to how far this will go. New York State right now has a major effort that the commissioner of welfare, Mr. Berger, has under consideration with us, relating to reductions in the medicaid program in that State.

Dr. WEIKEL. If one looks at the whole medicaid program there are approximately 20 States that have implemented some reductions in their program.

A number of the States initially announced much more dramatic cuts in their programs than they ultimately implemented. As an example, in 11 states that we have data on, where they have actually cut their program, the program cuts amount to about 1.8 percent of their total program. We do not have sufficient data at this point to make the cost calculation on the other nine States. But as Mr. Wortman stated, we have information that the State of New York has announced a program, which they requested that our regional office approve, that would result in a cut of $400 million in the medicaid program. Now, whether all that actually gets implemented is still open to question. The State of Massachusetts also has announced quite drastic cuts—a 30-percent reduction in physician and provider reimbursement, as an example.

So there are significant cuts that States have announced that they will implement, but they have not yet moved to implement most of them. So it is still a relatively hazy picture. We have a number of States where there have been increases in the programs. And it is difficult——

1977 MEDICAID INCREASE

Mr. FLOOD. Can you estimate what the costs differences are going to be next year. Do you have a ball park figure as a result of what you are talking about?

Dr. WEIKEL. We believe the best estimate in Federal dollars is about a billion dollar increase in the medicaid program.

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Mr. FLOOD. That is a nice round figure.

Dr. WEIKEL. I remember last year Mr. Michel told us all we had to do is close our eyes and forecast $2 billion greater. Unfortunately since 1970 that appears to be true. And clearly this year that appears to be true.

Mr. FLOOD. Your justification shows that the budget is based on State estimates in August of 1975. That is almost 8 months ago. A great deal has happened in that time. Doesn't that make your budget a little obsolete? Do you have more recent State estimates?

Mr. WORTMAN. Each quarter the States give us revised estimates, and we now have November 1975, whereas our budget was based on August estimates. And that is the way it went through the system.

Mr. FLOOD. Wouldn't a budget 8 months old be obsolete today?

Mr. WORTMAN. Not necessarily—if our assumptions were good, and we have cranked in inflation factors in all of these budgets.

Dr. WEIKEL. In the case of the medicaid program as an example, the November estimates have been accurate within plus or minus 3 percent. Unfortunately the budget, as it was locked up did not utilize the November estimates. We had to use the August estimates. In this case, the November estimates indicate that they are within that range.

STATE ESTIMATES

Mr. FLOOD. Do you have any State estimates for February 1976?

Mr. WORTMAN. Not at this point.

Mr. FLOOD. I will tell you what you do. For the record—supply information showing a comparison of the State estimates for August of 1975 that you are talking about, November of 1975, and then your pending request. Do that by fiscal category—for 1976 and 1977.

Dr. WEIKEL. Yes, sir.

I might say we will have another quarterly report to you before you mark up this bill.

Mr. FLOOD. All right.

[The information follows:]

Comparison of August and November 1975 and February 1976 States' Estimates
for FY 1976 and FY 1977 with Budget Requests
(Federal Share in thousands)

PUBLIC ASSISTANCE	FY 1976				FY 1977			
	Aug. 1975	Nov. 1975	** Feb. 1976	Revised Request 1/	Aug. 1975	Nov. 1975	** Feb. 1976	Pending Request
Maintenance Assistance								
Adult categories	$4,515	$4,515	$4,515	$3,939	$4,738	$4,738	$4,738	$4,000
Aid to Families with Dependent Children 2/.	5,202,361	5,077,615	5,219,527	5,243,329	5,694,476	5,392,195	5,549,872	5,455,020 3/
Emergency Assistance ...	49,637	47,246	39,135	55,037	54,917	49,872	33,711	60,000
State/Local Admin. 2/...	657,379	657,033	665,695	611,611	680,001	773,118	762,860	695,000
Repatriation 4/	882	882	882	882	980	980	980	980
Adult phase-out 5/	---	---	---	-16,894	---	---	---	---
Total, Maintenance ...	5,914,774	5,787,291	5,929,754	5,897,904	6,435,112	6,220,903	6,357,161	6,215,000
Medical Assistance								
Vendor payments	7,823,814	7,882,611	7,828,061	7,826,590	9,176,176	9,104,140	8,863,690	8,878,875
Admin. & Training	385,854	393,483	379,176	357,125	432,860	462,002	456,674	413,125
Total, Medical	8,209,668	8,276,094	8,207,237	8,183,715	9,609,036	9,566,142	9,320,364	9,292,000
Social Services	2,292,454	2,266,310	2,227,102	2,258,096	2,368,568	2,434,297	2,433,833	2,400,000
State/Local Training	54,166	56,007	54,740	53,156	58,733	61,175	62,684	60,000
Child Welfare Services 4/.	52,500	52,500	52,500	52,500	46,000	46,000	46,000	46,000
Research and Evaluation 4/	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
Training Projects 4/	7,450	7,450	7,450	7,450	---	---	---	---
1976 Funds used to complete 1975 requirements	---	---	---	530,896	---	---	---	---
Total	16,540,212	16,454,852	16,487,983	16,992,917	18,526,649	18,337,717	18,229,242	18,022,200

1/ Includes proposed supplemental in amount of $1,988,967,000.
2/ Impact of IV-D (Child Support Enforcement) is reflected in all National totals. August estimates were not available by State and reflect national assumptions based on preliminary studies for both FY 1976 and FY 1977.
3/ Reflects impact of estimated Quality Control disallowances of $220 million.
4/ Not estimated by States.
5/ One-time savings figure, not estimated by States.
** Preliminary data, based on estimates submitted by States for February 15, 1976, reporting period. Where estimates were not received, estimates from prior reporting periods were used.

USE OF STATES' ESTIMATES

Mr. FLOOD. We asked for similar information at last year's hearings and we have the impression that the State estimates are more realistic than the estimates at HEW. You have reduced the State estimates, based on adjustments, from assumptions that never seem to materialize—just never happen.

If you are not going to use all these State figures, why in the world do you bother collecting them?

Mr. WORTMAN. They are the basic figures——

Mr. FLOOD. You are not going to use them, are you?

Mr. WORTMAN. Yes, sir, we do. In fact, my opening statement acknowledged that these estimates that I was presenting were based on States' estimates. True, we do go through modifications, and in effect you might say in some cases we second guess——

Mr. FLOOD. Do you have a copy of the last year's hearings?

Mr. WORTMAN. I can get one.

Mr. FLOOD. Well, for the record, then, I direct your attention to page 9 of part 4, "Fiscal year 1976." Then look at "State estimates, February 1975, $16,235,793." And right alongside of it is your request, "14,999,085."

Mr. WORTMAN. Yes, sir. But let me just point out one difference. Even at that time, on that table, sir, our November estimate was $16,002 million. This year the November estimate is $18,337,717,000, as compared to our $18,022,200,000 that we are requesting of the Congress.

Mr. FLOOD. If you are not going to use the State figures, what are you collecting them for?

Mr. WORTMAN. We are using them. Our deviations from those are very specific. Like in AFDC, we reduced State estimates for explicit items like the quality control disallowance, and only in those cases do we differ significantly from States' estimates.

Mr. FLOOD. But you reduced the State estimates by over $1 billion.

Mr. WORTMAN. That was true last year.

Mr. FLOOD. That is what I am talking about. You reduced the State estimates $1 billion last year.

Mr. WORTMAN. Well, the estimate last year would have been prepared based on August estimates.

Miss PERKINS. No; last year our request was based on November estimates, and I think we were optimistic.

Mr. FLOOD. That is an understatement, you were a little bit optimistic. What adjustments were made by HEW in the State estimates for 1977?

Dr. WEIKEL. In terms of the medicaid, the August estimates from the States were $9.6 billion. The reduction HEW made from those August estimates was $300 million, since we thought the State of Michigan had overstated their expenditures. They had dramatically increased their expenditures over the previous year. The November State estimates are $9.566 billion, and our budget request is $9.3 billion.

Mr. FLOOD. Now, what degree of confidence do you have in the public assistance budget estimates for 1977, in view of all this?

Mr. WORTMAN. I have more confidence than I would have had a year ago, had I appeared before this committee and reviewed the

information that was then available. Excluding the anticipated quality control disallowance, the States' estimates for November are within about $110 million of the total we are now requesting.

FORECASTING CAPABILITY

Mr. FLOOD. Have you refined your forecasting capability in putting this budget together?

Mr. WORTMAN. We put a tremendous investment in with the States, right from our regional offices, to refine their estimating process. I frankly think last year a lot of people were surprised with the severity of the recession. And a lot of these estimates got turned around more than people had thought. Hopefully this year, with the improved economic forecast, we will have a more predictable environment on which to base these estimates.

Mr. FLOOD. How long have you been on board in this job?

Mr. WORTMAN. Two months, sir.

Mr. FLOOD. I ask you that for this reason. We are not upset with you personally, but we cannot help but feel somebody downtown is playing games with these budget figures. What are they using down there, a crystal ball, a dart board, a Ouija board, or what?

Mr. WORTMAN. When we were up here for the supplemental, and Mr. Forbush was with us at that time, he and I discussed with you the extent to which in the budgetary process state estimates are modified. And I think it was his recollection that we do not modify those that extensively.

Mr. FORBUSH. The question was, how much does OMB modify our estimates. They don't modify our estimates very much.

Mr. FLOOD. What?

Mr. FORBUSH. I might say one thing: The reason I think we were so much lower last year is because we just had that terrible experience of having a large overestimate—when the States came in and said they were going to spend far more than they actually did. So we thought that was going to happen again, and discounted their estimate. But that time it turned out to be better. And this year we are assuming they are pretty close to the mark.

Dr. WEIKEL. In terms of the medicaid State estimates——

Mr. FLOOD. You always wind up with that pigeon.

Dr. WEIKEL. That is right. We have assessed the accuracy of the States' estimates over the last 3 years, and we have done it for all States combined. And it is on that basis that we have used it as a factor. And we also have analyzed the accuracy of the State budgets on a State-by-State basis.

Mr. FLOOD. When you were here with the supplemental request, we asked you a couple of times about changes being made in your estimates by OMB. Somebody told us they usually accept your figures. Now we have information which indicates that is certainly not the case Well, do you want to add anything to your previous testimony on that point?

Mr. WORTMAN. In the course of the time between when the agency submits its request internally, and when we finally have the President's budget, there are changes going on. A lot of that is a result of mutual agreement on changes in estimates.

I have before me the changes that occurred during the course of this last year.

Mr. FLOOD. They certainly do not accept your figures.

Mr. WORTMAN. Yes, that is correct, they never do, exactly. I think what we testified to was that basically the States' estimates provide the framework, and, in some cases, these estimates are modified. At one stage of the 1977 process they were modified in the other direction, as more information became available. Basically we originally requested $18.6 billion, and ended up with $18.022 billion. What I was confirming before is that the current State estimates are not too far apart from that figure.

Mr. FLOOD. All right.

STATE AND LOCAL ADMINISTRATION

Now you want $6.2 billion for what you call maintenance assistance, including around $700 million for State administration and local administration.

Why have these administrative costs increased by over 37 percent since 1975? You made quite a big deal about the cost of living and what not, but 37 percent is certainly far in excess of the cost of living, and any recipient increases by far.

Mr. WORTMAN. Well, that concerns us, too.

I think one of the points we have in our narrative justification is that we have a two-pronged effort under Mr. Norton's leadership this year. One is to look at eligibility, to see what we can do to simplify it, and the other is to look at administrative costs per se. The one thing I would say on behalf of the States is we have put them under considerable pressure with our quality control program, and to some extent I would assume States have added eligibility workers in order to meet our quality control tolerance levels. But Mr. Norton should have an opportunity to comment on this.

Mr. NORTON. Mr. Chairman, the quality control effort, as Mr. Wortman has pointed out, does have a major bearing here, because the States have in fact responded very positively to the Federal effort to reduce errors. We have known from the beginning of the intensified quality control program in 1973 that two of the areas that have contributed most to error production in the program were lack of staff, or inadequate staff, and lack of training. So States' costs have tended to increase in both of those areas.

Another thing which has been happening, which is perhaps not caused directly by our investigations into errors, is the effort to sophisticate the management of the program, and especially the use of automated data processing. There is a very heavy startup cost in using computer technology in the welfare system.

DATA PROCESSING EQUIPMENT

Mr. FLOOD. Do you buy that hardware or rent it?

Mr. NORTON. Normally it is rented. There is a good deal, however, of contract expense for the State, with the providers of these services—either the firm which supplies the leased equipment, or some other firm which is advising the State.

What we find in looking at some of the States which we know have advanced the most in the use of automated data is that they have as much as a 50-percent increase in a year in the administrative cost per recipient—in the first year that they install this kind of equipment—which then levels off.

Mr. FLOOD. What we are concerned about is that you buy some of this equipment. You get it set up, and in comes the salesman and says, "That is obsolete, here is a new one." And that goes in the warehouse. We have been through that time and time again—not just in your shop, but in the Department of Defense as an example.

Mr. NORTON. I have seen it happen at the State level, also, Mr. Chairman, and I understand you would have heard about that often. I do think that is leveling out as the users of automated data become more sophisticated themselves.

In the welfare system 5 years ago there were a lot of people trying to administer welfare who were novices with respect to automated systems, and they may very well have been involved in the kind of thing you described. But I don't think that is so much the case now.

We feel that the States which have used automated data have, one, improved their management and reduced their error rates, and two, over time their administrative costs levels out. As more States embark upon this improved management effort, both in adding staff, adding training, and adding equipment, there will be continued increases in administrative expense, but we expect them to level out. It is also important to take note of the fact that for 1977, one-half of the increase in administrative cost is due to the child support enforcement program, and the increased Federal matching which is available under the statute for that administrative cost.

I would also like to point out that inflation, although it would not be at 30 percent, is an important factor in the increased administrative cost for the States.

Mr. FLOOD. Thirty-seven percent.

Mr. NORTON. Inflation is only one part of that. The absolute increase in the numbers of people employed, plus the increase, the one-time or perhaps two-time increased expense for equipment, together with the rather substantial increases in salaries, and the inflation in goods and services, together with the increased usage of food stamps, which has an administrative cost in the maintenance assistance program, and the IV–D program, are the major causes of the increase. We do, however, as Mr. Wortman said, share your concern that this whole area needs to come under close surveillance and scrutiny. Dr. Smith, in our planning and research unit, is planning some major studies in this area, and in the Assistance Payments Administration we are also planning studies.

AVERAGE NUMBER OF RECIPIENTS

Mr. FLOOD. All right.

What is the current average number of recipients for Aid to Families with Dependent Children?

Mr. WORTMAN. The 1976 budget is built on 11,500,000.

Mr. FLOOD. 11,500,000, or 11,300,000?

Mr. WORTMAN. The 1976 is 11.5 million. The 1977 assumption is 11.3 million.

Mr. FLOOD. Do you think this 11.3 million estimate for 1977 is realistic?

Mr. WORTMAN. I do. In fact, right now estimates during this particular period of the year are not quite as high as those included in the 1976 budget.

Mr. FLOOD. Have you assumed some recovery in the economy as the basis here for your overall estimates?

Mr. WORTMAN. Yes.

Mr. FLOOD. What is the time lag between the fluctuations in the economy and changes in the welfare caseload?

Mr. WORTMAN. I am going to ask Dr. Smith to speak about this, too. But in general the big time lag is when people have used up their unemployment compensation and thus would be eligible for welfare, depending upon whether they meet the assets test.

Mr. FLOOD. I want to know the time lag between fluctuations in the economy and the change in the caseload.

Mr. WORTMAN. Dr. Smith, would you like to address that?

Dr. SMITH. It runs on the average about a 6-month lag. But there is a differential lag between the unemployed fathers program, as you know, and the women. The unemployed fathers program is much more sensitive to those changes in the economy.

Mr. FLOOD. That is the answer I want.

AFDC DEMOGRAPHY STUDIES

We understand your office undertook a pretty elaborate demographic study for the Aid to Families With Dependent Children population last spring. Does that study show a significant shift in the group's composition?

Dr. SMITH. I think we have been seeing a shift over the last 3 or 4 years. And the shift shows basically smaller family sizes, better educated people, less time on the rolls, in single spans of duration.

NEW YORK JOINT PAYEE PROBLEMS

Mr. FLOOD. According to a recent news account, New York City is threatened with the loss of $431 million which was illegally paid out to joint payees since 1968.

Why in the world didn't HEW discover that years and years ago, and stop it? How could you miss?

Mr. WORTMAN. Well, we have that particular problem in different areas of the country.

Mr. FLOOD. I'm talking about New York City; that always stands out like a sore thumb.

Mr. WORTMAN. My own experience, short as it is with this program, is that in some cases States feel strongly that they have interpreted the regulations and the law consistently and do not believe the Federal posture. In other words, there is the contest, like the contest that I indicated earlier, with regard to the social services claims. I am not sure this has any bearing on this particular case.

Mr. NORTON. There is a provision in the statute, I am sure you are aware, that says a State may make payments directly to landlords and other vendors in situations where they have discovered that the

AFDC recipient is not managing money properly. This is sometimes subject to some rather difficult nuances at the operating level, as to what constitutes a permissible payment to a vendor because of that statutory provision, and what is impermissible where there is not really mismanagement, but simply a convenience payment.

I don't believe that we could give you an adequate answer on the authenticity of the allegation that New York State was overpaid $431 million until we have the results of the full HEW audit. We first became aware of this in August of 1975, when the HEW Audit Agency revealed to us that they were beginning to question some of these payments over a very long period of time. They have done some preliminary sample studies. But I do not believe that we can be conclusive until we have the full findings of whether or not the workers at the operating level did in fact meet the statutory requirements, that this payment was made because the recipient was not able to manage money.

If that was an appropriate finding, the money was not misspent.

Mr. FLOOD. We were just wondering why HEW did not discover this years ago.

Mr. NORTON. Because of the fact that the statute provides that a State may make up to 10 percent of its payments.

Mr. WORTMAN. Theoretically, all those payments could be concentrated in one county.

Mr. NORTON. Oh, yes. The State is right now, in cooperation with our regional office, undertaking an intensive review to make sure, one, that they have not exceeded the 10 percent; and two, that within the 10 percent they are legitimate. I think it is a creeping issue.

I don't think it is one that is easily detected at the outset. And I do think that the Audit Agency has done an effective job of uncovering the problem.

QUALITY CONTROL

Mr. FLOOD. All right.

Your budget shows a $200 million savings as a result of what you call quality control. Now, these savings have been quite elusive over the last couple of years. What makes you so optimistic about 1977?

Mr. WORTMAN. It is true the Federal Government has, since the inception of the program, postponed or suspended the imposition of the disallowance on two occasions. Secretary Weinberger did that.

Mr. FLOOD. You have restated the question. What is the answer? Why are you so optimistic about 1977?

Mr. WORTMAN. Well, the time period on which we are basing the disallowance has not changed. It is still for the July through December 1975 period. When we were here before you last year, we were planning to take prospective disallowances as a fiscal year 1976 action. But our General Counsel has advised us that we should not do that—that we should take it as a retrospective action. Thus, the way our grant quarterly funding cycles work, it will be effective October 1, 1976.

Mr. FLOOD. What error rates are you estimating for 1977?

Mr. WORTMAN. I would assume the States will be down to a combined error rate for ineligibility, overpayments, underpayments, of 25 percent or better by 1977.

Mr. FLOOD. Do you feel those error rates are realistic when compared to the 30 percent and 40 percent that you reported in the past?

Mr. WORTMAN. Our actual error rates for the period of January through June 1975 already reflect a considerable advance. Ineligibility was down from 10.2 percent to 6.5 percent in the Nation; overpayments were down from 22.8 percent to 13.3 percent. And this is a trend which I think will continue. At some point each percentage improvement will get more difficult, but I think this trend will continue.

AVERAGE MONTHLY PAYMENT

Mr. FLOOD. We note here also you are projecting an average monthly payment under AFDC, again, of $77. That is up 10 percent from the 1976 level.

Mr. WORTMAN. Yes, sir.

Mr. FLOOD. If inflation is slowing down, as everybody tells us it is, then why such a very large increase?

Mr. WORTMAN. I am going to ask Mr. Norton to speak to that. But I assume some of it is the delayed reaction of the AFDC program.

Mr. NORTON. That is correct. There is pent-up demand, Mr. Chairman. The States, as you know, have been under severe fiscal stress. They have not been able to enact this past year some of the increases that they would like to have. Many are planning increases for this coming year. The State of Maryland, for example, in an action which we think is very wise and very helpful to the system, has taken the position that every dollar saved through improvement in management and reduction of errors, will be spent on increased awards to their recipients. Again, this $77 estimate is based on the States' estimates of what they, themselves, anticipate through their own future planning they are going to do in the area of increasing their grants.

PARENT LOCATOR SERVICE

Mr. FLOOD. What progress have you made recently in putting the parent locator service into operation as required by the child support enforcement program?

Mr. WORTMAN. I'm going to ask Louis Hays, the Deputy Director of the Office of Child Support, to give us a progress report on that, sir.

Mr. HAYS. Mr. Chairman, the parent locator service, under title IV–D of the Social Security Act, went into operation today. Under the statute which went into effect on August 1, 1975, all the States have submitted their state plan under title IV–D, and all but three of the State plans have been approved as of this date.

The parent locator service aspect of the program, which obtains address information from Federal records, became operational as of this date. The reason for the delay in implementation was due to the fact that prior to the enactment of the Department's fiscal year 1976 appropriation, we lacked the legal authority to operate that service.

MEDICAID: HEALTH APPLICATION SYSTEMS CONTRACT

Mr. FLOOD. Turning to the medicaid program—there has been a great deal of publicity surrounding the North Carolina prepayment con-

tract with health application systems. We are told a dozen or more States are very much interested in this arrangement. Suppose you tell us briefly how that contract works, and what was the role of HEW in the negotiations?

Dr. WEIKEL. Basically, the contract which the State of North Carolina has negotiated with health application systems allows for the State to pay that organization a single premium per month. That premium is based on the number of enrollees in the medicaid program—the number of eligibles, up to a maximum. If there are more than 312,000 eligible enrollees in the medicaid program in the State, there is no increase per capita premium. The total premium is capped on the basis of the premium for 312,000 recipients.

If the recipient rolls drop below that 312,000, there is a deduction made from the total premium that is paid to the firm.

It is interesting to note that while the cap was at 312,000, during the first month of that contract, July 1975, approximaely 312,000 medicaid recipients were enrolled. But during December of 1975, 340,000 recipients were enrolled, indicating some savings to the State by having the premium capped. The contractor has responsibility for providing the payment on an insured risk basis for all services delivered to the recipients. The contract is between the State and the firm. They did work with HEW regional office and central office in the review of that contract—although at that time there was no requirement for HEW to approve any contracts of that nature. Our regulations have since been changed, so now any contract of a prepaid nature of $100,000 or more must be approved by HEW prior to the signing of the contract.

Mr. FLOOD. What measure do you have about the success of the program? How much are you going to save?

Dr. WEIKEL. The State of North Carolina has articulated that just by signing the contract, they are saving $13 million over what they estimate their medicaid expenditures would have been if they had not signed the contract.

Now that figure is one that the State uses. We cannot document it at this point. But there are some interesting facts out of that contract.

During the first 6 months of the operation, through December, they processed 1.3 million claims under that program. During that time period they rejected 35,000 claims for either ineligible recipients, or for duplicate claims that had been submitted by providers. Just that saving alone was $4 million, because that is the total amount of those claims.

MEDICAID REIMBURSEMENT RATES

Mr. FLOOD. All right. We have heard reports that many physicians are limiting their participation in medicaid because of the low reimbursement rates. Is that a significant problem? They also tell us that the rates do not cover the increased cost of the malpractice insurance. We heard this particularly about the State of California.

Dr. WEIKEL. I believe that the problem varies from State to State. Our rate of participation of physicians in some areas is inadequate.

It ranges anywhere from 66 percent to as high as 140 percent of the physicians participating.

Let me explain the 140 percent briefly. When you have a borderline area that crosses over, Philadelphia-New Jersey, for example, or Washington-Maryland, you can get physicians in the other area who are participating as providers, so you can have more than 100 percent of the providers in that particular geographical area.

We do have some major metropolitan areas where participation by physicians is totally or significantly inadequate and one of the reasons given is low reimbursement because, in the medicaid program, the State can establish a flat reimbursement fee. In most cases it does not pay usual and customary, so in many medicaid situations doctors are getting less than they would for equivalent services under the medicare program.

So that is a problem. Now with the statute as presently written, the Federal Government has no authority to impose minimal reimbursement levels. We can only impose maximum reimbursement levels, and that is what we have done in the case of fiscal reimbursement.

That is a problem when a State goes to cut back their program as well because one of the first areas they cut back generally is physician or provider reimbursement. As an example, one State has cut reimbursement by 30 percent. The difficulty in doing that is until you have a very tight utilization review system in places, the physician can simply bill you for a different unit of service.

In other words, rather than billing you for a brief visit he may bill you for an intermediate or complete physical and it's extremely difficut to prevent that from happening until you have a very sophisticated system in place.

NEW SKILLED NURSING REGULATIONS

Mr. FLOOD. What progress are you making in developing the reasonable cost regulations for skilled nursing facilities? Are they still scheduled to be released this summer?

Dr. WEIKEL. July 1.

We are within 2 weeks to 30 days of publishing in the FEDERAL REGISTER the proposed rules.

We have been involved very intensively over the last year in working with the provider groups, States, and consumer groups, reviewing regulations.

Mr. FLOOD. You are going to make the schedule?

Dr. WEIKEL. Yes.

EARLY AND PERIODIC SCREENING, DIAGNOSIS, AND TREATMENT

Mr. FLOOD. Now back in 1968 a law was passed creating a program called early and periodic screening diagnosis and treatment. Although you indicated in your statement more and more children now have been screened under this program, we haven't seen any data of any kind on diagnosis and treatment. What information do you have for us on those parts of the program?

Dr. WEIKEL. In terms of the screening component first of all: We have said since at least August of 1974 that the objective of this program is not in screening because we know the health of low income

children is very poor, and we don't need to screen them to determine that.

The real value is making sure they get diagnosed and treated.

On the other hand, the first step in that procedure is to get them into our system, either through screening or through having them see a pediatrician or general practitioner, or what have you.

The data is encouraging. I believe in the first 5 years of the program we screened 1½ million children out of a potential 11 to 13 million children eligible for medicaid in any one year. During the last fiscal year, 1975, we screened 1.5 million.

Mr. FLOOD. Will you be able to show this for the record? We have no data at this point.

Dr. WEIKEL. Yes, and our estimates this year are 2 million, so they are significant.

Mr. FLOOD. Make the record show that.

[The information follows:]

Medical Services Administration—Early and periodic screening, diagnosis, and treatment

Numbers of children screened:

1975	1,500,000
1976	2,000,000
1977	2,500,000

Mr. FLOOD. We have heard complaints from the States that the penalties of the program are being too arbitrarily applied. Are you satisfied with the penalty application process?

Mr. WORTMAN. In terms of EPSDT, I will let Dr. Weikel speak to that.

In general, in my own experience, some of the penalties look a bit onerous compared to the problem that they are associated with, and Secretary Mathews has expressed some general concern about that entire effort. We have a study going on at HEW taking a look at all of the different kinds of sanctions that we are utilizing to effect behavior of institutions, whether State or private.

PROFESSIONAL STANDARDS REVIEW ORGANIZATIONS

Mr. FLOOD. Well, what is your office doing to coordinate the State agencies and professional standard review organizations? I understand that many of the States are extremely reluctant in that regard.

Tell me how many agreements have been executed and whether you feel this concern of the States is warranted?

Dr. WEIKEL. There are a number of categories of States. First, some States have had relatively active utilization review programs and it's usually those States who are reluctant to turn over the reins to the Professional Standards Review Organizations.

There are about 12 of those States where there are PSRO's that have become conditional PSRO's and I believe, there are 8 of those where we have already signed an agreement.

Now, part of the process, I would argue, is getting the Federal level out of it, and allowing the PSRO's at the local and State levels to get together and to negotiate.

We find that when we can get them together, they can work out an agreement at a local level.

SOCIAL SERVICE TRENDS

Mr. FLOOD. On that subject of social services what information do you have, State by State, concerning the trend that social services is taking because of title XX?

Mr. WORTMAN. Because of the additional flexibility that the Congress provided under title XX, the budget estimates that I have given to you do reflect that the States are using their entitlement under that program. We are asking the Congress for $2.4 billion out of the $2.5 entitlement that the Congress would provide, and just a couple of years ago it was less than $2 billion.

Mr. FLOOD. Last month you indicated that considerable growth had taken place in the day care services. We receive a great deal of mail complaining that the Federal day care standards under this program are simply unrealistic. I know you have heard that and I know you have been looking at it. Any results?

Mr. WORTMAN. Mr. Suzuki can talk to that.

Mr. SUZUKI. At the moment there are several bills that were introduced in terms of modifying the impact of the Federal day care requirements.

The bill which is getting the most attention, often referred to as the Long-Mondale bill, authorizes an additional $62.5 million per quarter for child care.

Because of the technicalities of the Budget Act it doesn't extend beyond September 30, but it is predicated on a quarter-of-a-billion-dollar increase per year on the basis that States would meet those Federal standards that are in title XX. The administrtaion has proposed that it is not the proper Federal role to prescribe such specific standards. The bill which the administration supported would change the nature of the sanctions. Title XX requires HEW to study the current standards and submit a report to Congress between January 1 and June 30, 1977, at which time we would recommend changes based on the study. Frankly, we do recognize the burden that the current Federal interagency day-care requirements places on facilities.

Mr. SHRIVER. Would you yield on that?

Mr. FLOOD. Yes.

DAY CARE STAFFING REQUIREMENTS

Mr. SHRIVER. Who made the requirement that would require a supervisor for every four, five, or six kids?

Mr. SUZUKI. In the title XX act that passed Congress last year it was the law which established the ratios for children over 3 years of age. The law also said the Secretary shall prescribe the standard for children under 3, but since the law established it at no more than five children for 3-year-olds, the Secretary really didn't have much discretion, for the younger age group. In prescribing staff ratios for children under 3 years of age, the outside limit that he could go and still be consistent with the statutory provision was the 1 to 4 ratio which was a maximum.

Mr. SHRIVER. Who made that determination?

Mr. SUZUKI. The only determination that HEW made following passage of title XX was the maximum number of children under the age of 3 that could be cared for by one adult.

The other figures were fixed by law. They had been part of what was called the Federal Interagency Day-Care Requirements in effect since 1968. Staff/child figures had never changed.

Congress, in passing title XX, took the 1968 standard, which had been an interdepartmental agreement, and put it right into the law. And in that act required that the Secretary prescribe a standard for children under the age of 3.

Mr. SHRIVER. That is causing a tremendous increase in the need for staff.

Mr. SUZUKI. The biggest problem is not for children under 3, but is really for the 3- 4- and 5-year-olds—the preschool group. The ratios for that age group are fixed in the law, and there is no way for the Secretary or HEW to change those in any way without a change in the law.

Mr. FLOOD. Describe how the maximum income levels for Federal support are being carried out. We have been distressed to hear of cases where people with incomes above the limit, particularly elderly, are being excluded from projects altogether. Why is this happening?

Mr. WORTMAN. A possible reason for elderly individuals being ineligible for services is that their monthly gross income exceeds the limits as determined by the State in its comprehensive annual services plan.

If a State chooses to include individuals based on income status, then the maximum income level for eligibility is set by statute at 115 percent of the State's median income level for a family of four in the State, adjusted by family size. The State has the option of setting this income level for eligibility at any level up to 115 percent of the State's median income.

Individuals whose monthly gross income exceeds 115 percent of the State's median income level are ineligible to receive services. However, there is an exception to this rule. Information and referral services, or services directed at the goal of remedying neglect, abuse, or exploitation of children or adults, may be provided to any individual, including the elderly, regardless of income, if such services are included in the States annual comprehensive services plan. Our information is that the usual reason why some elderly individuals have been excluded from title XX programs is not income limits per se, but the refusal of these individuals to allow documentation of their incomes. HEW expects to publish in the Federal Register in April a revised regulation that will allow a declaration of income rather than documentation if a State so elects.

It should be noted that States in determining eligibility also have the option of setting different income levels for specific services or categories of individuals as specified in the State's services plan.

TRAINING LIMITS

Mr. FLOOD. You are proposing appropriation bill language which sets a limit for State and local training at $60 million. Why do you want that limitation? Does the basic law permit it?

Mr. WORTMAN. The proposal for a ceiling on State and local training funds is consistent with the Department's efforts to restrain substan-

tial increases in expenditures. Over a 5-year period, the Federal share in State and local training has increased from $35,995,000 in fiscal year 1971 to $51,417,000 in fiscal year 1975, or 43 percent. The title XX regulations extend training to service delivery personnel of provider agencies from whom the title XX agency is purchasing services. This extension to a new group of eligible personnel could result in a sharp increase in training expenditures. The fiscal year 1977 $60 million ceiling allows for an expansion of over 10 percent above the level of spending estimated by the States for fiscal year 1976.

There is no limitation on expenditures for State and local training in either title IV–A or title XX, Social Security Act. The only limitation in title XX is that personnel training and retraining shall be directly related to the provision of services under the title XX program.

UPDATED JUSTIFICATION

Mr. FLOOD. Your justifications here do not reflect current figures for 1976. You are using the 1976 budget estimate. As a result of that, you are showing nothing here at all for social work training.

The 1976 figure for child welfare services is also pretty misleading. So what we want you to do is revise the justifications to reflect the 1976 enacted appropriations.

Mr. WORTMAN. We will do that, sir.

IMPACT OF UNEMPLOYMENT ON WELFARE ROLLS

Mr. FLOOD. Mr. Michel?

Mr. MICHEL. Thank you, Mr. Chairman.

Is there very much of a correlation between the welfare rolls and the economy?

Mr. WORTMAN. My view is less so than I would have anticipated, but I will let Dr. Smith, who has been with the program longer than I have been, speak to that.

Dr. SMITH. The very tight correlation is really with the unemployed fathers' program. There is less of a correlation with the women in the program. It's clear now, in a way that we couldn't see in the late 1960's. Because of the enormous growth of the rolls and increase in the participation rate which tended to mask the impact of changes in the economy, the rolls do track the economy in a "lag" way.

Mr. MICHEL. So if the economy dramatically increases like we expect it will, we can expect that there would be much more of a decline in welfare rolls.

Dr. SMITH. Coming toward the end of the fiscal year.

Mr. MICHEL. How do we account for that? What happens in the interim? You know, if you ask anybody on the street, they would think obviously that as we go into a recession, more people are likely to go on welfare.

As we come out of a recession, people ought to come off the welfare rolls. Instead, it appears that the welfare caseload is a permanent thing, which suggests to me that if we talk about a full employment kind of figure in an unrealistic area of 3 percent, we are just kidding ourselves, aren't we?

Dr. SMITH. I don't know about full employment.

Mr. MICHEL. It appears that there is very little relationship at all between the number on welfare and the economy.

Dr. SMITH. We do show a decline.

Mr. WORTMAN. I would want to point out though compared to other historical periods of recession, the country did cushion this one with its significant extension of unemployment compensation. I am not sure that was done in any like period, sir.

There is an interesting study by Dr. Killingsworth of Michigan that I saw analyzing what is happening to those people who have come off the unemployment compensation. You know, a lot of them have assets which would not qualify them for welfare, but a lot of them are not doing well, according to this study.

IMPACT OF CHILD SUPPORT ENFORCEMENT ON WELFARE ROLLS

Mr. MICHEL. How many people are likely to be removed from the welfare rolls because of the child support enforcement program?

Mr. WORTMAN. We cannot look at that in terms of removal. We can look at it in terms of reduced payments. And I will let Mr. Hays talk to that.

Mr. HAYS. We don't yet have any data that would measure that.

Mr. MICHEL. How soon will you have some?

Mr. HAYS. The States will be required to report quarterly to us on a number of things. One of the items that they will be required to report on will be the reason for discontinuance of eligibility. Therefore, if the reason is child support collections, that would show up. We will also, of course, know how much money is collected and how much that would cost.

QUALITY CONTROL PENALTIES

Mr. MICHEL. Now your statement indicates you will be imposing quality control penalties beginning with the first quarter of 1977. We have been hearing that up here now for 2 years, but it's never been done. Now, is it really going to happen? Is it really going to get done this time?

Mr. WORTMAN. At the current time I can only say that the Secretary, who is relatively new, and I am also relatively new, have spent some time in briefings on the program, and he has told us to continue to proceed in that direction.

However, at the same time, he wants to make sure that the States and we are in concert, especially with regard to the correlary activity, wherein the Federal Government in administering the supplemental security income program also has error rates in which we would owe the States money.

So there will be a dialog that Governor Andrus, Chairman of the Human Resources Committee of the Governors' Conference, and the Secretary have opened up to make sure that both sides are walking down the same track.

Mr. MICHEL. Now, in answer to one of my questions when the Secretary was here, he stated that the Department during his tenure has "enforced nine penalties and taken money away from States under appropriate statutes."

But he apparently must have been referring to the EPSDT penalties under medicaid.

Mr. WORTMAN. That is correct.

Mr. MICHEL. Because you haven't really enforced any AFDC penalties as yet.

Mr. WORTMAN. That is correct.

Mr. MICHEL. What is your own personal position? You have only been on here 2 months, but are you going to push in that direction or do I get the feeling that you are not getting pushed by the Secretary, that his view is one of not pushing penalties.

Mr. WORTMAN. I would say, I don't know how much of a dialog you got into with him, but he is concerned about the negative aspects of some of the penalties that we now enforce, and he wants to make sure that we have a dialog with the States about these, but I have not been told not to proceed on any of these.

We have been told just the contrary by the Secretary, and that is to continue to administer these various penalties as we are required to do.

Mr. MICHEL. The law requires it; does it not?

Mr. WORTMAN. Well, we use the term penalties rather as an encompassing term here today. The disallowances, which we prefer technically to call them in AFDC, are not spelled out in the statute. Therein is the debate between the States, who have entered another major suit on this, and the Federal Government. They do not feel that we have sufficient legislative base for this program.

Mr. MICHEL. All right. Is anybody working on some legislative proposals to clean it up?

Mr. WORTMAN. By the same token, we do not feel that is correct, and we are challenging that assertion in the court case. We feel that we have adequate statutory base.

PENDING COURT CASES

Mr. MICHEL. Have you got any specific court case in which you are really challenging that right now?

Mr. WORTMAN. It's being challenged rather significantly in Maryland. This is Dr. Kugajevsky.

Dr. KUGAJEVSKY. Just very briefly, there are three court cases. The major one is the *Maryland* versus *Mathews* suit to which 12 States and the county of Los Angeles are parties; the others are the Ohio and Georgia court cases. HEW has just this last week submitted its brief in the *Maryland* versus *Mathews* court case.

MEDICAID PENALTIES

Mr. MICHEL. Now, in the medicaid penalties imposed on the nine States, did this stimulate improvement in their programs?

Dr. WEIKEL. We have imposed the penalty in nine States for the first quarter. We believe that there has been an improvement as a result—not in all of those States but in some of the States.

Also, I think the impact of the penalty went beyond those particular States. The States realized that the Department was serious in terms of implementing this program.

Mr. MICHEL. Did those penalties cause any of the beneficiaries to be hurt?

Dr. WEIKEL. Not that we are aware of since the penalties are only 1 percent of the AFDC grant. It's not even related to the medicaid grant.

Mr. MICHEL. There have been those who argue that to impose a penalty would be doing serious harm and injury to the beneficiaries. I never bought the argument, and I submit that if we really press in this area, we will find that is not an argument that holds water.

Dr. WEIKEL. Then penalty for all nine States was $5.9 million. If you look at the number of dollars that these programs involve, and that is a relatively small amount. But it certainly did make the States, I believe, pay attention.

QUALITY CONTROL SAVINGS

Mr. MICHEL. Now, do you know about how many Federal dollars will be saved by the imposition of the Q.C. penalties?

Mr. WORTMAN. On the AFDC quality control we do have that calculated. That is $220 million in 1977.

Mr. MICHEL. And do you have an idea of how many States are involved?

Mr. WORTMAN. Yes, sir.

Mr. MICHEL. How many would that be?

Dr. KUGAJEVSKY. Approximately 43 States. We don't have the final results and we wouldn't have those until April.

Mr. MICHEL. What if I asked you to submit the list of the States along with their error rate; is that possible?

Mr. WORTMAN. We could do two things. We can give you the January through June 1976, today. We can give you the actual period on which the imposition will occur, July 1 through December, in April. Is that correct?

Dr. KUGAJEVSKY. That is when the final results will be in.

Mr. MICHEL. Well, I would like to have the later figures if our hearings have not gone to print by that time, because as the chairman was indicating earlier, we get so far behind on what we are talking about, with the time lag, that we seldom have up-to-date figures to give us a good perspective.

Here we are in the middle of March. If you have them, we would like to have those up to date.

[The information follows:]

QUALITY CONTROL

Insert page 4670A-1

Table 1. AFDC - January-June 1975 Case Error Rates Compared with Case Error Rates in Three Preceding Reporting Periods a/

State	Cases with Errors as a Percent of Total Cases											
	Ineligible				Eligible but Overpaid				Eligible but Underpaid			
	Jan-June 1975	Jul-Dec 1974	Jan-June 1974	Apr-Sept 1973	Jan-June 1975	Jul-Dec 1974	Jan-June 1974	Apr-Sept 1973	Jan-June 1975	Jul-Dec 1974	Jan-June 1974	Apr-Sept 1973
U.S. Average b/	7.5	8.5	9.3	10.2	17.5	19.7	20.6	22.8	7.3	8.2	8.0	8.1
Alabama	6.1	7.7	10.2	10.5	12.0	13.1	13.9	15.1	7.5	7.6	10.1	8.4
Alaska	7.5	5.2	8.9	12.3	14.5	16.2	10.1	14.2	5.0	5.8	8.3	5.8
Arizona	12.0	13.5	13.7	9.3	26.2	23.2	26.8	23.6	10.3	10.6	7.1	7.3
Arkansas	4.3	3.3	2.8	2.2	9.8	10.9	8.8	7.1	6.8	9.0	6.1	7.3
California	5.4	6.1	6.4	8.4	12.0	15.1	16.3	17.8	4.9	6.8	7.1	7.9
Colorado	7.5	6.7	4.6	4.4	10.7	12.1	17.0	15.9	2.6	3.6	3.1	6.5
Connecticut	7.5	5.8	5.8	6.5	14.8	16.3	17.3	16.2	6.3	10.1	4.3	5.4
Delaware	12.9	10.9	9.5	14.1	21.9	21.8	23.6	29.6	9.5	12.8	10.0	9.7
Dist. of Col.	12.8	12.7	14.2	10.9	25.6	22.1	26.4	24.5	5.7	7.3	4.7	3.8
Florida	9.0	9.6	10.5	11.0	14.2	22.0	24.4	27.1	5.6	7.8	8.3	9.3
Georgia	10.7	10.7	7.3	7.0	26.7	27.6	27.9	24.9	8.9	9.2	10.0	10.5
Hawaii	11.3	5.5	6.8	4.6	18.8	23.0	25.8	19.9	7.5	10.7	7.7	5.6
Idaho	3.4	1.9	3.2	5.8	13.0	14.6	9.7	13.0	3.9	3.9	4.6	1.9
Illinois	11.7	15.2	12.9	11.7	28.1	28.1	28.8	37.6	4.3	5.3	5.1	10.6
Indiana	2.6	3.5	5.3	8.0	9.0	14.1	17.2	19.5	4.9	8.6	3.4	4.4
Iowa	7.8	7.2	9.6	9.7	22.0	21.4	19.3	20.0	10.9	12.8	9.9	7.3
Kansas	9.2	12.3	12.9	10.3	16.5	18.5	23.4	26.0	8.8	10.4	13.6	9.2
Kentucky	6.5	5.1	9.1	10.1	13.3	18.7	21.4	29.4	4.0	5.9	8.3	7.7
Louisiana	3.9	8.0	8.8	14.8	10.8	13.2	12.8	21.1	3.2	5.5	4.3	5.4
Maine	8.9	6.2	7.4	3.7	18.2	19.5	10.7	7.2	3.2	4.0	3.0	1.8
Maryland	10.8	12.4	16.5	14.7	24.9	28.8	28.2	28.5	10.2	11.9	11.1	10.3
Massachusetts	12.1	11.5	10.5	9.6	25.7	24.8	26.4	29.7	9.3	12.0	11.0	13.5
Michigan	8.0	7.8	7.8	5.7	25.4	27.9	24.8	20.3	7.2	8.2	8.8	4.9
Minnesota	5.0	7.1	8.6	6.0	13.1	17.2	19.2	28.1	4.8	5.4	5.9	12.9
Mississippi	3.6	2.7	2.9	2.3	7.1	8.5	8.7	8.6	3.9	3.5	3.9	5.2
Missouri	7.8	8.2	6.7	7.1	13.0	14.8	13.2	14.2	3.0	3.0	7.6	4.4
Montana	15.5	9.8	11.9	10.3	15.9	15.9	16.2	18.6	5.5	3.7	6.2	4.2
Nebraska	7.3	10.9	7.9	6.5	11.5	25.3	20.7	10.3	15.9	9.3	3.3	2.7
Nevada	--	--	0.6	2.6	2.8	2.5	4.2	7.8	2.3	3.8	8.3	4.6
New Hampshire	9.3	16.7	10.4	11.9	25.0	37.3	33.7	40.9	7.4	7.4	11.4	7.5
New Jersey	3.0	4.0	4.5	4.3	16.2	20.8	20.8	18.3	7.4	7.0	8.5	4.4
New Mexico	4.8	4.5	3.6	5.0	7.4	9.4	13.8	13.2	4.8	7.7	6.1	4.2
New York	8.6	12.7	15.9	17.5	25.8	29.6	31.0	31.9	18.2	18.6	12.8	11.1
North Carolina	4.6	7.0	5.6	7.7	16.2	22.2	23.3	21.3	12.4	16.4	22.1	19.2
North Dakota	--	1.3	3.6	1.9	4.6	4.6	6.5	8.4	6.0	3.9	5.4	1.9
Ohio	13.4	11.0	13.5	13.7	14.0	14.5	15.1	27.0	4.8	3.8	3.3	8.3
Oklahoma	2.2	1.6	1.3	4.1	5.5	5.8	7.1	13.5	2.0	3.3	2.2	2.9
Oregon	4.8	4.7	4.8	6.3	15.3	14.0	15.7	16.2	4.2	3.8	4.8	3.5
Pennsylvania	8.0	9.0	12.3	16.7	19.1	18.8	22.1	24.8	5.3	6.0	7.6	8.1
Puerto Rico	10.8	11.3	18.2	16.4	19.0	20.4	22.9	19.9	11.6	8.8	8.0	7.7
Rhode Island	3.9	5.9	3.0	4.5	21.0	18.9	20.1	21.3	5.5	4.1	2.1	3.5
South Carolina	5.3	6.9	7.1	10.1	15.0	20.1	22.3	27.3	10.5	12.6	17.4	10.0
South Dakota	1.8	3.7	6.4	2.5	9.1	14.4	14.5	14.5	4.1	2.3	3.0	4.4
Tennessee	8.1	7.5	7.9	9.1	12.9	15.4	14.7	12.8	4.8	4.2	7.6	6.3
Texas	2.6	5.1	7.3	10.4	6.5	8.9	12.3	16.3	2.6	2.3	3.2	3.5
Utah	4.6	5.4	8.5	5.9	14.9	12.3	14.5	14.7	6.5	7.3	6.0	3.9
Vermont	6.0	3.8	9.2	10.3	16.0	19.2	22.3	27.2	4.5	4.9	6.5	6.0
Virgin Islands	18.0	11.0	8.0	5.8	16.0	11.7	16.7	15.2	9.3	6.2	6.7	14.5
Virginia	4.3	4.7	6.1	5.3	14.3	18.4	25.3	27.4	6.1	7.5	16.0	13.3
Washington	4.1	4.4	3.8	4.5	7.3	9.1	8.1	10.2	3.2	3.7	4.2	2.8
West Virginia	2.4	4.0	5.5	5.6	6.5	7.8	8.6	10.7	3.5	4.0	3.9	4.3
Wisconsin	2.9	5.1	5.8	4.7	15.0	15.7	13.4	14.5	13.5	14.4	15.7	16.5
Wyoming	3.8	8.6	6.5	8.0	14.6	13.8	16.8	14.2	6.4	5.3	7.7	8.6

a/ Based on reviews of statistically reliable samples of approximately 44,000 cases in each six-month reporting period from an average national AFDC caseload of over 3 million families.
b/ Weighted average.

Mr. MICHEL. Is Illinois one of the States on which penalties will be imposed?

Dr. KUGAJEVSKY. It's likely.

Mr. MICHEL. It's eligible, right?

Dr. KUGAJEVSKY. Yes.

Mr. MICHEL. And what is the problem?

Dr. KUGAJEVSKY. They have a high error rate.

Mr. MICHEL. Do you know how much, right off the top of your head?

Dr. KUGAJEVSKY. On a provisional basis their error rate is 26 percent, which is a combined case ineligibility error rate and overpayment rate.

Mr. MICHEL. And you know, though earlier the error rate was just kind of flippantly referred to as 25 or 26 percent, when the general public out there read that, and receives the idea that it may be considered an acceptable figure, by this committee or by Government as a whole, everybody is appalled.

It just can't go on that way. And to just say we are going to accept it represents a default by both you and us on our obligations to the general public.

Mr. WORTMAN. I think the pressure of the concern of the Congress and, I hope, State legislatures—I can't speak to that personally—but something other than the threat of the disallowance, has driven those accumulated error rates from 42 percent when we started the program down to 25 percent. And that is a billion dollars of cost avoidance.

Now that is not money you can always count so easily, but had we not done this there would be another billion over the last 3 years that the American public would have spent. So I agree with you wholeheartedly.

USE OF SOCIAL SECURITY NUMBERS

Mr. MICHEL. Now, regarding the child support enforcement program, has a decision been made yet as to whether the parent locator service can obtain social security numbers from the Social Security Administration for use in tracking down deserting parents?

Mr. WORTMAN. No, sir. In those cases where a State provides the name and number, of course, they will have access as before to the services of the Federal Government, which includes the Internal Revenue Service and the Social Security Administration.

Where they only have names, and that is the issue that you have defined, that is under advisement by the Secretary of HEW.

Mr. MICHEL. Do you know offhand if the Secretary has received any legal opinion to the effect that this would be a violation of the Privacy Act?

Mr. WORTMAN. No. There are about three General Counsel memorandums on this subject. I can't speak to some of the earliest ones. I will speak to the latter two. Those would give the general view that it it not illegal, but the general thrust of the Privacy Act is one which would cause you some question.

Mr. MICHEL. Is that last legal opinion from the General Counsel of HEW available?

Mr. WORTMAN. Yes, sir. We will provide a copy to you.

SEARCH OF SOCIAL SECURITY ADMINISTRATION RECORDS

Mr. MICHEL. Now, isn't it also true that the Privacy Act was passed prior to the adoption of the law providing for the obtaining and use of social security numbers?

Mr. WORTMAN. The chronology is correct. The way you stated it I can't agree with, because the act, which authorized the child support enforcement effort in this Nation, is not explicit about the use of the social security number and therein lies our concern.

Mr. MICHEL. As I recall, in answer to a question last month you indicated that even if you could obtain numbers from the Social Security Administration, the search for those records would have to be done manually, is that correct?

Mr. WORTMAN. Not if we get the numbers.

Mr. HAYS. The search to obtain the social security number itself would, by definition, be manual. If we have the social security number and are merely seeking to obtain address information from the Social Security Administration, that will be an automated search. But if we were to obtain the social security number itself, that would require a manual search since the records are maintained on the basis of the social security number.

Mr. MICHEL. How about by name? Wouldn't it be automated by name and kick out the number?

Mr. HAYS. It's my understanding that the Social Security Administration's records are automated on the basis of the social security number, and that it's not possible to have an automated name search.

Mr. MICHEL. Well, that surprises me, in view of the substantial amount of equipment they have out there, and the many ways they can twist and turn out that data.

Would a manual search be a lengthy and costly one?

Mr. HAYS. We don't have data that would describe the length of time involved in that manual search. Certainly, of course, it would be a more complicated process than an automated search. The Social Security Administration has informed us that the cost of the manual search will be $1.68 per case.

CHILD SUPPORT COLLECTIONS VERSUS COSTS INCURRED

Mr. MICHEL. What is the ratio of collections to cost that you are using in fiscal year 1977?

Mr. HAYS. Well, all that we are using at this point for our estimates for fiscal year 1977 is the data that was provided to us by the States, which is in turn their estimates of what their costs and collections will be.

Mr. MICHEL. Now, my information is that in 1976 that ratio was about 2.2 to 1.

Mr. HAYS. That is correct.

Mr. MICHEL. Is that going to hold for 1977, too?

Mr. HAYS. The ratio is expected to improve somewhat in fiscal year 1977. We would expect that as the States overcome the initial startup costs, and become more sophisticated in their child support programs, that the program would become more cost effective over a period of time.

Mr. MICHEL. Have you got any guesstimate on that? Would it be 4 to 1; is that too much to expect?

Mr. HAYS. Well, it's extremely difficult to give an overall ratio. It's true that some existing programs at the State and county level do manage to collect four or five times the amount of their expenses.

However, from the Federal perspective there are a number of factors which have to be taken into consideration.

One of those is the fact that there is an incentive payment provision to political subdivisions, which is financed entirely from the Federal share of the collection, plus for the first 15 months of the program there is an incentive payment to the family, which is shared jointly between the State and the Federal Government.

Therefore, while the program can be very cost effective at the State and local levels, because of some features in the program including the 75 percent Federal reimbursement, it becomes less cost effective at the Federal Level.

Mr. MICHEL. What are the total amount of collections that you would be expecting?

Mr. HAYS. Well, based on the States' estimates again, we would project collections in fiscal year 1977 in the neighborhood of $380 million.

Mr. MICHEL. What would those administrative costs be?

Mr. HAYS. Again, based upon the State estimates, the total administrative cost would be in the neighborhood of $202 million.

Mr. MICHEL. Why so high?

Mr. WORTMAN. Still in a development curve.

Mr. HAYS. That is right. That is a cost-effective ratio of about 2 to 1, but again, I think it recognizes the fact that we do incur costs at the beginning of the program to a greater magnitude than what we would expect further out, taking into account the fact that there are a number of States that have had a relatively minor experience in child support programs, prior to title IV–D.

Mr. MICHEL. Now, I hope that if you are here next year and I am here next year, that we can show some improvement on that.

Mr. HAYS. I would hope so, too.

CHILD SUPPORT INCENTIVES

Mr. MICHEL. It's clear under the various incentives which have been instituted that the States and localities are really the big winners under the program, and not the Federal Government. Right?

Mr. HAYS. Well, the Federal Government should show a net Federal savings, perhaps as early as fiscal year 1978, but it is true that we project a net Federal cost of just under $2 million in 1977.

Mr. MICHEL. Yes. Do the States really need all these generous incentives?

Mr. HAYS. Well, that is a difficult thing to speculate on. I think we have seen a marked increase in State activities unde title IV–D. Now whether that is due to the increased Federal reimbursement, whether it is due to the incentive provision to political subdivisions or whether it is just due to the new statute itself, we can't really estimate.

Mr. MICHEL. Has that "incentive to recipients" scheduled to expire

in September had any material impact in locating or obtaining support payments from deserting parents?

Mr. HAYS. Well, I am afraid we just don't have any data on that that would give any conclusive or even inconclusive results on that question.

Mr. MICHEL. How about political subdivisions, same answer?

Mr. HAYS. Again, it's difficult to give any precise answer, but that provision does seem to have generated a substantial amount of interest throughout the country on the part of counties, and county law enforcement officials who wish to become involved in the program.

CHILD SUPPORT ENFORCEMENT PENALTIES

Mr. MICHEL. Does that requirement of the law that a 5-percent penalty be assessed those States not having a child support enforcement program by January 1 of next year also require that those programs be effective programs?

Mr. HAYS. The statute does require that the programs both meet the requirements of the Federal statute and be effective, yes.

Mr. MICHEL. Will the penalties then be applied to those States not having an effective program?

Mr. HAYS. Under the language of the statute, unless the language were to be modified in the interim, the Department would be required to assess the penalty, if the annual audit determined that the program was not effective.

Now, the question, of course, is what is an effective program, and that is something we are working on now.

Mr. WORTMAN. Could I add a point there, sir?

Mr. MICHEL. Yes.

Mr. WORTMAN. In my experience now, limited as it is, the mandated form of some of these penalties is hard for me to imagine in some circumstances.

Say a State got sued for some important element of its child support program and because it gets into local domestic relations, which I am not an expert on, it could be held up. There is no out, the 5 percent is a pretty healthy chunk just in terms of a State planning its future, and I have come to the view that I would certainly like a very carefully designed escape valve for some of these cases where I feel a State has had very little choice or was impaired, but its intent to mount a good program is very evident by everything it did.

But the way it is right now we would have to come in and lay it on. And I am having a little trouble with some of that.

Mr. MICHEL. Does your budget request reflect the application of any penalties in this instance?

Mr. WORTMAN. No, sir, it does not.

Mr. MICHEL. So you really don't expect to apply any penalties?

Mr. WORTMAN. We do not assume that. We assume the States will move; and as Mr. Hays indicated. 51 States and jurisdictions already have approved plans, and we expect to be in an approval situation with the rest shortly.

ERRONEOUS EXPENDITURES

Mr. MICHEL. Now, in the area of fraud and abuse, your response to my question last month indicated about 10 percent or $520 million

of the Federal expenditure for AFDC will go for erroneous expenditures. Isn't it true this represents your most conservative estimate, and that you probably will want to raise that?

Mr. WORTMAN. No, sir. I think when it comes to quality control on AFDC, given our sampling technology and the investment we have all made in it, that that is a pretty good estimate, that that conforms to the 25-percent figure I have given as to what the error rate will be for that period of July 1 through December 31 of 1975.

Mr. MICHEL. Now, I recently asked the Secretary for a report on how a family could be eligible for welfare benefits for a child from a former marriage when the family reportedly has an income of $40,000 per year and considerable economic resources. This represented a specific case in Wisconsin that was cited by the Milwaukee Sentinel in November of last year.

Your opinion to the Secretary in this regard was that this is possible largely because a stepparent is deemed by Wisconsin welfare law as not being responsible for a stepchild's support, and therefore, his resources cannot be taken into account when eligibility for welfare is considered.

Now this, in my view, is just another one of those abuses of our present system. Do you have any idea as to the number of times and how many States this kind of situation is occurring?

Mr. WORTMAN. I am not sure: I will ask Mr. Norton as to how many States may have a contrary rule to that of Wisconsin. I would want to point out, though, that we have addressed the stepparent issue in the administration's proposals for legislative change, although it isn't a clear picture because we also know that one of the most significant factors that takes women off of the welfare rolls is remarriage; and to set up any disincentives to that would bother me, too, but Mr. Norton might have a point on that.

Mr. NORTON. There are only two States now which make stepparents liable for children, and it's been held by the Supreme Court that under present Federal statute, the State cannot look to the stepparent for money until the State has in its own statutes a law of general applicability.

That is to say, that the stepparent under a State law would be responsible in the same way and in all ways that a natural parent is, including rights of inheritance, rights to social security benefits for disability or retirement.

State legislatures have not been willing to pass such laws. That is the reason the administration is now proposing a Federal statute that would make stepparents liable.

Mr. MICHEL. What is the other State besides Wisconsin?

Mr. NORTON. It's Hawaii and New Hampshire which do. Wisconsin does not.

PROPOSED LEGISLATION

Mr. MICHEL. You mentioned the administration's welfare proposals. Have you been involved in that, in putting that together?

Mr. WORTMAN. Only secondarily. The primary initiative on the President's major proposal has been out of the Office of Management and Budget. In some of the major initiatives of the President's program in terms of block grant for social services my associates and I

have been very heavily involved in terms of the broad welfare reform authority that the President would ask the Congress to provide.

That initiative has been out of the Office of Management and Budget.

Mr. MICHEL. Well, to the best of your knowledge, were your predecessors like Mr. Svahn, or Mr. Twiname, or Mr. Dwight ever asked about what ought to go into a welfare reform package?

Mr. WORTMAN. The lead for much of that within the Department is with the Assistant Secretary for Planning, Mr. Morrill. At various times he involved Mr. Svahn and Mr. Dwight in delineations that led up to proposals by Secretary Weinberger which was known as the income security program, ISP. In fact, on that particular proposal there were major briefings of the Domestic Council shortly after Mr. Ford became President.

Mr. MICHEL. I just get the general feeling that we aren't asking the right people working with a program on an every day level what their views are. I don't know how you can ever just out of thin air dream up a reform proposal without going to those of your people who work directly on a day-to-day basis with this thing.

Mr. WORTMAN. Mr. Norton, on my staff, is a former director from the State of Connecticut and has been involved in commenting on the legislation that the President is developing.

MEDICAID FINANCIAL ABUSE

Mr. MICHEL. Moving to medicaid, what is the total amount of Federal funds lost per year—your latest estimated—due to erroneous expenditures?

Dr. WEIKEL. That figure is not really known for the total program, otherwise we would be in a position to recoup funds.

Mr. MICHEL. I'd like you to give your range of estimates, from low to high.

Dr. WEIKEL. Again, that is not really possible to do. We can make some assumptions though. In the area of labs, if the experience we have seen to date is representative, one-fourth of these costs could be unnecessary. Other estimates of possible unnecessary costs relating to medicaid eligibility quality control indicate 20 percent of the persons receiving medicaid who are medically needy are ineligible.

DUAL INSURANCE COVERAGE

Mr. MICHEL. How many people receiving medicaid are also covered by other health insurance?

Dr. WEIKEL. Responsibility for determining that a medicaid recipient has third party liabilities; for example, health insurance, casualty insurance, or workmens compensation, rests with State health or welfare agencies and in some States (for SSI recipients) with the Social Security Administration. Social and Rehabilitation Services does monitor the States as is required by Federal regulations to certify that the States are taking reasonable measures to ascertain any legal liability of third parties. However, no study has been made for all States to determine what percent medical recipients have such additional insurance.

A recent study done by Urban Systems Research & Engineering, Inc., under a SRS grant (contract No. 74–58) determined that in the three States surveyed (Massachusetts, North Carolina and Maryland) 50 percent of all medicaid recipients who were eligible as medically needy (AFDC related) had some kind of health insurance. The same survey indicated that approximately 80 percent of the aged medically needy recipients had other insurance (oftentimes they had medicare); 30 percent of the disabled medically needy had other insurance.

Mr. MICHEL. How widespread is the practice whereby people covered by both end up billing medicaid, thus resulting in the taxpayers footing the bill and the other insurance companies being left off the hook? Any dollar figures?

Dr. WEIKEL. Government Accounting Office audit reports and Department of Health, Education, and Welfare audit reports indicate that there are cases where medicaid is paying bills for medical services that should be paid by insurance companies. However, there is no compiled data as to how widespread this practice is or how much it is costing in Federal-State medicaid funds.

Mr. MICHEL. Are you making any effort to obtain this kind of information?

Dr. WEIKEL. There is ample data to indicate that medicaid funds are paying for medical bills that should be paid by insurance companies. We have not initiated further studies to determine how often this misallocation of funds occurs. However, we have studied the problem and determined that States are not collecting third party liabilities as they should primarily because they lack guidance on how to establish a system of recoupment. Accordingly, an operating manual for third party liability collections is being developed by Social and Rehabilitation Services for State use.

Mr. MICHEL. I understand a third party locator system would enable those people who have both medicaid cards and other insurance to be identified. How many States have adopted such a system, and are you doing anything to see to it that they do?

Dr. WEIKEL. States are required by Federal regulation to take reasonable measures to determine any legal liabilities of third parties for medical care and services included under the State's medicaid plan. Most States ask at the time of application whether a person has any kind of insurance which might help defray their medicaid costs. Persons who respond positively are in many cases queried further regarding the name of the insurance company, type of policy, services covered, et cetera. Many States have established a computer system which identifies those persons who have insurance so that when such claims are submitted they are "flagged" for billing to the appropriate liable parties. Other States require a manual review of claims to determine third party liabilities. We have no compiled data that shows how many States have automated third party locator systems or how many States have manual systems.

Social and rehabilitation services in an effort to assist States in their collection of third party liabilities is developing an operating manual for third party liability collection. When completed, this manual will guide States in the development and improvement of their own third party locator systems.

MEDICALLY NEEDY INELIGIBILITY

Mr. MICHEL. How many of the so-called "medically needy only" are receiving medicaid despite having incomes that would otherwise disqualify them? What is the dollar amount?

Dr. WEIKEL. Approximately 4.5 million persons received medicaid services as "medically needy only" in fiscal year 1975. Medicaid payments for this category of recipients amount to 39 percent of the total dollars spent for medicaid recipients. General Accounting Office studies and field tests indicate that the ineligibility rate in this group may run as high as 20 percent. If that rate is correct, ineligibility in this group is costing about $1,600 million a year in State and Federal funds.

The Social and Rehabilitation Service initiated a major quality control program on July 1, 1975. Under this program samples of paid claims are reviewed on a monthly basis in each State to determine whether or not the individual for whom the claim was paid was, in fact, eligible for medicaid. Some States have not submitted the results from the initial review to central office for analysis. Accordingly, the complete national results of this review are not yet available.

INCOME ELIGIBILITY

Mr. MICHEL. How many people receiving medicaid are above the poverty line? What is the total dollar amount going to such individuals?

Dr. WEIKEL. In fiscal year 1974—the latest year for which data is available—13 percent of the persons receiving medical assistance under the medicaid program had incomes above the Social Security Administration poverty level. It should be kept in mind, however, that the proportion of the poverty population who are medicaid recipients varies greatly from State to State. Medicaid recipients total less than 20 percent of the poverty population in eight States (Alabama, Arkansas, Mississippi, South Carolina, South Dakota, Tennessee, Texas, and Wyoming), and a number that is more than 100 percent of the poverty population in two States (California and New York). Of course, even in States with a number of medicaid recipients that exceeds the number of persons in poverty, a substantial number of the poor do not receive medicaid if they are not eligible under one of the Federal eligibility categories.

PERCENT OF INSTITUTIONAL COSTS

Mr. MICHEL. I understand that 60 percent of medicaid costs are institutional, is that correct?

Dr. WEIKEL. A report issued in November 1975 by the National Center for Social Statistics indicates that 70 percent of medicaid expenditures for fiscal year 1974 are for institutional services. Approximately 32 percent of the 70 percent is for inpatient hospital care; 18 percent is for intermediate care facility care and 20 percent is for skilled nursing facility care.

CHOICE AMONG INSTITUTIONS

Mr. MICHEL. Are there any limits on the price range of institutions that are reimbursed? In other words, there are expensive nursing homes, hospitals, et cetera and then there are lower priced ones. Is there any regulation that restricts a beneficiary from going to the most expensive one and having the cost fully paid by medicaid?

Dr. WEIKEL. No. As long as the institution meets certification requirements, it is eligible to participate in the medicaid program. The price or charge ranges vary from institution to institution as do the costs of providing services. Irrespective of the price ranges, reimbursement is based on actual costs for inpatient hospital services and limited to actual costs for other institutional services.

There is no regulation that restricts a recipient from going to any participating institution. In any case, the provider must accept the State's payment as payment in full for services rendered to medicaid recipients.

Mr. MICHEL. Do you have any method of policing what hospitals, for instance, may incorporate as part of their "reasonable cost" expenditures to insure against the inclusion of frills, inflated salaries, and so forth?

Dr. WEIKEL. Yes. The Social Security Act, under section 1902(a)(13)(D) requires that reasonable costs must be reimbursed, and that such reasonable costs may not exceed that which would be determined under section 1861(v) for purposes of title XVIII. Section 1861(v) generally defines reasonable costs as those actually incurred and necessary to the efficient delivery of needed health services. Medicare regulations under 20 CFR 405.401–405.461 implement section 1861(v) of the act through specific provisions regarding the treatment of individual cost items.

In addition, CFR 250.30(a)(4) under title XIX, requires that a State plan for medical assistance under title XIX must "Provide that the single State agency will take whatever measures are necessary to assure appropriate audit of records wherever reimbursement is based on cost of providing care or service, or fee plus costs of materials."

NEW REIMBURSEMENT REGULATIONS

Mr. MICHEL. Dr. Weikel, you provided a very interesting answer to my question last month on the medical lab kickback scandal in Chicago. You said, and I quote, "The Federal regulations allow a situation where inflated rates and kickbacks are possible." You described a situation where the medical labs are paid at the "prevailing rate" but that actual costs have dropped by 60–80 percent due to laboratory technological advances. The prevailing rate has not dropped, however, and thus you indicate that large profits result which serve as an incentive to kickback schemes as well as increased us of lab services. My question naturally is why aren't regulations being written at the Federal level to tighten up on this prevailing rate payment practice?

Dr. WEIKEL. Regulations are being written, and the first draft is near completion.

Mr. MICHEL. You said in that previous testimony that the States have the option of writing tighter regulations, but many have chosen not to do so. I assume Illinois is one of those which has not done so?

Dr. WEIKEL. That is correct. Illinois regulations are within the limits premitted by Federal regulations, however. California and New Jersey are two examples of States which have much tighter regulations in this area.

Mr. MICHEL. The "inflated charges" problem is not just limited to medical labs, is it?

Dr. WEIKEL. No; it is a problem in every area—inpatient hospital services, skilled nursing home services, physicians' services, and so forth.

LEGITIMACY OF PRICE INCREASES

Mr. MICHEL. Most of your medicaid cost increases are due to price increases, mostly institutional in nature. Do you have any opinion as to how legitimate these price increases are? I wonder how much of this results from higher fees, salaries, profits, and so forth?

Dr. WEIKEL. Current law requires that inpatient hospital services be based on reasonable costs. Reimbursement for other institutional services cannot exceed that which would be produced through the application of the medicare principles of cost reimbursement. Since actual costs to the provider are either the basis for payment (in the case of hospitals), or the ceiling for payment (in the case of nursing homes), the payment rate is directly related to actual expenditures rather than price or charge increases.

The legitimacy of specific cost increases are ultimately ascertained through the audit process. Salary costs are generally the major component of institutional costs. An allowance of a reasonable return on equity capital invested and used in the provision of patient care is allowable as an element of cost for proprietary providers. The amount allowable is based on a specific formula related to the provider's equity capital and the average rates of interest on special issues of public debt obligations issued to the Federal Hospital Insurance Trust Fund during the provider's reporting period.

UNNECESSARY SURGERY

Mr. MICHEL. How about unnecessary surgery, an issue which was raised recently in a House Government Operations Committee report. Is medicaid paying for a substantial amount of unnecessary surgery?

Dr. WELKEL. Unfortunately, the Medical Services Administration does not know if medicaid is financing a substantial amount of unnecessary surgery. It is difficult to determine what surgery is, in fact, unnecessary. This is as true for the population in general as it is for medicaid recipients—as the House Government Operations Committee hearings revealed, we do not know overall how much unnecessary surgery is performed throughout the United States today.

In addition, to even begin to determine how much medicaid surgery is unnecessary, we would have to know how many surgical procedures title XIX pays for. We can only estimate this, since surgical services are not paid for as such, but under various categories including physicians' fees and inpatient hospital services.

In summary, we do not know if the Medical Services Administration is paying for a substantial amount of unnecessary surgery. However, to the extent that this is happening, we expect that increased PSRO and utilization review activities will make it increasingly less likely to occur.

EFFECTIVENESS OF MMIS

Mr. MICHEL. How effective is the medicaid management information system automated claims processing and information retrieval system which you are promoting?

Mr. WORTMAN. The medicaid management information system has already proven itself to be a very effective automated claims processing and information retrieval system, not only in maintaining payment of claims on a current and accurate basis, but, also, by providing to State agency management information necessary to effectively plan and control the medicaid program. Evidence of this can be found in those States certified for increased Federal matching.

Mr. MICHEL. You indicate that 32 States are moving in this direction, taking advantage of the 90-percent Federal matching for development and 75-percent matching for operation. Do you have a set of basic standards which you require them to follow to insure that they will set up sound and effective systems?

Mr. WORTMAN. Yes. The criteria for determining Federal financial participation certification are cited in the Code of Federal Regulations, 45: 250.90, and further described in Program Regulation Guide, MSA–PRG–31, dated June 10, 1974.

Mr. MICHEL. Is Illinois one of the 32 States?

Mr. WORTMAN. Yes. Illinois' Advance Planning Document and Detailed Implementation Plan have received the Department of Health, Education, and Welfare's approval and the State is presently in the development and installation phase of conversion to the medicaid management information system. I would like to point out that, at this time, the number of States working toward improved medicaid systems has increased to 38.

Mr. MICHEL. I understand that Illinois had the opportunity to contract with a private foundation to operate such a system that was already in operation and ready to go. The State could have avoided paying development costs. The State, however, turned it down, and is now apparently seeking a 90-percent Federal match to develop its own system from scratch. Do you have any familiarity with these developments?

Mr. WORTMAN. First of all, there are six major subsystems within the medicaid management information system. They are: recipient, claims processing, provider, reference file, surveillance and utilization review (S/UR), and management and administrative reporting subsystem (MARS). Of these six subsystems, two (S/UR and MARS) are now under contract. Although the State did elect to implement the other four subsystems, it was not a matter of starting from scratch. but, rather, choosing to modify the existing subsystem to conform to Federal requirements. The decision was based on the State having the staff and computer capability to complete this operation.

Mr. MICHEL. How tightly are you going to run things to insure that the States don't abuse this 90 percent Federal match?

Mr. WORTMAN. As stated in the Program Regulation Guide, MSA–PRG–31, part 7–71–20C, which is made mandatory as sighted in the Code of Federal Regulations, 45:250.90(b):

> Access to the system in all of its aspects, including design, development, and operation, including work performed by any source and including cost records of contractors and subcontractors shall be made available by the State at intervals deemed necessary by the service to determine whether the conditions for approval are being met and to determine its efficiency, economy, and effectiveness. Failure by the State to provide for full access to all parts of the system by State and Federal representatives shall result in termination of payment for 90 percent and 75 percent Federal Financial Participation for the system.

There is a staff within the Social and Rehabilitation Service that is responsible for continual review of State systems activities during the developmental stages.

TIGHTENING REIMBURSEMENT POLICY

Mr. MICHEL. In your testimony last month, Dr. Weikel, you said that HEW must "write stronger regulations if the inflated charges are to be forbidden under our reimbursement policy," and that "stronger legislation holding the States more accountable for compliance with regulations would help to enforce these new and more specific regulations." Are you going to write stronger regulations, and what specific legislation would be helpful in this regard?

Dr. WEIKEL. Regulations are being written, and the first draft is near completion.

TITLE XIX AND BLOCK GRANTS

Mr. MICHEL. What will the impact of the President's block grant proposal be on the medicaid program? For instance, would we be telling the States: "We will be giving you only so much for medicaid, so you better tighten up your administration of the program, because if you don't, you can't come running to us to bail you out"?

Dr. WEIKEL. Clearly one of the advantages of the present block grant proposal is to provide to the States an added incentive for increased managerial efficiency. It should be noted, however, that the present proposal does in fact call for increments of $500 million per year of the total block grant.

Mr. MICHEL. Conversely, if the States do act to tighten up, that could free up substantially more funds for other health services, could it not?

Dr. WEIKEL. That is correct. In a program such as medicaid, where considerable dollars are wasted due to overutilization, fraud, and abuse, and simply lack of management across the entire gamut of program activities, increased managerial efficiencies and more effective program direction might indeed lead to considerable savings which in turn could be applied to other health care needs.

Mr. MICHEL. This should be a pretty good incentive to induce the States to act, should it not?

Dr. WEIKEL. We would certainly hope so.

ILLINOIS MEDICAID PROGRAM

Mr. MICHEL. Where would you rank the Illinois Public Aid Department on a scale of 1 to 50 among all the States—is it one of the worst as far as performance is concerned?

Dr. WEIKEL. Since we do not have sufficient staff to make such an assessment of each State's relative performance in the multitude of areas relating to administration of the medicaid program, it is impossible for me to give you such a ranking. I think it is fair to say, however, that Illinois has had some problems, not the least of which has been the most recent revelation about the clinical labs done by the Sixty Minutes program a few weeks ago.

Mr. MICHEL. In January, Acting Regional Commissioner Clyde Downing rejected the Illinois Department of Public Aid proposal to revise medicaid reimbursement rates. There have been reports that the State is not complying with this rejection. Do you have any information in this regard?

Dr. WEIKEL. Actually, the issue regarding the Illinois Department of Public Aid proposal is not one of rejection. The proposal could not be approved because it did not contain sufficient information on which Mr. Downing could make such a judgment.

On November 7, Mr. Downing asked Mr. Trainor for additional information regarding the proposal. Mr. Trainor replied on December 17. On January 8, Mr. Downing informed Mr. Trainor that the information supplied still was not sufficient and that the IDPA must continue to reimburse providers for inpatient hospital care, including the review of requests for interim rate adjustments under the provisions of the present approved State plan for title XIX.

Recently, Mr. Trainor filed suit against this Department requesting injunctive relief. We understand that the State has established the medicaid rate review commission. The Secretary has asked Mr. Downing to review the functions of the commission and inform the Secretary whether there is, in fact, a question of compliance to be resolved. Mr. Downing, at this time, does not believe that the establishment and the functions of the rate review commission raise a compliance issue.

Mr. MICHEL. Is the State making any effort to revise its proposal to meet Federal objections?

Dr. WEIKEL. Not to our knowledge.

Mr. MICHEL. The President of the American Medical Association claims that the State of Illinois is dragging its feet in investigating fraud in the medicaid program. Is he right in that observation?

Dr. WEIKEL. Many of the States have just begun to develop medicaid fraud control programs. This developmental process may be the basis for the charge of "foot-dragging" in Illinois. In addition, there have been a number of audits of the medicaid program done in Illinois. In some cases the State has been slow to implement audit recommendations.

Mr. MICHEL. Apparently the State refuses to reveal the names of the physicians involved in the lab kickback scandals. Do you have any ideas as to the reasons for this apparent coverup?

Dr. WEIKEL. The only reason we could understand is the protection of the confidentiality of the names during an investigation for law enforcement purposes.

NEW YORK CITY HOSPITAL CORP.

Mr. MICHEL. The New York City hospital system was recently criticized by the State of New York as being a "maze of bureaucratic inefficiencies from which there is no exit." How much Federal medicaid money goes to that hospital system?

Dr. WEIKEL. The Health and Hospital Corp. handles municipal hospitals in New York City. In fiscal year 1974, $170,605,000 of Federal dollars went into the hospital system. In fiscal year 1975, the amount was $203,700,000. In the first 7 months of fiscal year 1976, $115,100,000 of Federal money has been spent.

HOME HEALTH AGENCIES

Mr. MICHEL. You have developed a set of regulations that would basically allow profitmaking home health care agencies to operate and receive medicaid payments without a State license. Where do they stand at present?

Dr. WEIKEL. The regulations are being reviewed in the Office of the Secretary.

Mr. MICHEL. Do your regulations also provide guarantees that these agencies will provide good care and will not seek to rip off the Government? The word I get is that the regulations are silent on reimbursement controls, certificates of need, staffing patterns, and supervision requirements.

Dr. WEIKEL. The Department recognizes a very legitimate concern among a number of interested parties, particularly in light of the abuses perpetrated by some profitmaking agencies in the nursing home field. To lessen the possibility that these results will ensue, the Social and Rehabilitation Service would make home health services one of its four top priorities for monitoring against fraud and abuse and would assist States in establishing effective systems for this purpose.

As a result of the large volume and degree of interest expressed in the proposed regulations, the Social and Rehabilitation Service convened a meeting in November of the major home health groups, State representatives, consumer organizations and staff of the Senate and House Committee on Aging. Fourteen representatives attended and participated in a thorough review of all of the issues and concerns expressed during the public comment period.

Final regulations with respect to home health services are still under discussion and review in the Department and you may be assured that the proprietary agency issue, and questions with respect to staff supervision, utilization control, review and evaluation controls and procedures for provider certification will be thoroughly addressed and considered before any final decisions are made.

Mr. MICHEL. What is the justification for making it easier for these agencies to get medicaid payments? I have long been an advocate of free enterprise in this country, but there have been experiences when the profit makers rely on Government benefits for much of their income and abuses have occurred. We have seen some of this with respect to nursing homes and also with regard to proprietary schools and the guaranteed loan program.

Dr. WEIKEL. A Notice of Proposed Rule Making for home health services under the medicaid program was published in the Federal Register of August 21, 1975 (40 FR 36702), revising existing regulations on the provision of home health services under State plan for medical assistance—title XIX, Social Security Act. The purpose of the proposed revisions was to remove certain restrictions and ambigui-

ties which prevented full realization of the benefits of such services. The basis for the proposal was the Department's desire to increase the availability of home health services to medicaid recipients and to encourage their use in appropriate cases as one alternative to institutionalization.

In the summary, the proposed revisions would:

Permit certain types of qualified health service agencies, in addition to those which meet medicare standards, to provide home health services under medicaid programs;

Prescribe the standards which those agencies must meet, which parallel those for medicare but are appropriately adjusted for differing needs under medicaid;

Permit proprietary agencies to participate if they meet the standards, subject to any licensing law of the State;

Clarify that States must make available under the State plan the three main types of services needed in home care: nursing, home health aid, and supplies and equipment, and also permit them to provide various therapies as home health services; and

Clarify the medicaid recipients to whom home health services must be available, specify the requirements for a physician's determination of medical needs recorded in a plan of care and periodically reviewed, and clarify that medicare requirements relating to need for "skilled" care or to post-hospitalization do not apply under medicaid.

Nearly 1,300 comments were received from a broad range of interested parties: Members of Congress, private citizens, national health and welfare organizations, consumer and senior citizen groups, public and private providers and provider organizations, State and local agencies, et cetera. The comments themselves represented a broad range of opinion from approval of the changes to strong objections in whole or in part. Evidence of widespread interest was also presented by holding of public hearings on October 28, 1975, by subcommittees of the Senate and House Committees on Aging, and by the convening of an all-day session on the major issues to which the Department invited State, congressional, consumer and provider representatives.

The greatest controversy arose over the proposal to drop from medicaid the restrictions on proprietary agency participation applied by statute under medicare, thus allowing their participation in the medicaid program on the same basis and under the same standards as nonprofit agencies.

Under medicare, for profit agences may qualify as home health providers only if licensed by the State, however if the State does not have a licensing law, they may not be certified under the program. This provision, statutory for medicare, has been adopted by regulation for medicaid. The Department's proposal would allow proprietary agencies to qualify as medicaid providers if they met the standards prescribed in the regulations; however, States could still require licensing if they wished. Comments indicated primarily (a) a misunderstanding that States could not continue to regulate home health agencies, and (b) a strong concern that proprietary agencies would not provide quality services, since their overriding interest is in returning a profit to their owners or stockholders; that they would employ inadequately trained and supervised staff, which might lead to patient abuse; and

that they would "corner the market" of paying patients, thus driving out of business voluntary agencies which depend on payment from some percentage of patients—the net result leaving poor persons refused services by the profitmaking agencies and deprived of any other source of help. Also, some of those basically in favor of allowing for-profit agencies to participate expressed concern about the Federal and State capacity for monitoring and standards enforcement.

With respect to State licensing laws, the regulations do not limit State action—States are free to require licensing and to establish standards higher than the Federal requirements. They may also impose certificate-of-need requirements and other procedures designed to control the establishment and operation of home health agencies. What the regulations do is to establish Federal standards which all agencies must meet. Additional requirements are then properly a matter of State legislative and regulatory action.

Mr. FLOOD. Mr. Michel.

MEDICAID AND OTHER SRS ISSUES

Mr. MICHEL. I understand that SRS recently paid an Illinois claim of $240 million, which it is now seeking to get back. Is that true, and if so, what is it for and what is the problem?

Mr. WORTMAN. We deferred payment of claims for expenditures under title IV–A Social Services in the amount of about $57 million for the period January 1, 1975, through the effective date of title XX, October 1, 1975. These claims are questionable in terms of whether the services provided were in accordance with the law and regulations. These deferred claims are similar to claims which were paid for the period prior to January 1, 1975, totaling about $188 million, which are also under consideration.

Mr. MICHEL. I am happy to yield at this juncture.

GAO SURVEY ON MEDICAID-MEDICARE COSTS

Mr. FLOOD. Mr. Shriver?

Mr. SHRIVER. The human resources task force of the Budget Committee, on which I also serve, received a GAO report on the rising costs of medicaid and medicare, and the Department's efforts to control those costs over the last decade.

Are you familiar with that report?

Dr. WEIKEL. Yes, sir.

Mr. SHRIVER. There were some 83 recommendations in the report, some to the Congress and some to the Secretary of HEW. The general observation of GAO was that HEW has often been slow in implementing by regulation laws passed by the Congress to help control medicare and medicaid costs.

Would you comment on that?

Dr. WEIKEL. I think there clearly have been situations where the Department has been slow to implement various recommendations. I think in the area of medicaid, in general, that there is need for a great deal more management expertise, tighter control of the program at both the Federal level and State level. I think we are proceeding to do that, but not nearly as rapidly as some of us would like.

As one example, we are attempting to work with the States now to implement a medicaid information system. This would go a long way in terms of at least providing us with some knowledge of where and for what all those dollars are going. In some States, indeed, it is very difficult for them to indicate what the dollars are being spent for.

With that system we would have effective utilization review reports and we would also have effective management reports on a monthly and quarterly basis. That is essential to implementing any of the recommendations that are in this GAO report.

Mr. SHRIVER. To save time, would you prepare for me HEW's reponse to this report, including actions taken or planned to implement the report's recommendations which pertain to HEW?

Dr. WEIKEL. SRS, SSA and HEW are in the process of reviewing the GAO survey and preparing a response. We will be happy to provide you with a copy of that response as soon as it is available.

FEDERAL COST OF CHILD SUPPORT ENFORCEMENT

Mr. SHRIVER. On page 3 of your statement you indicate that it's costing more to administer the new child support enforcement program than is being brought in from collections from parents. Is that correct?

Mr. WORTMAN. I will have Mr. Hays address that.

Mr. HAYS. It is true that in the period of fiscal year 1977 we do estimate, again based upon estimates provided by the States, that there will be a net Federal cost of approximately $1.7 million.

However, I should point out that there is a savings to the States of approximately $127 million, so the program is immediately cost effective to the States, but as the result of some of the financial provisions in the statute, such as the 75 percent Federal reimbursement, the incentives payments to the families and the incentive payments to the political subdivisions, the net result is that the program is not immediately cost effective to the Federal Government.

We would hope that by fiscal year 1978 we would show some net Federal savings as a result of the child support program.

Mr. SHRIVER. You say half of the increase for State and local administration is for the child support enforcement program. What is the other half?

Mr. WORTMAN. The other half would be primarily salaries for staff to address problem error rates. The eligibility worker is the key person in this, and many State administrators are expanding their staffs in order to get their error rates down.

HEALTH BLOCK GRANTS

Mr. SHRIVER. Concerning the proposal for the consolidation of medicaid and 15 other health programs, the 1977 request, while it is $400 million over the 1976 funding level, it's a decrease of over $800 million from the amounts required in 1977 to maintain all activities within the block grants at their 1976 program levels, assuming no funding increases for the categorical grant programs.

Would you say that is correct?

Dr. WEIKEL. That is, I think, roughly correct. You say about $400 million.

Mr. SHRIVER. The shortfall is $800 million. Do you expect the States to fill that shortfall?

Dr. WEIKEL. Well, first of all, one of the concepts behind the block grant proposal is that there is some overlap between the medicaid program and categorical health grants like, the neighborhood mental health centers and community health centers. Those problems are also covered under the medicaid program. Because of lack of systematic control, we have not been able to pinpoint that duplication very well. We believe that some of those dollars will wash out of the system by eliminating some of the duplication and overlap at the State level.

The second reason is that in the health financing programs in general, we have been wrestling with the whole question of cost control. We see an industry today that in 1977 will have $6 billion new dollars put into it from medicaid and medicare. We don't know any regulatory controls that are presently in place or that we could design, or hope to design, that could control the rate of inflation in medical care costs until we reduce the total number of dollars that are flowing into that industry, and that is really one of the concepts behind the block grant.

We believe we must control the number of dollars going in and, therefore, the President's proposal is a $500 million increase each year. Now that will essentially cut in half, the rate of increase that has been going on.

The medicaid program alone has been increasing in Federal dollars a billion a year and a billion of State dollars. That is done very intentionally as one attempt to control the rising costs of the inflation in health care costs.

DISTRIBUTION OF MEDICAID FUNDS

Mr. SHRIVER. The health consolidation plan would distribute the funds among States according to the poverty population of each State. It would seem that medicaid funds would be distributed pretty much that way already—maybe not.

Dr. WEIKEL. No. The principal engine driving the distribution of the medicaid funds at the present time is the average per capita income of the State, and not the number of low-income citizens.

Mr. SHRIVER. Do you anticipate much change in the amounts received?

Dr. WEIKEL. It varies. The President's proposal provides protection so that no State will receive less dollars than they are receiving in 1976. And the formula that he proposes for distribution of the funds also provides a phasein, so that no State would get more than a 10-percent change during the first few years of the program. It is really not until about 1981 that we begin to see reductions. We have the total distribution of the dollars that we would be happy to submit for the record. In the case of your own State, as an example, they are presently receiving $71 million this year. They would receive $78 million——

Mr. SHRIVER. You might put that chart in the record.

[The chart follows:]

Distribution of Medicaid Funds Under Block Grant Proposal--Fiscal Years 1976-1986
(dollars in millions)

STATE	FY1976	FY1977	FY1978	FY1979	FY1980	FY1981	FY1982	FY1983	FY1984	FY1985	FY1986
ALABAMA	156.0	171.5	188.7	207.6	249.1	298.9	358.7	375.3	389.7	404.1	418.6
ALASKA	11.5	11.8	12.0	12.3	11.6	11.5	11.5	11.5	11.5	11.6	11.6
ARIZONA	12.5	13.8	15.2	16.7	20.0	24.0	28.8	34.2	41.1	49.3	59.1
ARKANSAS	111.1	122.2	134.4	147.9	177.5	213.0	225.7	234.7	243.8	252.8	261.8
CALIFORNIA	1124.8	1155.2	1173.0	1198.8	1133.5	1127.5	1126.4	1124.8	1135.3	1177.3	1219.4
COLORADO	92.1	94.5	96.0	98.1	110.4	115.2	120.0	124.8	129.6	134.4	139.2
CONNECTICUT	110.5	113.5	115.2	117.8	111.3	110.8	110.7	110.5	110.6	111.1	111.0
DELAWARE	12.9	14.2	15.7	17.2	20.7	21.7	22.6	23.5	24.4	25.3	26.2
DISTRICT OF COLUMBIA	74.2	76.3	77.4	79.1	74.8	74.4	74.4	74.2	74.3	74.7	74.6
FLORIDA	164.5	181.0	199.1	219.0	262.8	315.4	378.5	449.4	485.4	503.4	521.4
GEORGIA	235.7	259.3	285.2	313.7	359.8	375.5	391.1	406.8	422.4	438.1	453.7
HAWAII	29.3	30.1	30.6	31.2	31.8	33.2	34.3	35.9	37.3	38.7	40.1
IDAHO	31.1	34.2	37.6	41.3	43.6	45.5	47.4	49.3	51.2	53.1	55.0
ILLINOIS	458.1	470.5	477.7	488.3	461.7	459.2	458.8	458.1	458.7	462.9	479.4
INDIANA	157.8	173.6	176.3	180.1	202.2	211.0	219.8	228.6	237.4	246.2	255.0
IOWA	86.8	95.5	105.0	115.5	138.6	154.2	160.6	167.0	173.4	179.9	186.3
KANSAS	70.9	78.0	85.8	94.4	113.2	118.1	123.0	127.9	132.9	137.8	142.7
KENTUCKY	152.4	167.7	184.4	202.9	243.5	292.2	320.2	333.0	345.8	358.6	371.4
LOUISIANA	160.5	176.6	194.2	213.6	256.4	307.6	369.2	438.3	504.1	522.8	541.5
MAINE	64.4	70.9	71.9	79.1	84.5	88.2	91.9	95.6	99.2	102.9	106.6
MARYLAND	169.7	174.3	177.0	180.9	171.0	170.1	170.0	169.7	174.9	181.3	187.8
MASSACHUSETTS	354.1	363.6	369.2	377.3	356.8	354.9	354.6	354.1	354.5	356.1	355.8
MICHIGAN	461.4	473.9	481.2	491.8	465.0	462.5	462.1	461.4	462.0	464.2	463.8
MINNESOTA	193.3	198.6	201.6	206.1	215.3	224.6	234.0	243.4	252.7	262.1	271.4
MISSISSIPPI	116.4	128.0	140.8	154.9	185.9	223.1	257.7	317.9	381.4	433.4	448.8
MISSOURI	104.7	115.2	126.7	139.3	167.2	200.7	240.8	285.9	316.1	327.8	339.5
MONTANA	25.8	28.4	31.2	34.3	41.2	49.4	51.4	53.5	55.6	57.6	59.7
NEBRASKA	40.6	44.7	49.1	54.0	64.8	77.8	88.3	91.8	95.3	98.9	102.4
NEVADA	15.7	17.3	19.0	21.0	22.1	23.0	24.0	24.9	25.9	26.8	27.8
NEW HAMPSHIRE	25.7	26.4	26.8	29.5	30.8	32.2	33.5	34.8	36.2	37.5	38.9
NEW JERSEY	244.4	251.0	254.9	260.5	246.3	245.0	244.7	244.4	244.7	245.8	250.4
NEW MEXICO	34.6	38.0	41.9	46.0	55.2	66.3	79.5	94.5	113.3	136.0	151.5
NEW YORK	1668.4	1711.4	1737.8	1776.0	1679.2	1670.4	1668.8	1668.4	1668.6	1676.2	1674.8
NORTH CAROLINA	174.2	191.6	210.8	231.8	278.2	333.8	400.6	449.2	466.5	483.8	501.1
NORTH DAKOTA	21.1	23.2	25.6	28.1	33.7	38.3	39.9	41.5	43.1	44.7	46.3
OHIO	302.3	310.4	341.5	349.0	377.5	393.9	410.3	426.7	443.1	459.5	476.0
OKLAHOMA	134.6	148.1	162.9	166.5	185.4	193.4	201.5	209.6	217.6	225.7	233.7
OREGON	78.3	86.1	94.7	96.8	105.4	110.0	114.6	119.1	123.7	128.3	132.9
PENNSYLVANIA	451.9	464.1	510.5	521.8	566.8	591.5	616.1	640.7	665.4	690.0	714.7
RHODE ISLAND	60.6	62.2	63.2	64.6	61.0	60.7	60.7	60.6	60.7	60.9	60.9

STATE	FY1976	FY1977	FY1978	FY1979	FY1980	FY1981	FY1982	FY1983	FY1984	FY1985	FY1986
SOUTH CAROLINA	103.6	113.9	125.3	137.8	165.4	198.5	238.2	282.8	299.0	310.1	321.1
SOUTH DAKOTA	23.2	25.5	28.1	30.9	37.0	44.5	53.4	63.3	72.3	75.0	77.7
TENNESSEE	160.9	177.0	194.7	214.2	257.0	308.4	353.9	368.1	382.2	396.4	410.6
TEXAS	503.8	554.2	609.6	670.5	739.0	771.1	803.3	835.4	867.5	899.7	931.8
UTAH	38.6	42.5	46.7	51.4	61.7	72.8	75.8	78.9	81.9	84.9	88.0
VERMONT	32.0	32.9	36.1	36.9	40.0	41.7	43.4	45.2	46.9	48.7	50.4
VIRGINIA	140.0	154.0	169.4	186.3	223.6	265.0	276.1	287.1	298.2	309.2	320.2
WASHINGTON	137.5	141.2	143.4	146.6	138.6	138.4	144.1	149.9	155.7	161.4	167.2
WEST VIRGINIA	49.6	54.6	60.0	66.0	79.2	95.1	114.1	135.5	162.5	195.1	218.6
WISCONSIN	276.1	283.5	287.9	294.2	278.2	276.7	276.5	281.3	292.1	302.9	313.7
WYOMING	8.0	8.8	9.6	10.6	12.7	15.3	18.3	20.5	21.3	22.1	22.9
Other*		45.0	47.3	49.5	51.7	54.0	56.3	58.5	60.8	63.0	65.3
TOTALS	9466.32										
		10,000	10,500	11,000	11,500	12,200	12,900	13,500	14,050	14,550	15,000

* Puerto Rico, Virgin Islands, Guam, Am. Samoa, Trust Territories

Mr. SHRIVER. Would you expect a decrease in the amount of paperwork required from State and local governments under the consolidation plan?

Dr. WEIKEL. Absolutely. One of the second major thrusts behind the whole block grant proposal in the health care area is to remove some of the redtape of the Federal level. Essentially, this would be backing the Federal Government out of the development of regulations and turning that function over to the States. You would remove one level of government out of the process. The amount of paperwork would be significantly reduced.

CHILD DAY-CARE STAFFING RATIOS

Mr. SHRIVER. Just one final question. It gets back to this child day-care services under title XX of the Social Security Act, but I want to get it straight as to where in the law the child/supervisor ratios are mandated.

I think I have located in the law the staffing standards imposed with respect to such care in the case of children aged 10 to 14: "shall require at least one adult for each 20 children." And in the case of school-age children under the age of 10: "shall require at least one adult for each 15 children." That is in the law, isn't it?

Mr. SUZUKI. Yes. The current law gave the Secretary some options to permit more children, up to the 15 and 20 figure. As soon as the Secretary received that authority, he relaxed the standards. It had been 1 to 10, and he expanded it to 1 to 20 and 1 to 15. And below that age level, you will find specifies that will go 1 to 7, 1 to 5, at various age levels.

Mr. SHRIVER. Where is that?

Mr. SUZUKI. That is provided for in the law.

Mr. SHRIVER. I haven't found it yet.

Mr. SUZUKI. I am not sure what you looking at.

Mr. SHRIVER. I'm looking at Public Law 93-647, January 4, 1975.

Mr. SUZUKI. The law does not carry the specifics. The law says the 1968 standards are now in law. And so you have to go to the child care 1968 standards themselves to find the actual ratios. In other words, it makes it statutory by reference.

Mr. SHRIVER. I see. I am on the Budget Committee. It was pretty close the other day when they tried to get a waiver on that bill to postpone those requirements.

Mr. WORTMAN. We would like to see the Federal day care standards continue to be postponed until October, or wiped out entirely.

TECHNICAL ASSISTANCE

Mr. FLOOD. Mr. Roybal.

Mr. ROYBAL. We have been told by the States that the reason for the high error rate in deciding who should receive public assistance is due to the Federal regulations. You indicate that you give technical assistance to States to interpret the regulations. How many people work full time in the area?

Mr. NORTON. No staff members work full time in technical assistance, as all are also involved in other functions. At least 20 profes-

sionals in headquarters and about 45 in the regions spend some time each year in direct consultation with State public assistance program staff.

Mr. ROYBAL. Do you send people out to the State offices to talk with them about the regulations?

Mr. NORTON. Yes. Most of the State office visits are made by our regional staff. Many of our headquarters staff also visit State offices because it is a two-way street with both learning more about administering the law. We also believe that our management publications are a significant technical assistance.

Mr. ROYBAL. What evidence can you cite that the technical assistance has helped reduce the error rate?

Mr. NORTON. The error rates have decreased substantially since we intensified providing special assistance.

AFDC POPULATION

Mr. ROYBAL. How many persons do we have on AFDC?

Mr. NORTON. At last report there were about 11,400,000 persons receiving AFDC payments.

Mr. ROYBAL. We have heard that people in AFDC tend to produce children who subsequently wind up on some public assistance program. Are there any statistics on this point?

Mr. NORTON. No.

QUALITY CONTROL

Mr. ROYBAL. You indicate that HEW using its quality control data base will implement disallowance by requesting States to make adjustments to expenditure reports for next quarter. Explain your quality control data base.

Mr. WORTMAN. The data base from which the disallowances in AFDC will be calculated consists of the rates of error that were found in individual State programs for the period of July to December of 1975. The information that goes into this data base is generated by a review of a statistical sample of AFDC cases; this sample size is 44,000 cases for the State reviews and 8,500 cases for the Federal rereviews.

Mr. ROYBAL. You indicate that there has been some improvement in the error rate. However, the error rate is still very high. Have you established any goals with respect to what an acceptable error rate should be?

Mr. WORTMAN. There has been dramatic improvement in error rates since the inception of the quality control program in 1973. Error rates have dropped from 41 percent in 1973 to the present level of 25 percent (6.5 percent ineligibility, 13.3 percent overpaid cases, 5.5 percent underpaid cases); this amounts to close to a 40 percent reduction since 1973. The levels to which we are driving to reduce error rates are 3 percent ineligibility, 5 percent overpayments, and 5 percent underpayments.

CHILD SUPPORT EFFORTS

Mr. ROYBAL. The child support enforcement is a new program. Has a study been done to indicate how the program is working? What were the results?

Mr. WORTMAN. No study has yet been performed to evaluate the new child support enforcement program. We have a survey currently underway, with the questionnaire at OMB, to determine the level of State and local activity in child support enforcement prior to enactment of title IV–D. We also have at OMB a form on which the States will be required to report quarterly on their staff levels and case activities. These two instruments were designed to elicit comparable results. Comparison of the results of the baseline survey with the new reports of State activities should indicate how the program is working.

Evaluation of State progress may be premature at this time because the States have been somewhat hampered in their efforts because of Federal inability to operate the Parent Locator Service prior to March 15, 1976. The beginning of PLS development was delayed pending the enactment of the Department's appropriation. However, we have noted a marked increase in State and local child support activity since the enactment of the title IV–D child support program.

MEDICAID

Mr. ROYBAL. You indicated that SRS has oversight responsibility for about 53 different versions of the medicaid program. Wouldn't it be more efficient and less costly if there were only one program?

Dr. WEIKEL. The question of efficiency and cost relates to the number of levels of government involved in administration of the program and the issue of the amount of flexibility allowed in structuring the program by the various levels of government. For example, the law currently allows States a great number of options for setting eligibility for medicaid. This leads to higher costs in the Federal administration of the program since we must use manpower to be assured that the different means used for determining eligibility by States are in conformance with Federal requirements.

Mr. ROYBAL. There are still a huge number of errors in medicaid reimbursement. What have you done to cut these down?

Dr. WEIKEL. You are probably correct in stating that significant errors exist in the area of medicaid reimbursement. The 108 positions just allowed in the fiscal year 1976 appropriation will be used to detect and prosecute fraudulent reimbursements. We are also reviewing our regulations in the area of reimbursement to make sure that providers cannot take advantage of the ways in which reimbursement must be determined by States. For example some clinical labs have continued to charge the prevailing rates for some tests that, because of the introduction of automated equipment, do not cost as much to do. In this instance, regulations using the prevailing rate method are not able to account for the fact that some costs may actually be decreasing. As a result, substantial profits are being made which have led to veiled methods of kicking back some of these profits to physicians.

Mr. FLOOD. Mr. Conte.

QUALITY CONTROL DATA

Mr. CONTE. How long does it take to get error data ready to apply and adjustments to State grants? I noticed that July 1 to December 31, 1975, data will not be available for fourth quarter fiscal year 1976.

Mr. WORTMAN. The final error data for the period July to December 1975 will be available around the first of April 1976. However, due to the present process for making grant awards, the actual adjustments for these errors will not be made until October 1, 1976, or the fifth quarter.

Mr. CONTE. Would you outline some of the facets of the AFDC quality control program?

Mr. WORTMAN. The quality control system used in the AFDC program is an adoption of a technique used extensively in industry for maintaining control over the quality of production services. With large numbers of units it is more economical, and equally valid, to inspect a statistical sample of units rather than every individual unit. The units in AFDC quality control are cases, and the inspection focuses on the correctness of eligibility status and amount of payment. The system is used by States and the Federal Government and is accomplished by (1) continuous review of statistically reliable statewide samples of cases; (2) periodic assembly and analysis of case findings to determine incidence amount and causes of errors; and (3) application of these findings to develop corrective action to reduce error rates. Approximately 1,200 State and 200 Federal personnel are involved in the operation of the AFDC quality control program.

Mr. CONTE. How much would you estimate has been saved by the AFDC QC program?

Mr. WORTMAN. We estimate that there has been a direct saving since 1973 of close to $936 million as a result of the quality control program. This amount is calculated by taking the error rate that existed at the inception of the program in 1973 and comparing it to the present lower error rate; the difference is then applied to the level of expenditures to arrive at a cost avoidance saving of $936 million.

Mr. CONTE. The preliminary July to December error rates seem to be decreasing as hoped. Will this trend continue at the same pace?

Mr. WORTMAN. We have had a dramatic reduction in error rates since the inception of the quality control program in 1973. From that time to the present error rates have dropped from 41 percent to 25 percent, which is close to a 40 percent decrease. We expect that this trend will continue until the States reach the permissible error tolerances of 3 percent ineligibility, 5 percent overpayment, 5 percent underpayment.

ABSENT PARENT PROGRAM

Mr. CONTE. Why is there such a large increase in the Federal share of collections from absent parents for fiscal year 1977 as shown on page 15 of the justifications?

Mr. WORTMAN. The projected increase in the Federal share of collections results from two changes. First, the States project an 18-percent increase in total collections between fiscal year 1976 and fiscal year 1977. Second, the incentive payment to recipients, projected to be $83 million (or about 26 percent of total collections) in fiscal year 1976, decreases to zero in fiscal year 1977 in accordance with the legislative requirement that such payments end September 30, 1976. Thus, the Federal share of collections, estimated at 30 percent of total for fiscal year 1976 would increase to about 40 percent in fiscal year 1977. It should be noted that the net State share of collections is projected to in-

crease by 57 percent, from about $113 million to $178 million. I would like to insert for the record a table to clarify our estimates for you.

[The information follows:]

CHILD SUPPORT ENFORCEMENT, STATE ESTIMATES SUBMITTED NOVEMBER 1975

[Dollar amounts in millions]

	Fiscal year—	
	1976	1977
Total collections	$321.6	$379.3
Incentive to recipients	83.1	0
Incentive to political subdivisions	28.6	51.6
Net State share	113.1	177.7
Net Federal share	96.8	150.0
Administrative costs	144.4	202.3
Federal share	107.0	151.7
State share	37.4	50.6
Savings	65.5	125.4
Net Federal savings	−10.2	−1.7
Net State savings	75.7	127.1

Mr. CONTE. Are the new child support enforcement provisions fully operational?

Mr. WORTMAN. All 54 States and jurisdictions have submitted plans for the child support enforcement program. All but three plans have been approved, and grant awards in excess of $47 million have been made for costs of State and local administration. The Office of Child Support Enforcement in HEW, including the parent locator service, is operational and moving rapidly to fill the positions provided for in the fiscal year 1976 budget.

There was a delay in implementing the Federal aspects of the child support enforcement program due to the lack of appropriation until January 28, 1976. There has also been some delay in implementation in the States, which is to be expected in a new program of considerable complexity. In recognition of this fact, title IV–D provides that the States may not be penalized prior to January 1, 1977, if they are making a good faith effort to implement the program.

CASELOAD ESTIMATES

Mr. CONTE. On what do you base the assumption that AFDC caseload will decline by 200,000 monthly recipients in fiscal year 1977?

Mr. WORTMAN. Our assumptions are for a continually improving economy and we expect the recipient level to decrease accordingly.

LEGISLATIVE PROPOSAL

Mr. CONTE. You mention three legislative proposals which if enacted would reduce Federal costs and afford a more just application of law. Could you discuss these three proposals?

Mr. WORTMAN. Well, they are income disregard, changed matching formula, and stepparent support.

First, the current income disregard provisions require that the first $30 plus one-third of the remaining gross family earnings for the month be disregarded. After that, reasonable expenses attributable to earning the income are also deducted. We are proposing to disregard the first $60 of monthly earnings plus expenses for day care of children when required for employment plus one-third of the balance.

With respect to the matching formula, we are simply proposing to eliminate the old basic formula and require all the States to use the so-called alternate medical percentage formula. Seven States still use the basic formula.

Concerning stepparent support, our proposal is that stepparent income be considered when determining eligibility for AFDC.

Mr. CONTE. How would the estimated $256 million be distributed among the three proposals?

Mr. WORTMAN. We have estimated that the new disregards would save $149 million, the revised matching formula $70 million, and stepparent support $37 million.

MEDICAID

Mr. CONTE. Of the $1,030 million increase in medical assistance in 1977 how much is attributable to increasing medical costs and how much to more recipients?

Dr. WEIKEL. $994 million is attributable to increased prices while only $139 million is related to increased recipients.

Mr. CONTE. If States are beginning to submit plan revisions reducing services how much of a reduction in utilization of services may be seen in 1977?

Dr. WEIKEL. We estimate that about a third of a percent reduction, net, in utilization will occur. That is a decrease of about $25 million.

Mr. CONTE. How much effort will be expended on improved monitoring of State operations?

Dr. WEIKEL. The responsibility for State program monitoring has been decentralized to the regional offices. This provides closer access to State operations and allows for quicker responses to problems raised by the States.

To assist in improving the monitoring of State program operations and to assure regional offices are performing the required functions, the central office will function in the following ways: (1) Using the regional work plan procedure, key essential operational data and information will be gathered to provide the base for analyses and evaluation of the State operations. The State data book will be the primary means by which data will be drawn from many sources and housed for references and analyses. (2) We will computerize program and financial data to facilitate rapid availability of information and comparative analyses. (3) We will intensify our efforts in the area of follow-up monitoring of audit findings. This will involve assuring proper regional action to obtain complete resolution of problems. (4) A revised compliance strategy is under consideration that will entail joint central office/regional office staff involvement. Specific targeted items will be reviewed each year. (5) There is an intensified effort to strengthen Federal and State actions to better identify fraud and abuse as well as to be more effective in prosecution. Additional staff have been au-

thorized, and plans are currently underway to distribute this staff appropriately.

MEDICAID RURAL HEALTH INITIATIVES

Mr. CONTE. Where are the nine rural health care demonstration models mentioned on page 22 of the justification?

Dr. WEIKEL. The nine projects are located as follows: Treasure Valley, Idaho; Yakima Valley, Wash.; Gateway, Ky.; West Virginia; Somerset, Maine; Hanover, N.H.; Glendive, Mont.; Drayton, N. Dak.; and Cuba, N. Mex.

PSRO'S AND MEDICAID

Mr. CONTE. How large a role will the Professional Standards Review Organizations play in the medicaid quality control program?

Dr. WEIKEL. We assume you are referring to the utilization control program rather than the quality control program. In accordance with Public Law 92–603 PSRO's have binding review authority over services provided in medicaid programs. For this reason PSRO's will play a very large role in medicaid utilization control program. All PSRO's will develop norms, standards, and criteria which will govern in determining what care may be paid for with medicaid funds.

U.C. SURVEYS

Mr. CONTE. What was learned from the two national on-site validation surveys completed under the Utilization Control program?

Dr. WEIKEL. As a result of the two national on-site validation surveys which we conducted in fiscal year 1974 and fiscal year 1975, we were able to identify the areas where States were having problems in meeting the statutory and regulatory requirements of section 1903(g) of the Social Security Act.

We gained considerable knowledge of the State's processes of medicaid utilization control and gained insight on ways and means of implementing utilization control. Following each survey the regional office worked with all States that were found to have deficiencies in their utilization control programs in developing plans of correction for their deficiencies. As a result we were able to provide followup to assist States in improving their utilization control programs.

It is important to note that of all the deficiencies identified during the surveys, it has been reported that all have been resolved.

TITLE XX

Mr. CONTE. How many people are involved in the ongoing evaluation aspects of the title XX program?

Mr. WORTMAN. In SRS/PSA there are approximately five professional people involved in the ongoing evaluation of title XX, in the usual sense of the term "evaluation." An additional four PSA professionals are involved in monitoring of title XX. The exact number of persons involved in evaluation of title XX outside SRS/PSA—in the central office, regional offices, and States—is difficult to estimate. In full-time equivalents there are: 3 SRS staff in evaluation, 2 regional office staff in evaluation, 13 regional office staff in monitoring.

Mr. CONTE. I have received several complaints about the Federal interagency day care requirements. It is alleged that they are too concerned about numbers and not enough about quality. Would you comment on this conflict?

Mr. WORTMAN. There has been a tendency to think of the Federal interagency day care requirements (FIDCR) as pertaining only to adult-child ratios. In fact these requirements cover many aspects of program which effect quality of the day care service. In addition to staff requirements and group size the FIDCR speak to the following areas: Safety and sanitation; location of facilities; educational services—recommended but not required under title XX—social services, health, and nutrition; training of staff; parent involvement; and methods of administration. However, due to the fact that the adult-child ratios are considered to be the most costly requirement to meet and also the most easily measured in terms of compliance they have become the major issue of concern to Congress, to States, and to providers.

CHILD WELFARE SERVICES

Mr. CONTE. Do any of the child welfare services activities overlap those of the Office of Child Development?

Mr. WORTMAN. SRS/PSA has responsibility for administering the grant-in-aid programs for social services to families and children under titles XX, IV–B and, in the island territories, title IV–A. OCD has responsibility for serving as an advocate on behalf of children through a variety of activities.

Under the Secretary's reorganization order of July 7, 1969, setting up the two agencies, there are some grey areas in relation to the division of responsibilities of the two offices at both the central and regional levels. This has led to some overlap in research, evaluation, training and technical assistance efforts which has been disconcerting to the State agencies who are the recipients of these efforts.

We have and are attempting to minimize this overlap through joint SRS/PSA–OCD central office and regional office agreements related to specific child welfare activities such as foster care and adoption objectives and activities related to child abuse and neglect. SRS/PSA also participates on committees chaired by OCD such as the HEW Committee on Children, Advisory Board to the National Center on Child Abuse and Neglect, and the Intradepartmental Committee on Child Abuse and Neglect. Also each agency reviews and comments on the other's proposed and ongoing projects.

SRS/PSA is seeking ways to coordinate efforts at the planning level so that maximum use is made of existing resources which should strengthen Federal developmental projects aimed at improving State and local social services programs to children and their families and avoid overlap and duplication of effort.

Mr. CONTE. The justification states that you have accumulated an impressive body of knowledge in the child welfare area. Is any effort made to disseminate this information?

Mr. WORTMAN. SRS/PSA has a dissemination plan for sharing with the States important and relevant child welfare research findings, information on exemplary programs, and technical assistance materials of all kinds. For example, materials to State social service

agencies and to interested persons either distributed or currently in process include—

Child Neglect, an Annotated Bibliography (1,500 copies distributed to date; second printing in process);

Profile of Neglect, a Survey of the State of Knowledge of Child Neglect (6,400 copies distributed to date; third printing in process);

Report of the Bowen Center Demonstration Project in Child Protective Services;

What Is Harmful to Children, a Survey of Experts and a Literature Review;

Child Abuse and Neglect, Report of a Survey of Public Departments of Social Services;

A Guide for Public Social Service Agencies on the Administration and Management of Services to Abused and Neglected Children and Their Families;

Runaway Youth, How Are They To Be Served?

Training Materials Developed on Protective Services to Abused and Neglected Children and Their Families;

Training and Recource Manual for Foster Care Staff and Foster Parents;

Training Materials Developed on Services to Runaway Youth; and

Training Materials for Social Service Workers Concerned With Support of Early and Periodic Screening, Diagnosis, and Treatment.

Mr. FLOOD. Gentlemen, thank you very much.

[The justifications which follow have been revised at the request of the committee:]

JUSTIFICATION OF THE BUDGET ESTIMATES

Appropriation Estimate

PUBLIC ASSISTANCE

For carrying out, except as otherwise provided, title I, IV, [VI,] X, XI, XIV, XVI, XIX, and XX of the Social Security Act, *as amended*, and the Act of July 5, 1960 (24 U.S.C., ch. 9) [$15,009,400,000 of which $55,000,000] *$18,022,200,000, of which $46,000,000* shall be for child welfare services under part B of title IV *and not to exceed $60,000,000 shall be for State and local training under titles I, IV, X, XI, XIV, XVI, and XX.*[1]

For making, after [March 31] *June 30*[2] of the current fiscal year, payments to States under titles I, IV, [VI], X, XIV, XVI, XIX and XX, respectively, of the Social Security Act, *as amended*, for the last three months of the current fiscal year (except with respect to activities included in the appropriation for "Work incentives"); and for making after [April 30] *July 31*[2] of the current fiscal year, payments for the [period July 1, 1976 through September 30, 1976] *first quarter of the succeeding fiscal year*[2]; such sums as may be necessary, the obligations incurred and the expenditures made thereunder for payments under each of such titles to be charged to the subsequent appropriations therefor for the current or succeeding fiscal year [or the period of July 1, 1976, through September 30, 1976, or fiscal year 1977].

In the administration of titles I, IV (other than part C thereof), [VI], X, XIV, XVI, XIX, and XX, respectively, of the Social Security Act, payments to a State under any such titles for any quarter in the period beginning [April 1 of the

[1] A cap is proposed to the Federal share of States' expenditures for the State and local training activity as opposed to the open-ended nature of the authorizing legislation.

[2] Change resulting from a change in the fiscal year.

prior year] *July 1, 1976* [2] and ending [June 30] *September 30, 1977* [2] [of the current year] may be made with respect to a State plan approved under such title prior to or during such period, but no such payment shall be made with respect to any plan for any quarter prior to the quarter in which a *subsequently approved* [3] plan was submitted [which was subsequently approved].

Such amounts as may be necessary from this appropriation shall be available for grants to States for any period in [the prior] fiscal year *1976 and the period July 1, 1976 through September 30, 1976* [2] subsequent to March 31, [or that year] *1976* [2].

Language provision	*Explanation*
* * * of which $46 million shall be for child welfare services under part B of title IV * * *	The child welfare services program is a closed-end formula grant program as opposed to the open-ended maintenance, medicaid and social services programs; thus, funds are specifically identified.
* * * and not to exceed $60 million shall be for State and local training under titles I, IV, X, XI, XIV, XVI, and XX.	This is an open-ended program for which it is proposed the Federal share be capped.
* * * but no such payment shall be made with respect to any plan for any quarter prior to the quarter in which a subsequently approved plan was submitted.	This language restricts payments for matchable expenditures to those contained in a current State plan.
Such amounts as may be necessary from this appropriation shall be available for grants to States for any period in fiscal year 1976 and the period July 1, 1976 through September 30, 1976, subsequent to March 31, 1976.	This provision reconfirms authority provided in the prior year appropriation to permit the use of subsequent year funds for grants for the fourth quarter of the current year.

[2] Change resulting from a change in the fiscal year.
[3] Editorial change.

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL AND REHABILITATION SERVICE

Public Assistance

Amounts Available for Obligation

	1976	1977
Appropriation	$15,003,950,000	$18,022,200,000
Proposed amendment	1,988,967,000	--
Subtotal, appropriation	16,992,917,000	18,022,200,000
Appropriation available in prior year	-4,360,405,000	-4,501,000,000 1/
Appropriation available from subsequent year	4,391,000,000	5,003,000,000
Total, obligations	17,023,512,000	18,524,200,000

1/ Does not equal subsequent year amount from 1976 due to transition period.

Summary of Changes

1976 Appropriation	$15,003,950,000
PLUS: 1976 proposed amendment	1,988,967,000
1976 Revised budget authority	16,992,917,000
1977 Requested budget authority	18,022,200,000
Net change	1,029,283,000

	1976 Base Amount	Change from Base Amount
Increases:		
A. Built-in		
1. Non-recurring recoveries in 1976 of prior year funds used for Adult categories	-$16,894,000	+$ 16,894,000
B. Program		
1. Maintenance assistance		
(a) Adult categories	3,939,000	+ 61,000
(b) Aid to families with dependent children	5,243,329,000	+ 211,691,000
(c) Emergency assistance	55,037,000	+ 4,963,000
(d) State and local administration	611,611,000	+ 83,389,000
(e) Repatriation of U.S. nationals	882,000	+ 98,000
2. Medical assistance		
(a) Medical payments	7,841,715,000	+1,052,285,000
(b) Administration and training	342,000,000	+ 56,000,000
3. Social services	2,258,096,000	+ 141,904,000
4. State and local training	53,156,000	+ 6,844,000
5. Child Welfare Services	52,500,000	- 6,500,000
6. Training projects	7,450,000	- 7,450,000
Subtotal, program increases		1,543,285,000
Total, increases		1,560,179,000
Decreases:		
A. Built-in		
1. 1976 funds used to complete 1975 requirements	530,896,000	-530,896,000
Total, net change		+1,029,283,000

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Obligations by Activity

Page Ref.		1976 Revised	1977 Estimate	Increase or Decrease
14	Maintenance assistance.....	$5,897,904,000	$6,215,000,000	+$ 317,096,000
19	Medical assistance.....	8,261,993,000	9,292,000,000	+ 1,030,007,000
23	Social services.....	2,698,898,000	2,400,000,000	- 298,898,000
28	State and local training...	64,972,000	60,000,000	- 4,972,000
30	Child welfare services.....	52,500,000	46,000,000	-6,500,000
32	Research and evaluation....	9,200,000	9,200,000	--
34A	Training projects.....	7,450,000	--	-7,450,000
	Subtotal, obligations against budget authority.....	16,992,917,000	18,022,200,000	+ 1,029,283,000
	Available in prior year...	-4,360,405,000	-4,501,000,000	- 140,595,000
	Available in subsequent year.....	4,391,000,000	5,003,000,000	+ 612,000,000
	Total obligations during the fiscal year.....	17,023,512,000	18,524,200,000	+ 1,500,688,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Other services	$ 2,500,000	$ 2,500,000	--
Grants, subsidies and contributions	17,021,012,000	18,521,700,000	+$1,500,688,000
Total obligations by object	17,023,512,000	18,524,200,000	+1,500,688,000

Significant Items in House and Senate Appropriation Committee Reports

Item	Action taken or to be taken
1976 Senate Report	
Medical Assistance	
1. Committee directs SRS to make available $10,000,000 from existing Title XIX funds each year to the Medical Services Administration to conduct rural health research and demonstration projects for five years beginning in FY 1975.	1. In FY 1975 the Medical Services Administration (MSA) funded nine rural health research projects as directed by the Committee. Thus far in FY 1976, MSA is completing guidelines for an additional 17 to 25 projects to be funded by the end of the fiscal year. These guidelines are being developed with Maternal and Child Health, National Cancer Institute, and National Library of Medicine.
2. MSA is to submit annual reports on the conduct of these projects to the Committee each year.	2. As directed MSA will provide a full report on this program at the time of the FY 1977 Senate Appropriations hearings.
3. MSA may use up to $400,000 for contracts to provide technical assistance necessary to manage the program effectively.	3. The $400,000 authorized in the FY 1976 Senate Appropriations Committee report will be used for technical assistance contracts; and appropriate research contracts, necessary to manage the program effectively, will be awarded upon passage of the FY 1976 budget.
4. The Committee directs that some awards be made to areas, not necessarily the most rural and needy, which may serve as models for the rest of the nation.	4. MSA in its selection process will identify rural areas to locate projects which will serve as models of effective health care delivery and financing applicable to other parts of the nation.

5. Committee expressed concern about the lag and low level of EPSDT implementation in States, despite some penalties being taken. Also, concern was expressed about 1) lack of follow-up systems to assure and document diagnosis and treatment; 2) inability to develop and monitor providers State-wide: 3) incomplete data on number of eligible children.

5. Despite continuing problems in some States, FY 1975 figures indicate a steadily increasing number of children screened each quarter. We expect this trend to continue. Penalty regulations are under revision to clarify basic program requirements. Two other activities are underway to correct data and tracking problems:
1) Statistical reporting requirements are being revised to include eligibles, diagnosis and treatment, and costs.
2) A general systems design of a State-oriented EPSDT management information system will be available to assist States in 1976.

Authorizing Legislation

	Amount Authorized	1977 Budget Request
Public Assistance (Social Security Act)		
1. Maintenance assistance		
(a) Adult categories (Title I, Sec. 1, Title X Sec. 1001, Title XIV Sec. 1401, and Title XVI)	Indefinite	$4,000,000
(b) Aid to families with dependent children (Title IV Part A Sec. 401)	Indefinite	5,455,020,000
(c) Emergency assistance (Title IV Part A Sec. 401)	Indefinite	60,000,000
(d) State and local administration (Titles I, IV, X, XIV, and XVI)	Indefinite	695,000,000
(e) Assistance to repatriated U.S. nationals (Title XI Sec. 1113)	300,000	300,000
(Public Law 86-571 Sec. 2)	Indefinite	680,000
2. Medical assistance (Title XIX Sec. 1901)	Indefinite	9,292,000,000
3. Social services (Titles I, IV, X, XI, XIV, XVI, and XX)	2,500,000,000	2,400,000,000
4. State and local training (Titles I, IV, X, XIV, XVI and XX)	Indefinite	60,000,000
5. Child welfare services (Title IV Part B Sec. 420)	266,000,000	46,000,000
6. Research and evaluation (Title IV Part B Sec. 426 and Title XI Sec. 1110)	Indefinite	9,200,000
(Title XI Sec. 1115)	4,000,000	
7. Training projects (Title IV Sec. 426)	Indefinite	--

Public Assistance

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1966	$3,893,552,000	$3,651,452,000	$3,651,452,000	$3,651,452,000
1967	4,271,860,000	4,271,860,000	4,225,460,000	4,225,460,000
1968	5,494,175,000	5,315,432,000	5,315,525,000	5,315,525,000
1969	6,477,391,000	6,473,391,000	6,473,391,000	6,473,391,000
1970	7,538,004,000	7,538,004,000	7,538,004,000	7,538,004,000
1971	9,682,057,000	9,682,057,000	9,682,057,000	9,682,057,000
1972	12,215,134,000	12,215,134,000	12,215,134,000	12,215,134,000
1973	13,975,687,000	14,000,687,000	13,975,687,000	13,975,687,000
1974	12,068,521,000	11,851,521,000	11,626,521,000	11,663,521,000
1975	15,010,518,000	14,132,612,000	13,841,479,000	13,841,479,000
1976	14,999,085,000	15,000,000,000	15,009,400,000	15,003,950,000
Proposed Amend-ment	1,988,967,000			
1977	18,022,200,000			

Justification

Public Assistance

Program/Activity	1976 Estimate	1977 Estimate	Increase or Decrease
Maintenance assistance	$5,897,904,000	$6,215,000,000	+317,096,000
Medical assistance	8,261,993,000	9,292,000,000	+1,030,007,000
Social services	2,698,898,000	2,400,000,000	-298,898,000
State and local training	64,972,000	60,000,000	-4,972,000
Child welfare services	52,500,000	46,000,000	-6,500,000
Research and evaluation	9,200,000	9,200,000	---
Training projects	7,450,000	--	-7,450,000
Total	16,992,917,000	18,022,200,000	+1,029,283,000

General Statement

Grants to States for public assistance are made for the Federal share of State expenditures for maintenance assistance, medical assistance, social services, State and local training, and child welfare services. In addition, assistance is provided for repatriated U.S. nationals. Estimates of requirements for this appropriation are based primarily on estimates received from the States in August 1975, adjusted to take into consideration the impact of Federal policy changes not yet fully reflected in the States' estimates and the impact of Federal management initiatives.

The 1977 budget request is for $18,022,200,000, an increase of $1,029,283,000 over 1976 requirements. The highlights and components of this increase are as follows:

— The AFDC caseload is projected to decline by 200,000 in 1977 based on the assumption that the 1976 level represents a peak period of impact resulting from the economic downturn and that with improved economic conditions the number of persons requiring aid will return to a more stabilized level experienced in recent years. The cost increases in the 1977 budget relate to increases in average payments offset by quality control adjustments expected to amount to $220 million.

-- The cost of medical services continues to reflect rising prices which accounts for most of the Medicaid increases between 1976 and 1977. These costs have been accelerating rapidly since the wage/price controls were lifted May 1, 1974.

-- The Department's efforts to control AFDC costs through the quality control programs show a measure of success in that the national error rate has dropped from 41% in 1974 to 31%. These efforts will continue to be a major activity in reducing Federal costs by reducing the incidence of ineligibility and payment errors in the program. Further development and implementation of continued corrective action plans will be highlighted in 1977.

-- The Medicaid management activities are continuing to place high priority on early screening, medicaid quality control, utilization reviews and fraud and abuse. Rural health research and demonstration projects are being supported to concentrate on the problems of disparity in rural and urban health delivery systems.

-- States are indicating that under the Title XX services program effective October 1, 1975, they will be at or near the $2.5 billion ceiling level in 1977 with estimated requirements of $2.4 billion in Federal funds.

-- Estimates of the impact of Title IV-D Child Support Enforcement are included in the 1977 budget based on plans submitted by the States. Full implementation is mandated by January 1, 1977.

1. Maintenance Assistance

Program	1976 Estimate	1977 Estimate	Increase or Decrease
Maintenance Assistance:			
Adult Categories	$3,939,000	$4,000,000	+$61,000
Aid to families with dependent children	5,243,329,000	5,455,020,000	+211,691,000
Emergency assistance	55,037,000	60,000,000	+4,963,000
State and local administration	611,611,000	695,000,000	+83,389,000
Assistance to repatriated U.S. Nationals	882,000	980,000	+98,000
Adult phaseout	-16,894,000	---	+16,894,000
Total	5,897,904,000	6,215,000,000	+317,096,000

Grants are made to reimburse State welfare agencies for part of the costs of cash assistance payments made to families with dependent children. Grants are also made to Guam, Puerto Rico, and the Virgin Islands to enable these jurisdictions to furnish financial assistance to the needy, aged, blind, and permanently and totally disabled. These programs are authorized under Titles I, IV, X, XIV, and XVI of the Social Security Act.

Included in these estimates are 100 percent funds for the repatriation program that provides financial assistance and services to U.S. nationals repatriated from abroad because of illness, destitution, or international crises.

Objectives, 1977: Estimates for 1977 anticipate that there will be a decline in the AFDC caseload amounting to 200,000 average monthly recipients from the 11,500,000 estimated for 1976. The recent economic downturn has increased the recipient count in 1976 by an average of 500,000 recipients above the level receiving cash assistance in the past several years. The caseload reached an all time high of 11,395,000 in April of 1975, resulting from the negative economic situation. This peak began to taper during the summer months as part of the normal seasonal trends. Preliminary reports for october indicate a level of 11,400,000 recipients.

The estimates for 1977 assume improvements in the economy which will tend to reduce AFDC recipient levels to a monthly average of 11,300,000 with a projected $7 increase in average monthly payments to $77.

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These principal costs factors are closely monitored and will continue to be included in the quarterly reports to Congress on the status of the public assistance funds requirements.

Emphasis is continuing to be placed on the quality control activity. Quality control impact is estimated at $220 million in 1977. The actual error data for the period July 1 - December 31, 1975, will not be available in time to apply the adjustments to the State grants for the fourth quarter of FY 1976 as had been originally planned. Moreover, beginning in the third quarter of FY 1976, HEW is no longer applying the adjustments on a prospective basis to the States' estimated requirements as had been the past practice. The quality control data base for the first half of 1975 will be used to effect adjustments to grants beginning with those issued for the first quarter of FY 1977. HEW will apply disallowances to expenditure reports for the quarter ending June 30, 1976, as part of the regular cycle of adjusting for prior periods in the upcoming grant award process. The States' expenditure reports, to be received about mid-August, will be used to compute the grant awards for the first quarter of FY 1977 at which time disallowance for the second half of fiscal year 1975 will be effected.

The new Child Support Enforcement provisions are currently being implemented by the States which are required by law to have in place fully operational programs by January 1, 1977, or incur a 5% penalty on AFDC costs. All State plans have been submitted and 42 have been approved. Estimates are highly tentative because of the lack of significant previous experience in implementing a comparable program. Estimates for the collections from absent parents are included in the AFDC projected costs. The estimated cost of State and local Administration of the Child Support activity is included in the Maintenance State and Local Administration amounts. The Federal share of collections reflects the reduction that results from adjusting for the incentive payments to recipients and political subdivisions. It is estimated that the following Federal costs are involved:

Federal Share	1976	1977
Collections.....	$96,824,000	$150,000,000
State and Local Administration.....	106,955,000	151,700,000

Increasing costs will be partially held in check by the continuing quality control program and an increased emphasis on review of State programs and plan material to assure that operations and plans adhere to Federal law and policy. Savings or cost avoidances are inherent in these management activities being in operation, as well as assuring that the intent of the basic legislation is being served in providing equitable assistance to the eligible needy families in all jurisdictions.

Legislative changes are to be introduced which will, when enacted reduce Federal costs and afford more just application of the original intent of basic law. Three proposals are to be introduced: 1, a change in the treatment of earned income disregard, and the amount of such income to be applied against needs; 2, requiring States to use the medical matching percentage in claiming Federal financial participation; and 3, requiring a step parent to assume financial responsibility for all children in the family. Savings anticipated from enactment of these proposals total $256 million.

Accomplishments 1975/1976: Efforts to improve the administration of the AFDC program have continued and are producing results. All States have submitted corrective action plans designed to reduce the ineligibility and payment error rates. While error rates have been reduced, further improvement is possible and efforts to achieve improvement will continue. States are starting to use a simplified form for their State welfare plans. All States will use the same format and cover only Federally shared cash assistance programs so that options and responsibilities of that State welfare plan are succinctly stated in one policy document. Prior to simplification, States' plans were their operating manuals with policy for any one program scattered among many parts of often voluminous instructions. Review of specific program aspects will be significantly enhanced when implementation is completed in 1976.

The number of individuals receiving payments reached its highest in April 1975 with 11,395,000 persons on the rolls. The number of recipients has reacted seasonally during the first three months of fiscal year 1976 indicating a leveling of economic conditions. While some of the change from past trends can be attributed to the impact of quality control, other factors are also surfacing. The number of persons per recipient family has dropped from a high of 4.1 in 1968 to 3.3 in 1975. The number of families receiving payments reached a new high in April 1975. Decreasing family size, reduced income and increasing cost of living have worked together to steadily increase average payments.

The following Table summarizes total and Federal expenditures by program, together with program trend data from 1973 through 1975 for the AFDC program:

Summary - Federal and Total Expenditures by Program

1. Aid to families with dependent children: Estimated expenditures for maintenance payments to recipients, fiscal year 1976 and 1977

	1976 Estimate	1977 Estimate	Change 1977 from 1976
Payments to recipients:			
Total	$9,498,784,000	$9,882,020,000	+$383,236,000
Federal Share			
Amount	5,243,329,000	5,455,020,000	+211,691,000
Percent of total	55.0	55.0	---
Average monthly number:			
Families	3,527,000	3,465,000	-62,000
Recipients	11,500,000	11,300,000	-200,000
Children	8,419,000	8,200,000	-219,000
Recipient rate per 1,000 total civilian population	53.7	52.3	---
Average monthly payment per recipient	70.0	77.00	+7.00

Recent Trends in the AFDC Program

	Fiscal Year		
	1973	1974	1975
Recipients:			
Average monthly number	10,979,630	11,066,424	11,080,000
Percentage change from preceding fiscal year	+4.5	+.8	+.1
Recipient rate per 1,000 total civilian population	52.4	52.8	52.1
Average monthly payment:			
Amount per recipient	$52.78	$56.60	$64.30
Change from preceding fiscal year	+0.55	+3.82	+7.70

Continued - Other Maintenance Activities

	1976 Estimate	1977 Estimate	Change 1977 from 1976
2. Adult categories - Total.....	$7,878,000	$8,000,000	+$122,000
Federal share.....	3,939,000	4,000,000	+61,000
Adult phaseout.....	-16,894,000	---	+16,894,000
3. Emergency Assistance - Total.	110,074,000	120,000,000	+9,926,000
Federal share.....	55,037,000	60,000,000	+4,963,000
4. State and Local Administration - Total.....	1,259,472,000	1,435,000,000	+175,528,000
Federal share.....	611,611,000	695,000,000	+83,389,000
5. Repatriation Total/Federal share.....	882,000	980,000	+98,000
Total.....	10,877,090,000	11,446,000,000	+568,910,000
Federal share.....	5,897,904,000	6,215,000,000	+317,096,000

2. Medical Assistance

Program	1976 Estimate	1977 Estimate	Increase or Decrease
1. Medical Vendor Payments	$7,826,590,000	$8,878,875,000	+1,052,285,000
2. State and local administration	342,000,000	398,000,000	+ 56,000,000
3. Funds used to complete 1975	78,278,000	---	- 78,278,000
Subtotal	8,246,868,000	9,276,875,000	+1,030,007,000
4. Rural Health	10,000,000	10,000,000	---
5. Section 222	5,125,000	5,125,000	---
Total for all activities	$8,261,993,000	9,292,000,000	+1,030,007,000

General Statement

1977 Estimates: Requirements for this program are estimated to increase by $1,030,007,000 from 1976 to 1977. States continue to cite increasing costs of providing Medical care as the overwhelming reason for increases in program costs. Those states which are reimbursing Skilled Nursing facilities on a fee schedule basis will now be required to be reimbursed on a reasonable cost basis as required by P.L. 92-603 (Sec. 249). This will have a significant effect in instances where the per diem fee is under the reimbursement rate required in FY 1977.

More recipients are estimated in FY 1977 by most States, although the impact of such increases is much less than the increases for prices.

Some states have, in the past, claimed that they were going to cut back on their Medicaid programs in order to reduce the rate by which their programs were increasing. However this has actually happened in a very few instances since 1970 (for example, Delaware dropped coverage for the Medically Needy in 1970). Recently, States have begun to submit plan revisions reducing services or have inquired about how to submit plan changes involving cuts. It is therefore likely that a slight reduction in utilization of services may be seen in FY 1977.

We are not yet at the stage where we can aggregate the price, recipient, and utilization factors from the States in any systematic way. But the following table shows our best estimate from the data submitted in August. (With the advancing of the schedule for submission of budget materials to Congress, it is no longer possible to use the November estimates as the basis for budget preparation.)

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Increases in program costs from FY 1976 to FY 1977 of 13.56%

Factor		Program Base	Base as a Percentage of Total Program	Percent Change	Weighted Impact	Total Impact
A. Prices	1.	Reasonable cost reimbursed	48%	16.37	7.86	
	2.	All other	52%	8.0	4.16	
		Total				12.02
B. Recipients	1.	SSI	64%	1.5	0.96	
	2.	AFDC	36%	2.0	0.72	
		Total				1.68
C. Utilization		Total	100%	-0.30	-0.30	-0.30

Factor for the total increase 1.1202 x 1.0168 x .9970 = 1.1356 (or 13.56 percent)

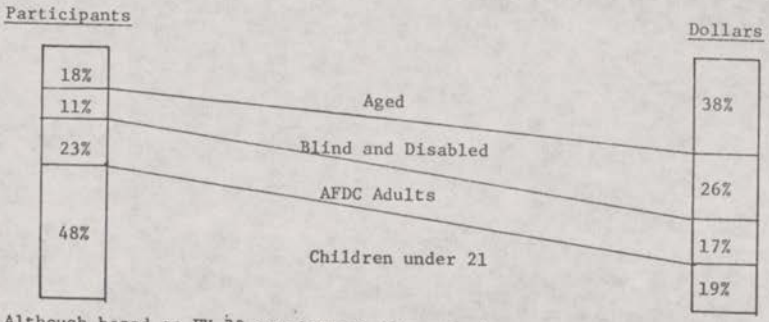
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Distribution of Federal Payments
Obligations
(dollars in millions)

Type of Service	1976 dollars	1976 percent of total vendor payments	1977 dollars	1977 percent of total vendor payments
General & TB	2,090	26.7	2,211	24.9
Mental	321	4.1	364	4.1
SNF	1,346	17.2	1,607	18.1
ICF	1,338	17.1	1,438	16.2
Outpatient 1/	423	5.4	515	5.8
Physicians	806	10.3	915	10.3
Dental	211	2.7	222	2.5
Drugs	517	6.6	542	6.1
Others 2/	775	9.9	1,065	12.0
Subtotal, Vendor Payments	7,827	100.0	8,879	100.0
Administration and Training	342		398	
Funds used to complete 1975	78			
Total	8,247		9,277	

1/ Outpatient includes Clinic Services and Outpatient Hospital Services.
2/ Other includes Other Practitioners Services, Laboratory and Radiological Services, Home Health Services, SMIB, Family Planning, and Other Services.

Distribution of Participants and Dollars by Category of Assistance



a/ Although based on FY 73 statistical data, it is not expected that significant deviations from this distribution would appear. Source: NCSS B-4 (FY73)

Number of Recipients: The following is the estimated number of different individuals, by basis of eligibility, receiving Federal medical assistance.

	1975	1976	1977
All recipients	22,467,000	23,199,005	23,629,149
Aged 65 and over	4,170,000	4,232,550	4,296,038
Blind	127,000	128,905	130,838
Permanent and total disability	2,370,000	2,405,550	2,441,633
Children under 21	10,700,000	11,128,000	11,350,560
Adults in AFDC families	5,100,000	5,304,000	5,410,080

Accomplishments, 1975-1976; Program Plans for 1977: The objectives of the program for FY 1977 have not changed from the last year. Since the program is large and complex, it requires investment of significant resources in a timely manner, just to begin to see improvements. These objectives are: Persons eligible for and in need of health care need to be assured that they have access to services and that services are used appropriately; persons eligible need to understand their rights and responsibilities in using services. Health services provided to eligible persons must meet standards of quality for adequate health care equivalent to what is available to the rest of the population. Funds must be used in positive ways to influence improved methods of delivery and financing health care. Providers of health service should understand their rights and responsibilities under the program and be persuaded to participate and receive prompt compensation. Accountability to the public for expenditures of tax dollars must be assured through application of necessary and appropriate administrative controls over eligibility for services, program costs and program services.

EPSDT: Despite continuing problems in some states, there are steadily increasing numbers of children screened each quarter. We expect this trend to continue. Penalty regulations are under revision to clarify basic program requirements. Two other activities are underway to correct data and tracking problems: (1) Statistical reporting requirements are being revised to include eligibles, diagnosis and treatment, and costs. (2) A general systems design of a State-oriented EPSDT management information system will be available to assist States by the start of FY 1977.

Utilization Review: New requirements were issued by the Department requiring review of the utilization of institutional services for persons covered under Medicare and Medicaid. With the emergence of PSRO's at the local level, waivers of the Department's UR requirements will be made to let the PSRO assume the administrative functions of performing UR.

Increasing State Capabilities: Improved State management of the program requires transferring good management practices to other States; strengthening the planning and budgeting process, following through on third party liability, more effective utilization control, and improving the delivery of health services to eligibles.

Improved Monitoring of State Operations: By FY 77 we will have implemented an improved system for data collection and monitoring of State programs. Without this activity it would be impossible to systematically increase State capability. The program review process will continue and provider fraud and abuse will be identified and prosecuted.

Rural Health and Demonstrations: As a response to the growing disparity in rural and urban health delivery systems, the decreasing number of primary care physicians in rural areas, the inequities in the availability of health care services to the Medicaid eligible population in rural areas, and in preparation for a future National Health Insurance, grants of $3,299,000 of FY 1975 title XIX program funds were made to 9 projects to provide innovative research and demonstration models of rural health care. Up to $10 million will be used in FY 1977 to provide new and continuation grants for this activity, with up to $400,000 of this amount for contracts to provide technical assistance for contracts necessary to manage the program effectively.

These models will provide primary medical care services to Medicaid eligibles. Other members of the rural communities served by these projects will also be able to receive these services on a fee-for-service or other reimbursable basis. There will be particular emphasis on maternal and child health services, the early and periodic screening, diagnosis and treatment of children and pap smear testing, and breast cancer detection for women. These models will demonstrate the effective use of preventive health services and health education in reducing utilization and improving health status. They will also do research on, and demonstrate the viability of recruiting and attaching various patterns of physician extenders and use of telecommunications technology in delivering effective health care services to rural populations. The projects will demonstrate the ability to attract primary care physicians to these innovative settings. These projects are a coordinated effort between the Medical Services Administration, the Maternal and Child Health Program, the National Cancer Institute and the National Library of Medicine. These projects are to be instituted in diverse geographical settings throughout the United States in order to provide a set of models applicable to most rural settings in the United States.

3. Social Services

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	1976 Estimate	1977 Estimate	Increase or Decrease
Budget Authority	$2,698,898,000 1/	$2,400,000,000	-298,898,000
Used to complete 1975	-440,802,000	---	+440,802,000
Program Level	2,258,096,000	2,400,000,000	+141,904,000

General Statement

Under Title XX of the Social Security Act, grants are made to States to provide social services which will assist eligible persons to become or remain economically self-supporting and self-sufficient; to protect children and adults who cannot protect themselves from abuse, neglect, and exploitation, and to help families stay together; to prevent or reduce inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and to arrange for institutional placement, when appropriate, and for services to individuals in institutions.

A ceiling of $2,500,000,000 is placed on Federal funding with each State receiving an allocation in proportion to the percentage of its population to the National population. Grants are made to States based on matching rates of 75 percent for all services except family planning services which are matched at 90 percent. Unused State allocations up to $16,000,000 may be reallotted to Puerto Rico, $15,000,000; Guam, $500,000; and the Virgin Islands, $500,000. This special allocation is in addition to the amounts available to these Territories subject to other legislative limitations.

Title XX places increased authority in and responsibility on States and their citizenry to develop social services programs that meet the needs of people in local communities. This new legislation brings about major changes in program eligibility, program planning, and accountability. The objectives of Title XX are:

-- to focus social services funds on low income persons who most need the services;

-- to ensure clear administrative accountability for planning and for using social services funds;

-- to ensure fiscal responsibility by providing States with a sound framework for operating services programs within the $2,500,000,000 ceiling;

-- to allow States maximum flexibility in the definition of services.

The 1977 Program: In fiscal year 1977 most States will be in their third cycle of preparing their services plan with public participation. It is anticipated that the citizenry of each State will become more familiar with the public review process and that there will be a continuous improvement in States capability to adjust the services program to meet the needs of the community.

Technical and program assistance will be provided to States in the development of their services plans, and service delivery mechanisms. A program of monitoring and program review will be carried out to assure that the specific conformity requirements and requirements for Federal financial participation are met.

An integral part of the Title XX legislation is the requirement for ongoing evaluation of the Title XX program. By July 1, 1977, a special report on the effectiveness of the program covering calendar years 1975 and 1976, together with any recommendations for improvement, will be submitted. This is in addition to the annual report to Congress on the results of ongoing evaluation.

Prior to July 1, 1977, the study of the appropriateness of the Federal Interagency Day Care Requirements must also be submitted to Congress. Issues concerning adult-child ratios, requirements for environmental standards, educational services, social services, health and nutrition services, training of staff, parent involvement, administration and coordination, and evaluation need to be addressed in the appropriateness study and report to Congress.

During 1977, the Social Services Reporting Requirements adopted under Title XX will be operational. This system is designed to provide management information required for Federal reporting and program management.

The 1977 estimates are based on States' August 1975 estimates and additional funding required for program expansion anticipated as a result of giving States greater flexibility in defining services and in including broader groups of persons eligible for services. A continuing assessment of States' funding requirements will take place throughout the year, and such reports will be submitted to Congress quarterly.

Listed below are the estimated distribution of Federal costs for fiscal years 1975, 1976 and 1977.

Federal Costs	1975	1976	1977
Service Provided to Income Maintenance Recipients:			
AFDC	$1,348,288,000 1/	$858,096,000	$918,000,000
SSI	614,285,000 1/	447,100,000	475,000,000
Services Provided to Income Eligible Recipients	---	736,100,000	782,000,000
Services Provided Without Regard to Income	---	216,800,000	231,000,000
TOTAL	$1,962,573,000	$2,258,096,000 2/	$2,400,000,000

1/ In 1975 Federal costs for service to income maintenance recipients included costs for services provided to former and potential recipients, some of whom in 1976 and 1977 will most likely be included in the other recipient categories authorized under Title XX.

2/ Excludes $440,802,000 fiscal year 1976 funds used to complete fiscal year 1975 requirements.

Listed below are the estimated recipients months of service provided during fiscal years 1975, 1976, and 1977.

Number of Recipient Months of Services

	1975	1976	1977
Recipient Months of Service Provided to Income Maintenance Recipients:			
AFDC	6,905,000 1/	3,743,000	3,821,000
SSI	3,702,000 1/	1,877,000	1,916,000
Recipient Months of Service Provided to Income Eligible Recipients	---	2,904,000	2,966,000
Recipient Months of Service Provided to Recipients Without Regard to Income	---	2,648,000	2,703,000
TOTAL	10,607,000	11,172,000	11,406,000

1/ In 1975, recipient months of service for Income Maintenance category included months of service provided to former and potential recipients, some of whom in 1976 and 1977 will most likely be included in the other recipient categories authorized under Title XX.

The 1975 and 1976 Programs: Fiscal year 1976 saw the beginning of the new program of social services to individuals and families authorized by Social Services Amendments of 1974, which included the establishment of a new title, Title XX. This new program replaced the services program authorized under Titles IV-A and VI of the Social Security Act. (In Guam, Puerto Rico and the Virgin Islands, the social services program is still authorized under Titles I, IV-A, X, XIV and XVI.) Title XX introduced to both the Federal and State governments an entirely new approach to the administration of a public social services program. Key features of the legislation include the mandated open planning process with public review of the State's Comprehensive Annual Service Plan, and each State's freedom to identify and describe the services it will offer and the categories of eligible individuals, and when and where it will deliver services.

During 1975, States went through the detailed process of developing the Title XX services plan. Technical assistance was provided to States with respect to their services program planning for the first program year. Such efforts included the development of guides designed to enable States to move quickly into the planning process.

In compliance with Title XX legislation, States submitted their Administrative State Plans to the Social and Rehabilitation Service for approval. Proposed Annual Comprehensive Services Plans were published for citizen review and comment, and final services plans became effective on October 1, 1975. These plans are in operation in the 50 States and the District of Columbia. With the implementation of Title XX, States began phasing out their services programs authorized under Titles IV-A and VI.

Under Title XX legislation, child day care facilities receiving Federal funds must meet the Federal Interagency Day Care Requirements. These requirements have occasioned much interest by the public and members of Congress. The Congress temporarily postponed the effective date of some of these requirements, with respect to Title XX, to January 31, 1976. The Department looks forward to close cooperation with the Congress in considering the effect of the requirements.

The new law required all States to offer in each geographic area at least one service directed toward the five goals stated in the law, as well as three services for recipients of Supplemental Security Income. In addition, States were required to offer and provide, if requested, family planning services to AFDC recipients.

Title XX legislation provides that States must impose income-related fees for services if the family gross monthly income is more than 80 percent of either the State or National median income of a family of four, whichever is less, adjusted to family size. Federal financial participation is not available if the family income is above 115 percent of such median income. As indicated in their Comprehensive Annual Services Plans for the first program year, 29 States are charging

fees for services, of which 25 States charge for some services and 4 States charge for all services; 19 States are providing services only to individuals with family income below the 80 percent level and charging no fees. Information is not available on the three remaining States.

The services selected by the States in their first year plans show great diversity, and yet many of the basic services provided under the former titles continue to be offered. They include child day care services, protective services to children and adults, foster care services, health related services and many others.

In 1976, technical assistance is also being provided to States in the development of their second year planning process to assure that efficient and effective social services are delivered to eligible recipients. Efforts have been made to provide for greater involvement of city and county governments in Title XX planning for second year requirements.

The Administration is proposing legislation for a $2.5 billion Federal Assistance for Community Services bloc grant program. This program would be a modification of the current Title XX social services program which would retain the public planning requirement but remove many of the Federal restrictions and prohibitions.

4. State and Local Training

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	1976 Estimate	1977 Estimate	Increase or Decrease
Grants	$64,972,000	$60,000,000	-$4,972,000

General Statement

The 1962 Amendments to the Social Security Act authorizes 75 percent Federal financial participation in costs associated with providing training to public assistance staff and persons preparing for employment in public assistance agencies. The 1967 Amendments to the Act require that States provide for the use of volunteers, and training and effective use of sub-professionals as community aides. Provision is made for orientation, continuing training and educational leave for employees, and grants to educational institutions and stipends for education and training of individuals preparing for employment in public assistance agencies.

The 1974 Social Services Amendments gives statutory authority for personnel training and retraining directly related to the provision of social services authorized under Title XX, and includes both short and long-term training at educational institutions or by direct financial assistance to students enrolled in such institutions, and in-service training. The Title XX program provides for training personnel employed by the Title XX Agency, volunteers attached to the Agency, and service delivery personnel of provider agencies who have a current purchase of services contract with the Title XX agency. Federal financial participation may be claimed at the 75 percent rate.

The following table reflects State and Local Training estimated program costs for fiscal years 1975, 1976 and 1977.

Type of Training	1975 ($000)	1975 Number Trained	1976 ($000)	1976 Number Trained	1977 ($000)	1977 Number Trained
1. Costs related to in-service, and short-term training	$32,417	210,000	$34,156	200,900	$38,000	207,600
2. Educational Leave and Preparation for Employment	7,000	5,000	7,000	4,300	8,000	4,600
3. Teaching Grants to Schools	12,000		12,000		14,000	
Total costs	$51,417	215,000	$53,156 1/	205,200	$60,000	212,200

1/ Excludes $11,816,000 fiscal year 1976 funds used to complete fiscal year 1975 requirements.

1977 Program: The 1977 request is based on the need for training and retraining Title XX agency personnel to assume the new responsibilities mandated by the Social Services Amendments of 1974. In addition to training agency personnel and persons preparing for employment in the Title XX agency, training opportunities have been expanded to include provider agency personnel, thus increasing the number of persons eligible for training under the provisions of Title XX. Major emphasis will be placed on upgrading skills and knowledge of agency employees (professional and paraprofessional) employed in all classes of positions directly related to the operation of the program and the provision of services.

The 1977 estimate is based on States' August 1975 estimates. A continued assessment of States' funding requirements will take place throughout the year and such reports will be submitted to Congress quarterly. The Department has included appropriation language that would impose a limitation of $60,000,000 on this activity. This would provide for 207,600 individuals to attend workshops and seminars; 1,200 individuals would be on full-time educational leave and 3,400 would be on part-time leave.

The Administration is proposing legislation which would include State and local training authority under the $2.5 billion Financial Assistance for Community Services program.

1975 and 1976 Programs: In 1976, as States begin operating under Title XX requirements, there is an increased need for training in all aspects of the administration, management, and delivery of social services. Manpower issues to be addressed include the identification of new and changing staff roles and a determination of different kinds and levels of staff needed. During this period approximately 200,900 individuals will attend workshops and seminars; 1,100 will be on full-time educational leave and 3,200 will be on part-time leave. This compares with the 1975 level of approximately 210,000 individuals attending workshops and seminars, with 1,300 individuals on full-time leave and 3,700 on part-time leave.

5. Child Welfare Services

30

	1976 Estimate	1977 Estimate	Increase or Decrease
Grants	$52,500,000	$46,000,000	-6,500,000

General Statement

Title IV-B of the Social Security Act provides for Federal funds to be used, in cooperation with State public welfare agencies, to establish, extend and strengthen child welfare services. The overall goal of child welfare services is to assure the care and protection of all children--without regard to economic circumstances of their families--in their own homes whenever possible and, if this is not possible, to provide such care in stable foster homes or adoptive homes. Each State receives a uniform grant of $70,000 and an additional grant which varies directly with child population and inversely with the average per capita income. The basic statute establishes a Federal financial participation rate of from 33-1/3 to 66-2/3 percent.

The following table reflects child welfare services program data for fiscal years 1975, 1976 and 1977. In fiscal year 1977, total expenditures for the program are expected to increase by about 8 percent due to increased costs.

	1975	1976	1977
Average number of children served	497,000	494,000	494,000
Number of families served	276,000	274,000	274,000
Total Costs	$597,000,000	$640,000,000	$691,000,000
Average cost per child/year of service	$1,200	$1,296	$1,400
Federal participation	$49,832,000	$52,500,000	$46,000,000
Federal matching rate	8.3%	8.2%	6.7%

1977 Program: In 1977, efforts will be directed toward developing a strategy to improve the quality of Child Welfare Service planning in each State by aligning these planning requirements more closely with those of Title XX. This will result in a more coordinated approach to providing services for children and youth.

There will be a coordinated effort to work with the Office of Child Development in their development of child welfare delivery system models; self-assessment tools to assist States in improving programs for children; the "State of the Field Study" of child welfare services for Native Americans; and foster care and adoption objectives designed to facilitate improving planning for children in need of supportive, supplemental, or substitute care.

Continued emphasis will be placed on coordinating child abuse and neglect activities with those administered by the Office of Child Development under the Child Abuse Prevention and Treatment Act, P.L. 93-247. Technical assistance will continue to be given to States in more effective provision of protective services to abused and neglected children and their families.

An impressive body of knowledge has been accumulated in many areas of child welfare as a result of research and demonstration projects funded over a period of years. Continued effort will be made to disseminate those findings which make a significant contribution toward improving services to children.

1975 and 1976 Programs: Through coordinated efforts with OCD, States are encouraged to improve overall services to children in their own homes and to improve the quality and increase the quantity of foster and adoptive homes for children who must be removed from their own homes.

Two projects have been funded related to services to abused and neglected children and their families. One is the development of a guide for public social service agencies to assist them in improving the administration and management of services to abused and neglected children. The other is the development of material for use by protective service workers on the legal aspects of services to abused and neglected children.

A committee made up of representatives of HEW agencies is currently engaged in developing a child welfare information system to gather essential data necessary for policy and program development.

6. Research and Evaluation

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	1976 Estimate	1977 Estimate	Increase or Decrease
Social Services	$3,075,000	$3,075,000	--
Health Services	2,500,000	2,500,000	--
Income Maintenance	3,100,000	3,100,000	--
Social Security	525,000	525,000	--
Total	$9,200,000	$9,200,000	--

General Statement

The Public Assistance Research and Evaluation program has two basic purposes: (1) to develop the analytic methodologies, the program data, and the programmatic knowledge needed to evaluate and implement major policy and program options; and (2) to develop the methodological and technological knowledge necessary to improve Federal, State, and local administration and delivery of services for the Public Assistance programs.

The 1977 research and evaluation program reflects a continuing emphasis on improvement of the management of the public assistance programs. Within available program development resources, minimal efforts will be initiated to evaluate the newly enacted Title XX, Social Services program and Title IV-D, Child Support Enforcement program. A major effort in 1977, following preliminary investigation in 1976, will be to conduct comprehensive management studies in all the public assistance programs with the goal of reducing potentially disallowable costs and promoting effective and efficient administration.

	1976 Estimate	1977 Estimate	Increase or Decrease
Social Services	$3,075,000	$3,075,000	--

The purpose of social services evaluation, research and demonstration is to determine the impact, effectiveness and efficiency of State social services programs authorized by Title XX and Title IV-B, and to research and demonstrate alternative policies and practices to improve program performance. Evaluation activities are conducted by contract under the authority of Section 1110. Research activities are conducted by grant and contract under the authority of Sections 1110 and 426, and demonstration activities are conducted by grant under Sections 1110, 1115 and 426.

Efforts begun in 1976 in the evaluation of social services programs will be continued and expanded. Program development efforts in 1976 in the areas of child care, planning, utilization review, child abuse and neglect, etc., will be sharply curtailed in 1977 to provide resources for expanded program evaluation and initiation of comprehensive management studies. Title XX evaluation efforts will complete the development of an annually updated microdata base and conduct special studies on cost sharing, eligibility, use of donated funds and other refinancing, health and maintenance benefits, and the effectiveness of Federal management policies.

	1976 Estimate	1977 Estimate	Increase or Decrease
Health Services	$2,500,000	$2,500,000	--

The purpose of health evaluation, research and demonstration is to determine the impact, effectiveness and efficiency of State Medicaid programs authorized by Title XIX and to research and demonstrate alternative policies and practices to improve program performance. Evaluation activities are conducted by contract under the authority of Section 1110. Research activities are conducted by grant and contract under the authority of Section 1110 and demonstration activities are conducted by grant under Sections 1110 and 1115.

Increased emphasis will be placed on evaluation in 1977. Program development efforts in EPSDT will be reduced and increased emphasis will be placed on developing long-term care alternatives, including cash alternatives to direct provision of services.

Evaluation efforts in 1977 will be directed toward developing timely information regarding impact and cost-effectiveness of Medicaid management initiatives introduced in FY 1976. Evaluation of the newly introduced reasonable cost-related reimbursement policy for nursing homes will be undertaken. New State efforts at improving provider abuse detection and fraud control will be evaluated. The cost-effectiveness of the Medicaid Quality Control system, which is directed toward eligibility accuracy, will be determined and new improvements to the efficiency of the eligibility process will be developed. Medicaid administrative costs will be compared across States and reasons for extreme variances will be identified. The data base on eligibility profiles, utilization, and expenditure patterns will be expanded for forecasting and analysis uses. EPSDT will be evaluated for its impact on morbidity, access to health care, service efficiency improvements, and the costs of child health care to the Medcaid program. The availability and utilization of mental health services in Medicaid will also be studied. The impact of prospective reimbursement to hospitals and long term care facilities under Medicaid will also be assessed. Finally, a series of short-term projects will be undertaken to develop additional information critical to policy decisions to be made in FY 1977.

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	1976 Estimate	1977 Estimate	Increase or Decrease
Income Maintenance.....	$3,100,000	$3,100,000	--

The purpose of income maintenance evaluation, research and demonstration is to determine the impact, effectiveness and efficiency of State income maintenance programs authorized by Title IV-A and Title IV-D and to research and demonstrate alternative policies and practices to improve program performance. Evaluation activities are conducted by contract under the authority of Section 1110. Research activities are conducted by grant and contract under the authority of Section 1110 and demonstration activities are conducted by grant under Sections 1110 and 1115.

A major portion of the 1977 budget for this activity will be committed to conducting comprehensive management studies of State systems as the first step in a systematic evaluation of how to gain increased front-end control of these programs. These studies will examine effective organizations, staffing, needed management controls, optimal technology, the impact of multiple program administration, the descriptive effects of constant policy and procedure change, and budget constraints. In addition, special studies will be conducted of multiple benefit recipients and the Title IV-D Child Support Enforcement program will be evaluated.

	1976 Estimate	1977 Estimate	Increase or Decrease
Social Security.....	$525,000	$525,000	--

The purpose of the program which is authorized under Title XI, of the Social Security Act, is the support projects which stress those areas of primary concern to the Social Security Administration. Such research effort relates to problems of old age, retirement, disability, income maintenance and health care financing. The responsibilities added by enactment of P.L. 92-603 require an expanded research program on the size, characteristics, problems and approaches to dealing with the adult welfare population. The studies are conducted by grants under Section 1110.

In addition to projects which may be continued from FY 1976, some specific areas for study during FY 1977 are the impact of administrative procedures and decision-making authority on hospital efficiency, average length of stay and unit-patient cost; the relationship between health condition, use of health services and disability; the relationship between health care and welfare dependency, and potential of the disabled for employment and independence from public income maintenance programs as promoted by bio-engineering (redesign of machinery to facilitate use by the disabled) and job restructuring (redesign of various positions to suit capacities of the disabled).

7. Training Projects

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	1976 Estimate	1977 Estimate	Increase or Decrease
Grants.....	$7,450,000	--	-$7,450,000

General Statement

Training grants for the field of child welfare, including teaching grants, traineeship grants for student support, and short-term training grants are provided under the authority of Section 426 of the Social Security Act. Section 426 is directed at filling the need for personnel to work in the field of child welfare and training personnel currently employed in the field. No new funds are being requested for FY 1977.

The 1975 and 1976 Programs

The 1976 appropriation will be used under Section 426 to fund long-term training for child and family services through teaching grants and student financial assistance, and will also fund short-term projects to train persons currently employed in the child welfare field. Training projects will give particular attention to areas of high national and State priority such as implementation of Title XX, improved management of child and family service programs, child care services, and improved delivery of services to maintain children in their own homes and preserve family life for children as far as possible. An estimated 150 projects will be funded.

In 1975, Section 426 funded 176 projects. Eighty percent of the funds were used for long-term training, including teaching grants and student assistance, and 20 percent for short-term training to improve the competence of personnel currently employed in State and local agencies.

Program Purpose and Accomplishments

Activity: Maintenance Assistance (Social Security Act, as amended, Sections 1, 401, 1001, 1113, 1401 and 1601: Public Law 86-571)

1976 Estimate	1977 Authorization	1977 Budget Estimate
$5,897,904,000	Indefinite	$6,215,000,000

Purpose: Under formulas established by the Congress the Federal government participates in financial assistance payments made to eligible needy persons by the State public assistance agencies. The programs are aid to families with dependent children in the 50 States, the three territories and the District of Columbia and for the needy aged, blind and permanently and totally disabled for the territories only. Federal financial participation is also available in the costs of administering these programs. The Child Support Enforcement program mandated by the Social Services Amendments of 1974, provides for the obtaining of child support payments from absent parents obligated to support children.

Explanation: The maintenance assistance programs are administered by the States with financial participation of the federal government and under Federal policies and regulations. The scope of coverage and assistance standards are set forth in State plans approved by the Federal government as being in accord with these regulations and the provisions of the Social Security Act. Public Law 86-571 authorizes hospital care and treatment to U.S. Nationals returned because of mental illness; Section 1113 of the Social Security Act authorizes assistance to citizens and their dependents whose return is due to destitution, illness, or international crises.

Accomplishments in 1976: During 1976, assistance payments will be made to an average of 11.5 million persons, almost all in the aid to families with dependent children category. The average monthly payment per person ranges from $8 to a high of over $100 with a national average of $70. During 1976, Federal rules and regulations were reviewed with the aim of simplifying and assuring consistency in order to improve State administration. States are starting to use a simplified form for their State welfare plans. All States will use the same format and cover only Federally shared cash assistance programs so that options and responsibilities of that State welfare plan are succinctly stated in one policy document. Prior to simplification States' plans were their operating manuals with policy for any one program scattered among many parts of often voluminous instructions. Review of specific program aspects will be significantly enhanced when implementation is completed. Approximately 600 persons are expected to receive assistance and/or services under the Repatriation program, including about 100 mentally ill persons. All States have submitted plans for implementing the Child Support Enforcement program. Technical assistance, within the limits of existing resources, was provided to States relative to implementation of the program.

Objectives for 1977: During FY 1977 it is anticipated that assistance payments will be made to an average of 11,336,000 needy recipients with nearly all of these in the families with dependent children category. Average monthly payments per person will range from a low of $11 per month to a high of nearly $100 per month with a national average payment of about $77. The Quality Control initiative, begun in 1973, will continue into 1977. Federal funds equal to the excess error rate will be withheld from those States not achieving goals. This same effort includes a continuing review and evaluation of the States' corrective action plans to determine their effectiveness in eliminating the causal factors which created the high rates of ineligibility and erroneous payment. Federal review has been completed of regulations and other policy material to identify obsolete and contradictory items. Their revision or deletion will result in improved administration and understanding of the AFDC program. Review of States' plans and operations under these plans will be emphasized to insure consistency with Federal law and regulations and to assure that the States and localities are operating within the approved plans.

Efforts will be made to achieve full implementation of the Child Support Enforcement program by all States in order to increase child support payments significantly.

Legislation is being proposed which is expected to reduce Federal outlays by $256 million.

Public Assistance

Program Purpose and Accomplishments

Activity: Medical Assistance (Title XIX of the Social Security Act)

1976	1977	
Estimate	Authorization	Budget Estimate
$8,261,993,000 1/	Indefinite	$9,292,000,000

Purpose: Grants for medical assistance under Title XIX of the Social Security Act (Medicaid) are made to States having plans approved by the Department of Health, Education, and Welfare. The purpose of Title XIX, which became effective in January 1966, is to assist States to provide medical care to their low-income population.

Explanation: Federal financial participation in State Medicaid expenditures, by law, ranges from a minimum of 50 percent to a maximum of 83 percent, according to a formula related to the per capita income of the State. Grants are made to States quarterly based upon their estimates of need and availability of State funds; overestimates or underestimates are corrected by adjusting subsequent quarterly grant awards.

Accomplishments in 1976: In 1976, $8.2 billion is estimated for medical care for an estimated 23.2 million persons; this averages about $350 per person in Federal funds. State and local funds used to match Federal funds were about $290 per person for an average total cost of $640 per person.

Objectives for 1977: The 1977 estimate provides for an estimated 23.6 million persons to receive Medicaid benefits at a Federal cost of $9.3 billion. This averages to a cost of about $390 in Federal funds and $320 in State and local funds for an average total cost of $710 per person.

Improved State management will result in more appropriate use of services by eligibles (utilization control) and improving access to quality care. Efforts will be implemented to improve State management, to make compensation of providers more timely, and to assure public accountability. Such efforts will include the transfer of good management practices between States, the strengthening of their planning and budgeting processes, greater stimulus toward the collection of reimbursement for services by third parties, more effective utilization control, more intensified monitoring to identify fraud and abuse, and implementation of a medicaid quality control program which will improve eligibility determinations and reduce payments for services to ineligibles.

1/ Includes $78,278,000 fiscal year 1976 funds used to complete fiscal year 1975 requirements.

SOCIAL AND REHABILITATION SERVICE

Public Assistance

Program Purpose and Accomplishments

Activity: Social Services (Social Security Act, Titles I, IV-A, X, XIV, XVI, and XX, as amended)

1976 Estimate	1977 Authorization	1977 Budget Estimate
$2,698,898,000 1/	$2,500,000,000	$2,400,000,000

Purpose: The Social Services Amendments of 1974, Title XX, authorize Federal financial participation in State and local costs of providing services to eligible individuals directed at the five goals specified in the Act. An amount equal to at least 50 percent of total Federal expenditures in each State must be for persons receiving or eligible to receive Aid to Families with Dependent Children, Supplemental Security Income, or Medicaid. Title XX replaces other provisions regarding social services except in Guam, Puerto Rico, and the Virgin Islands, where services continue to be provided under Titles I, IV-A, X, XIV, and XVI.

Explanation: A ceiling of $2,500,000 is placed on Federal funding with each State receiving an allotment in proportion to the percentage of its population to the National popualtion. Formula grants are made to States based on matching rates of 75 percent for all services except family planning services which are matched at 90 percent.

Accomplishments in 1976: Technical assistance was provided to States relative to implementation of Title XX. Federal administration centered on providing assistance to States on program planning, reporting, financial accountability, and administration. An estimated 11,172,000 recipient months of service were provided to eligible individuals. This compares with a 1975 level of 10,607,000 recipient months of service.

Objectives for 1977: Efforts will be directed toward assisting States in the development of their services plans and service delivery mechanisms. A program of monitoring and program review will be carried out to assure that specific conformity requirements and Federal financial participation requirements are met. In 1977, it is estimated that 11,406,000 recipient months of service will be provided.

1/ Includes $440,802,000 fiscal year 1976 funds used to complete fiscal year 1975 requirements.

SOCIAL AND REHABILITATION SERVICE

Public Assistance

Program Purpose and Accomplishments

Activity: State and Local Training (Social Security Act, Titles I, IV-A, X, XIV, XVI and XX, as amended)

1976 Estimate	1977 Authorization	1977 Estimate
$64,972,000	Indefinite	$60,000,000

Purpose: The 1962 Amendments to the Social Security Act authorize Federal financial participation in costs associated with providing trraining to public assistance staff and persons preparing for employment in public assistance agencies. The 1967 Amendments added a requirement that States provide for the use of volunteers and for the training and effective use of sub-professionals as community aides.

The 1974 Social Services Amendments gives statutory authority for personnel training and retraining directly related to the provision of social services authorized under Title XX of the Act. The Title XX program provides for training of personnel employed by the Title XX agency, volunteers attached to the Agency and service delivery personnel of provider agencies.

Explanation: Federal financial participation at the 75 percent rate is authorized for formula grants to States for the provision of educational leave and in-service education and training to employees, and stipends and training for individuals preparing for employment in public assistance. Under Title XX, personnel training must be directly related to the provision of services.

Accomplishments in 1976: In 1976, approximately 200,900 individuals will attend workshops and seminars. An estimated 1,100 individuals will be on full-time educational leave and 3,200 will be on part-time leave.

Objectives for 1977: The 1977 request would provide seminar and workshop attendance type training for approximately 207,600 individuals. An estimated 1,200 individuals would be on full-time educational leave and 3,400 would be on part-time leave.

SOCIAL AND REHABILITATION SERVICE

Public Assistance

Program Purpose and Accomplishments

Activity: Child Welfare Services (Social Security Act, Title IV-B)

1976 Estimate	1977 Authorization	1977 Budget Estimate
$52,500,000	$266,000,000	$46,000,000

Purpose: Child Welfare Services are authorized under Title IV, Part B of the Social Security Act, as amended. The purpose of this program is to protect and promote the welfare of children through supplementation or substitution for parental care. Child welfare services are not limited to the poor but are available to all children who need them.

Explanation: Each State receives a uniform grant of $70,000 and an additional grant which varies with child population under 21 and inversely with the average per capita income. The basic statute established a Federal financial participation rate of from 33-1/2 to 66-2/3 percent.

Accomplishments in 1976: Two projects were funded related to services to abused and neglected children and their families -- one concerning improving the management of services to abused and neglected children and the other concerning the legal aspects of services to abused and neglected children. The average number of children expected to be served in 1976 is 494,000 at a total estimated cost of $640,000,000.

Objectives for 1977: The total number of children expected to be served in 1977 is estimated at 494,000 at a total estimated cost of $691,000,000. Although the program level is expected to be the same as 1976, total expenditures are expected to increase by an estimated 8 percent due to increased costs.

Program Purpose and Accomplishments

Activity: Research and Evaluation (Social Security Act, Sections 426, 1110 and 1115).

1976 Estimate	1977 Authorization	1977 Budget Estimate
$9,200,000	Indefinite 1/	$9,200,000

Purpose: To develop the analytic methodologies, the program data, and the programmatic knowledge needed to evaluate and implement major policy and program options; and to develop the methodological and technological knowledge necessary to improve Federal, State and local administration and delivery of services for the Public Assistance programs.

Explanation: Federal grants and contracts are made to finance part or all of the costs of projects to discover and evaluate new and past principles and concepts in the public assistance program and for demonstration of new systems for delivery of services to the disadvantaged.

Accomplishments: In 1976, the following was accomplished by SRS Public Assistance Evaluation, Research and Demonstration activities.

Social Services: A cornerstone of the Title XX evaluation system was laid in 1976 with the development of a micro data reporting requirement for a sample of social service recipients. These data will permit Federal and State Government to evaluate the effectiveness of social services. An evaluation of the management of child day care services achieved the dual purpose of providing information needed for the Department study of the appropriateness of the Federal child care requirements and clarifying the management functions where technical assistance is most needed. Projects were initiated to demonstrate alternative approaches to the current Federal Day Care requirements.

Projects were initiated to assist State and local governments to improve their capabilities for planning and managing human service programs. Other new initiatives--all tied closely to Title XX--aim at: upgrading the effectiveness of local public service agencies; demonstrating a methodology for documenting social services costs; improving day care management; and improving both the management and administration of purchase of services.

1/ Applies to Sections 426 and 1110. Section 1115 has an authorization of $4,000,000.

Health Services: Projects examined claims processing controls in eight States to reveal opportunities for improvement of controls over erroneous expenditures, identified the impact of Early and Periodic Screening, Diagnosis and Treatment (EPSDT) on Medical costs in two States, produced a handbook of major barriers to full implementation of EPSDT, estimated the cost impact of Federal long term care standards in one State, assessed the feasibility of encouraging the implementation of a uniform chart-of-accounts for Medicaid nursing homes, analyzed Medicaid supply and demand dynamics in three States, created survey instruments for measuring functional impairments of both the adult and pediatric populations in need of long term care services, evaluated the potential utility to EPSDT of a developmental screening test battery, and developed recommendations to alleviate problems in the administration of the spend-down mechanism used in Medicaid eligibility determination. A series of demonstration projects continued in the areas of utilization control, long term care and EPSDT.

Income Maintenance: A baseline survey of State child support enforcement activities was completed and research continued on the establishment of paternity. A series of projects developing State forecasting capability, a micro simulation model of AFDC, and analysis of caseload and cost dynamics was completed. A study of the impact of income disregard policies was completed. Studies of the net effects of multiple benefit recipients were completed, and comprehensive management studies of State administration of AFDC were initiated.

Objectives in 1977: Research and evaluation activities in 1977 will reflect a continuing emphasis on improvement of the management of the public assistance programs. Efforts will be initiated to evaluate the newly enacted Title XX, Social Services program and Title IV-D, Child Support Enforcement program. A major effort in 1977, following preliminary investigation in 1976, will be to conduct comprehensive management studies in all the public assistance programs with the goal of reducing potentially disallowable costs and promoting effective and efficient administration.

SOCIAL AND REHABILITATION SERVICE 42A

Public Assistance

Program Purpose and Accomplishments

Activity: Social Work Training (Social Security Act, Section 426)

1976 Estimate	1977 Authorization	1977 Budget Estimate
$7,450,000	Indefinite	--

Purpose:

Training grants for the field of child welfare are authorized under Section 426 of the Social Security Act. The purpose of this program is to fill the need for trained personnel to work in the field of child and family services and to train personnel currently employed in this field.

Explanation:

Under Section 426 training grants, including teaching grants, traineeship grants for student support, and short-term training grants are made to public and non-profit institutions of higher eduction. Grants are made to accredited educational institutions, including community colleges, undergraduate schools, and graduate and professional schools.

Accomplishments in 1976:

Training projects under Section 426 will give particular attention to areas of high national and State priority such as implementation of Title XX child and family service programs, improved management of these programs, child care services, and services to maintain children in their own homes and preserve family life for children as far as possible. An estimated 150 projects will be funded, including long-term and short-term projects.

MAINTENANCE ASSISTANCE: Federal Share of State Expenditures, FY 1975

States and Territories	Aid to families with dependent children	Emergency assistance	State and local administration	Total
Alabama	$42,950,806	-	$3,917,991	$46,868,797
Alaska	6,590,808	-	504,576	7,095,384
Arizona	21,175,986	-	1,998,895	23,174,881
Arkansas	35,271,443	$52,982	357,723	35,682,148
California	592,668,322	-	98,746,736	691,415,058
Colorado	40,948,605	-	2,680,850	43,629,455
Connecticut	57,070,334	172,181	3,275,779	60,518,294
Delaware	9,844,707	27,779	813,816	10,686,302
Dist. of Col.	43,987,474	580,993	3,768,883	48,337,350
Florida	73,348,624	-	11,375,330	84,723,954
Georgia	101,634,656	-	8,055,253	109,689,909
Guam	676,115	-	86,880	987,228 1/
Hawaii	25,503,844	-	1,228,458	26,732,302
Idaho	10,540,702	-	1,160,425	11,701,127
Illinois	336,216,616	213,490	37,334,764	373,764,870
Indiana	51,640,144	-	5,282,813	56,922,957
Iowa	45,561,669	-	2,641,065	48,202,734
Kansas	28,978,555	62,192	2,503,292	31,544,039
Kentucky	71,299,522	311,475	5,089,479	76,700,476
Louisiana	63,361,728	-	7,991,631	71,353,359
Maine	34,251,672	-	723,875	34,975,547
Maryland	67,403,758	2,144,725	5,813,264	75,361,747
Massachusetts	181,576,120	10,177,657	12,809,912	204,563,689
Michigan	299,850,276	3,347,755	19,110,046	322,308,077
Minnesota	71,645,699	1,715,207	6,028,149	79,389,055
Mississippi	26,666,852	-	2,053,659	28,720,511
Missouri	73,064,963	-	8,413,227	81,478,190
Montana	8,627,895	18,950	817,574	9,464,419
Nebraska	14,603,599	113,620	1,219,243	15,936,462
Nevada	3,987,607	-	1,300,862	5,288,469
New Hampshire	13,239,830	-	566,248	13,806,078
New Jersey	204,086,187	505,493	15,064,648	219,656,328
New Mexico	22,550,482	-	2,634,793	25,185,275
New York	681,544,577	13,032,481	132,362,034	826,939,092
North Carolina	70,618,516	632	3,895,225	74,514,373
North Dakota	7,920,924	-	454,671	8,375,595
Ohio	172,148,866	6,523,190	14,878,941	193,550,997
Oklahoma	44,693,670	155,185	5,456,945	50,305,800
Oregon	47,491,499	198,299	5,327,161	53,016,959
Pennsylvania	310,358,473	3,681	37,787,119	348,149,273

See footnote at end of table.

MAINTENANCE ASSISTANCE: Federal Share of State Expenditures, FY 1975--continued

States and Territories	Aid to families with dependent children	Emergency assistance	State and local administration	Total
Puerto Rico.....	$13,216,843	-	$4,728,997	$21,351,062 1/
Rhode Island.....	25,645,709	-	1,844,488	27,490,197
South Carolina....	33,293,281	-	3,426,511	36,719,792
South Dakota.....	13,130,956	$908	1,186,277	14,318,141
Tennessee.....	60,563,052	-	5,620,508	66,183,560
Texas.....	108,158,537	-	13,261,011	121,419,548
Utah.....	20,642,529	808	1,297,749	21,941,086
Vermont.....	14,033,795	88,957	829,775	14,952,527
Virgin Islands....	964,220	-	198,608	1,296,959 1/
Virginia.....	78,062,732	435,420	5,456,901	83,955,053
Washington.....	68,967,921	882,113	4,875,816	74,725,850
West Virginia.....	32,558,958	456,910	3,207,404	36,223,272
Wisconsin.....	100,464,799	1,604,730	6,194,558	108,264,087
Wyoming.....	2,566,006	48,286	266,551	2,880,843
Subtotal.....	4,587,871,463	42,876,099	527,927,389	5,162,438,537
Adult phaseout....				-24,049,788
Repatriation of U.S. Nationals..				872,964
Subtotal.....				5,139,261,713
Adjustments.....				7,564,287
Total.....				5,146,826,000

1/ Includes, respectively, adult category amounts for:

Guam.....	$ 224,233
Puerto Rico.....	3,405,222
Virgin Islands.....	134,131
Total.....	$3,763,586

MAINTENANCE ASSISTANCE: Estimated Federal Share of State Expenditures, FY 1976
(Based on Evaluation of August 1975 estimates)

States and Territories	Aid to families with dependent children	Emergency assistance	State and local administration	Total
Alabama	$46,533,000	-	$5,025,000	$51,558,000
Alaska	6,362,000	-	662,000	7,024,000
Arizona	20,348,000	-	2,598,000	22,946,000
Arkansas	40,444,000	$19,000	761,000	41,224,000
California	681,641,000	-	105,581,000	812,318,000
Colorado	47,956,000	-	3,648,000	51,604,000
Connecticut	69,534,000	-	3,211,000	72,745,000
Delaware	11,978,000	69,000	903,000	12,950,000
Dist. of Col.	47,762,000	640,000	4,417,000	52,819,000
Florida	71,230,000	-	13,347,000	84,577,000
Georgia	100,748,000	-	9,223,000	109,971,000
Guam	979,000	-	97,000	1,301,000 1/
Hawaii	34,814,000	-	1,338,000	36,152,000
Idaho	14,191,000	-	1,567,000	15,758,000
Illinois	394,123,000	265,000	42,135,000	436,523,000
Indiana	67,522,000	-	5,122,000	72,644,000
Iowa	60,799,000	-	3,244,000	64,043,000
Kansas	35,002,000	144,000	2,719,000	37,865,000
Kentucky	96,180,000	261,000	6,259,000	102,700,000
Louisiana	74,238,000	-	8,756,000	82,994,000
Maine	33,942,000	-	900,000	34,842,000
Maryland	74,595,000	2,566,000	6,718,000	83,879,000
Massachusetts	190,277,000	15,792,000	12,876,000	218,945,000
Michigan	320,055,000	2,593,000	26,567,000	349,215,000
Minnesota	80,640,000	1,496,000	7,167,000	89,303,000
Mississippi	27,371,000	-	2,196,000	29,567,000
Missouri	83,956,000	-	9,292,000	93,248,000
Montana	8,787,000	20,000	950,000	9,757,000
Nebraska	16,833,000	136,000	812,000	17,781,000
Nevada	5,001,000	-	1,246,000	6,247,000
New Hampshire	15,558,000	-	689,000	16,247,000
New Jersey	213,307,000	702,000	15,801,000	229,810,000
New Mexico	22,693,000	-	2,910,000	25,603,000
New York	721,125,000	18,461,000	101,112,000	884,698,000
North Carolina	87,902,000	-	4,565,000	92,467,000
North Dakota	8,134,000	-	484,000	8,618,000
Ohio	229,808,000	7,205,000	16,782,000	253,795,000
Oklahoma	44,899,000	120,000	6,611,000	51,630,000
Oregon	67,399,000	259,000	6,099,000	73,757,000
Pennsylvania	336,205,000	2,000	41,770,000	377,977,000

See footnote at end of table.

MAINTENANCE ASSISTANCE: Estimated Federal Share of State Expenditures, Fiscal Year 1976--continued
(Based on Evaluation of August 1975 estimates)

States and Territories	Aid to families with dependent children	Emergency assistance	State and local administration	Total
Puerto Rico.....	$14,003,000	-	$4,800,000	$22,359,000 1/
Rhode Island.....	28,515,000	-	1,963,000	30,478,000
South Carolina....	37,461,000	-	4,390,000	41,851,000
South Dakota.....	13,598,000	$9,000	1,182,000	14,789,000
Tennessee.....	63,696,000	-	7,454,000	71,150,000
Texas.....	108,872,000	-	15,325,000	124,197,000
Utah.....	26,353,000	($6,000)	1,367,000	27,714,000
Vermont.....	17,177,000	49,000	814,000	18,040,000
Virgin Islands....	1,236,000	-	98,000	1,492,000 1/
Virginia.....	78,725,000	834,000	5,807,000	85,366,000
Washington.....	79,578,000	1,337,000	5,811,000	86,726,000
West Virginia.....	34,883,000	766,000	2,918,000	38,567,000
Wisconsin.....	109,270,000	1,226,000	5,195,000	115,691,000
Wyoming.....	3,091,000	72,000	327,000	3,490,000
Subtotal.....	5,127,329,000	55,037,000	543,611,000	5,729,916,000
Adult phaseout....				-16,894,000
Repatriation of U.S. Nationals..				882,000
Subtotal.....				5,713,904,000
Adjustments.....				184,000,000
Total.....				5,897,904,000

1/ Includes, respectively, adult category amounts for:

Guam.....	$ 225,000
Puerto Rico.....	3,556,000
Virgin Islands.....	158,000
Total.....	$3,939,000

2/ Adult category costs of $3,939,000 included in totals.

MAINTENANCE ASSISTANCE: Estimated Federal Share of State Expenditures, FY 1977
(Based on States' August 1975 estimates)

States and Territories	Aid to families with dependent children	Emergency assistance	State and local administration	Total
Alabama	$55,856,000	--	$6,479,000	$62,335,000
Alaska	7,500,000	--	1,104,000	8,604,000
Arizona	21,634,000	--	3,488,000	25,122,000
Arkansas	47,058,000	--	2,200,000	49,258,000
California	802,524,000	--	128,201,000	930,725,000
Colorado	52,445,000	--	3,691,000	56,136,000
Connecticut	98,664,000	$ 106,000	3,889,000	102,659,000
Delaware	13,614,000	56,000	1,044,000	14,714,000
Dist. of Col.	44,244,000	462,000	4,608,000	49,314,000
Florida	80,719,000	--	13,307,000	94,026,000
Georgia	106,019,000	--	10,476,000	116,495,000
Guam	1,094,000	--	109,000	1,525,000 1/
Hawaii	30,838,000	--	1,372,000	32,210,000
Idaho	19,073,000	--	2,260,000	21,333,000
Illinois	398,400,000	300,000	45,895,000	444,595,000
Indiana	75,332,000	--	5,610,000	80,942,000
Iowa	60,751,000	--	3,998,000	64,749,000
Kansas	36,831,000	248,000	2,790,000	39,869,000
Kentucky	91,570,000	475,000	8,929,000	100,974,000
Louisiana	83,076,000	--	9,599,000	92,675,000
Maine	38,027,000	--	2,226,000	40,253,000
Maryland	82,017,000	3,024,000	7,050,000	92,091,000
Massachusetts	262,168,000	9,000,000	15,603,000	286,771,000
Michigan	439,139,000	2,700,000	30,639,000	472,478,000
Minnesota	96,791,000	6,417,000	6,263,000	109,471,000
Mississippi	27,510,000	--	2,397,000	29,907,000
Missouri	87,808,000	--	9,752,000	97,560,000
Montana	11,157,000	26,000	973,000	12,156,000
Nebraska	17,360,000	122,000	1,220,000	18,702,000
Nevada	5,077,000	--	1,749,000	6,826,000
New Hampshire	19,152,000	--	835,000	19,987,000
New Jersey	239,950,000	750,000	18,900,000	259,600,000
New Mexico	23,640,000	--	3,211,000	26,861,000
New York	694,951,000	21,350,000	139,535,000	855,836,000
North Carolina	83,533,000	--	11,403,000	94,936,000
North Dakota	9,824,000	--	511,000	10,335,000
Ohio	263,552,000	7,052,000	17,904,000	288,508,000
Oklahoma	46,749,000	178,000	7,675,000	54,602,000
Oregon	78,794,000	293,000	7,423,000	86,512,000
Pennsylvania	385,799,000	--	46,750,000	432,549,000

See footnote at end of table.

MAINTENANCE ASSISTANCE: Estimated Federal Share of State Expenditures, Fiscal Year 1977--continued
(Based on States' August 1975 estimates)

States and Territories	Aid to families with dependent children	Emergency assistance	State and local administration	Total
Puerto Rico.....	$15,480,000	--	$5,380,000	$25,114,000 1/
Rhode Island.....	32,383,000	--	1,966,000	34,349,000
South Carolina....	42,740,000	--	4,889,000	47,629,000
South Dakota.....	14,348,000	--	1,286,000	15,634,000
Tennessee.....	69,522,000	--	7,500,000	77,022,000
Texas.....	111,971,000	--	16,200,000	128,171,000
Utah.....	26,350,000	--	1,350,000	27,700,000
Vermont.....	22,355,000	$288,000	1,003,000	23,646,000
Virgin Islands....	1,268,000	--	98,000	1,516,000 1/
Virginia.....	82,152,000	497,000	7,236,000	89,885,000
Washington.....	79,252,000	732,000	6,648,000	86,632,000
West Virginia.....	36,414,000	630,000	3,087,000	40,131,000
Wisconsin.....	164,786,000	128,000	5,940,000	170,854,000
Wyoming.....	3,215,000	83,000	350,000	3,648,000
Subtotal.....	5,742,476,000	54,917,000	654,001,000	6,456,132,000 1/
Repatriation of U.S. Nationals..				980,000
Subtotal.....				6,457,112,000
Adjustments.....				-242,112,000
Total.....				6,215,000,000

1/ Includes, respectively, adult category amounts for:

Guam.....	$ 334,000
Puerto Rico.....	4,254,000
Virgin Islands.....	150,000
Total.....	$4,738,000

MEDICAL ASSISTANCE: Federal Share of Medical Vendor Payments, and State and Local Administration and Training; by State; FY 1975 - FY 1977.

States and Territories	FY 1975 Actual	FY 1976 Estimate	FY 1977 Estimate
Alabama	$113,032,411	$ 138,227,000	$ 177,497,000
Alaska	5,313,055	6,789,000	8,276,000
Arizona	---	---	---
Arkansas	80,981,106	87,017,000	100,645,000
California	828,794,243	925,500,000	1,028,562,000
Colorado	65,358,064	65,708,000	74,954,000
Connecticut	84,351,264	91,950,000	117,861,000
Delaware	8,938,093	10,788,000	12,267,000
District of Columbia	50,794,623	62,678,000	69,602,000
Florida	112,741,379	120,237,000	129,973,000
Georgia	180,284,187	209,070,000	237,436,000
Guam	527,410	559,000	570,000
Hawaii	19,562,220	21,694,000	25,479,000
Idaho	18,956,881	25,403,000	38,791,000
Illinois	357,776,918	412,081,000	446,014,000
Indiana	104,819,838	125,226,000	141,484,000
Iowa	52,696,082	53,267,000	56,783,000
Kansas	53,472,426	59,939,000	63,534,000
Kentucky	92,407,179	126,675,000	132,732,000
Louisiana	111,134,515	133,939,000	144,367,000
Maine	48,729,966	54,999,000	59,310,000
Maryland	121,163,666	123,701,000	144,051,000
Massachusetts	280,709,111	349,475,000	407,938,000
Michigan	357,022,779	370,895,000	659,727,000
Minnesota	155,106,243	169,162,000	200,957,000
Mississippi	86,832,224	109,127,000	125,722,000
Missouri	61,331,279	72,505,000	114,006,000
Montana	20,262,343	23,808,000	24,520,000
Nebraska	36,617,396	35,811,000	38,096,000
Nevada	9,364,376	9,513,000	10,040,000
New Hampshire	19,232,568	20,232,000	23,370,000
New Jersey	191,196,169	213,059,000	279,553,000
New Mexico	24,506,410	29,415,000	33,980,000
New York	1,397,483,717	1,579,881,000	1,817,922,000
North Carolina	121,730,677	147,202,000	167,116,000
North Dakota	17,515,971	16,791,000	19,859,000
Ohio	209,484,489	243,002,000	260,998,000
Oklahoma	100,675,057	121,811,000	130,998,000
Oregon	52,488,238	62,043,000	70,706,000
Pennsylvania	325,738,560	387,100,000	487,539,000

MEDICAL ASSISTANCE: Federal Share of Medical Vendor Payments, and State and Local Administration and Training; by State; FY 1975 - FY 1977 (continued)

States and Territories	FY 1975 Actual	FY 1976 Estimate	FY 1977 Estimate
Puerto Rico	$27,375,902	$ 30,000,000	$ 30,000,000
Rhode Island	42,803,473	51,952,000	58,524,000
South Carolina	60,987,954	81,180,000	97,842,000
South Dakota	16,722,396	18,918,000	25,843,000
Tennessee	98,935,266	100,839,000	133,745,000
Texas	302,304,348	425,000,000	522,216,000
Utah	26,492,656	29,310,000	29,925,000
Vermont	23,374,524	26,142,000	29,282,000
Virginia	121,523,433	115,347,000	165,200,000
Virgin Islands	864,881	1,141,000	1,200,000
Washington	98,774,978	124,153,000	135,617,000
West Virginia	27,776,157	32,037,000	32,037,000
Wisconsin	225,713,268	255,955,000	259,285,000
Wyoming	3,590,777	4,337,000	5,085,000
Subtotal	7,056,373,146	8,112,590,000	9,609,036,000
Adjustments	-11,828,146	+149,403,000	- 317,036,000
Total	7,044,545,000	8,261,993,000	$9,292,000,000

SOCIAL SERVICES

Federal Share of State Expenditures 1/

States	1975 Actual	1976 Estimate	1977 Estimate
Alabama	$24,622,144	$31,784,000	$36,335,000
Alaska	3,070,545	3,169,000	3,975,000
Arizona	3,677,044	7,787,000	10,470,000
Arkansas	8,707,535	15,614,000	18,787,000
California	245,775,628	247,562,000	247,250,000
Colorado	28,427,653	29,117,000	29,525,000
Connecticut	37,001,750	36,750,000	36,525,000
Delaware	5,818,589	7,120,000	6,775,000
District of Columbia	8,880,292	8,978,000	8,550,000
Florida	133,300,872	90,624,000	95,675,000
Georgia	45,627,474	59,248,000	57,725,000
Guam	95,911	629,000	553,000
Hawaii	8,149,377	9,662,000	10,025,000
Idaho	9,076,251	9,250,000	9,450,000
Illinois	81,758,073	112,038,000	131,650,000
Indiana	5,550,190	16,250,000	38,284,000
Iowa	24,597,551	35,635,000	33,775,000
Kansas	12,755,794	18,726,000	21,536,000
Kentucky	48,829,986	49,973,000	39,700,000
Louisiana	23,244,323	36,025,000	44,525,000
Maine	7,707,360	10,548,000	12,375,000
Maryland	38,019,587	52,403,000	48,425,000
Massachusetts	51,986,285	69,133,000	68,600,000
Michigan	90,789,425	113,518,000	107,575,000
Minnesota	54,135,197	54,078,000	46,325,000
Mississippi	6,180,972	7,310,000	7,732,000
Missouri	21,309,908	26,688,000	30,942,000
Montana	5,457,668	9,283,000	8,700,000
Nebraska	17,864,379	19,390,000	18,250,000
Nevada	3,029,610	3,515,000	3,356,000
New Hampshire	6,678,942	7,924,000	9,550,000
New Jersey	72,854,662	96,821,000	86,700,000
New Mexico	7,940,213	11,854,000	13,275,000
New York	221,996,567	230,961,000	214,200,000
North Carolina	29,924,414	43,072,000	52,175,000

SOCIAL SERVICES

Federal Share of State Expenditures 1/ continued

States	1975 Actual	1976 Estimate	1977 Estimate
North Dakota	$ 4,073,492	$ 5,170,000	$ 5,669,000
Ohio	53,813,913	66,691,000	126,975,000
Oklahoma	20,814,505	31,240,000	32,050,000
Oregon	26,203,673	26,507,000	26,800,000
Pennsylvania	119,926,552	139,337,000	139,975,000
Puerto Rico	2,493,059	14,139,000	18,282,000
Rhode Island	10,566,533	11,786,000	11,075,000
South Carolina	18,463,711	26,814,000	32,925,000
South Dakota	3,514,834	7,320,000	8,075,000
Tennessee	17,307,790	18,662,000	39,774,000
Texas	140,614,560	150,005,000	142,500,000
Utah	7,702,737	14,876,000	13,875,000
Vermont	4,887,820	5,993,000	5,550,000
Virgin Islands	328,145	780,000	533,000
Virginia	29,477,783	35,571,000	39,746,000
Washington	40,150,546	40,750,000	41,100,000
West Virginia	13,444,255	15,380,000	16,144,000
Wisconsin	52,261,364	60,182,000	54,000,000
Wyoming	1,685,928	4,454,000	4,250,000
Subtotal	$1,962,573,371	$2,258,096,000	$2,368,568,000
Adjustments	-431,666,371	+440,802,000	+31,432,000
Total	1,530,907,000	2,698,898,000	2,400,000,000

1/ Appropriation authority of $2,500,000,000 for States is allocated on the basis of population. Guam, Puerto Rico, and the Virgin Islands require Federal matching at program levels.

STATE AND LOCAL TRAINING

Federal Share of State Expenditures

States	1975 Actual	1976 Estimate	1977 Estimate
Alabama	$ 1,030,383	$ 1,320,000	$ 1,524,000
Alaska	752,692	629,000	819,000
Arizona	110,692	195,000	83,000
Arkansas	351,798	1,051,000	1,080,000
California	4,842,390	4,911,000	4,836,000
Colorado	743,027	767,000	916,000
Connecticut	203,677	205,000	220,000
Delaware	90,759	90,000	110,000
District of Columbia	367,736	548,000	286,000
Florida	1,498,595	1,699,000	1,505,000
Georgia	918,993	1,165,000	1,253,000
Guam	16,851	28,000	25,000
Hawaii	98,682	30,000	83,000
Idaho	117,780	383,000	656,000
Illinois	400,212	641,000	758,000
Indiana	69,525	149,000	150,000
Iowa	919,368	1,190,000	1,354,000
Kansas	588,255	772,000	706,000
Kentucky	856,281	1,622,000	1,364,000
Louisiana	1,166,643	1,430,000	1,547,000
Maine	217,450	293,000	144,000
Maryland	2,001,051	2,668,000	2,925,000
Massachusetts	1,016,461	963,000	1,044,000
Michigan	828,718	468,000	524,000
Minnesota	933,230	1,008,000	1,306,000
Mississippi	579,425	743,000	824,000
Missouri	1,180,769	1,402,000	1,334,000
Montana	677,965	961,000	862,000
Nebraska	284,437	220,000	235,000
Nevada	242,206	301,000	272,000
New Hampshire	53,869	25,000	38,000
New Jersey	1,845,045	2,064,000	2,758,000
New Mexico	421,194	644,000	276,000
New York	12,395,951	7,515,000	10,350,000
North Carolina	902,632	1,427,000	1,657,000

STATE AND LOCAL TRAINING

Federal Share of State Expenditures (Continued)

States	1975 Actual	1976 Estimate	1977 Estimate
North Dakota	$ 239,525	$ 318,000	$ 401,000
Ohio	1,404,406	1,711,000	1,433,000
Oklahoma	353,060	517,000	670,000
Oregon	737,189	1,008,000	1,230,000
Pennsylvania	2,714,974	2,087,000	1,832,000
Puerto Rico	-0-	75,000	100,000
Rhode Island	318,533	414,000	383,000
South Carolina	472,992	732,000	1,006,000
South Dakota	128,877	180,000	160,000
Tennessee	408,395	528,000	689,000
Texas	2,725,880	1,935,000	1,743,000
Utah	673,395	800,000	987,000
Vermont	60,694	235,000	281,000
Virgin Islands	16,713	35,000	39,000
Virginia	161,861	477,000	715,000
Washington	848,893	1,768,000	2,016,000
West Virginia	236,540	101,000	159,000
Wisconsin	1,103,599	578,000	991,000
Wyoming	86,937	130,000	74,000
Subtotal	$51,417,205	$53,156,000	58,733,000
Adjustments	- 316,205	+11,816,000	+ 1,267,000
Total	$51,101,000	$64,972,000	$60,000,000

CHILD WELFARE SERVICES

Actual and Estimated Awards[1/]
Fiscal Years 1975 - 1977

States	1975 Actual	1976 Estimate	1977 Estimate
Alabama	$ 1,068,714	$ 1,095,460	$ 958,648
Alaska	142,060	144,356	134,436
Arizona	591,631	618,991	545,747
Arkansas	627,056	643,895	567,329
California	3,787,523	4,088,842	3,552,666
Colorado	631,653	642,195	565,855
Connecticut	560,491	603,891	532,661
Delaware	182,841	181,979	167,039
District of Columbia	153,857	177,591	163,236
Florida	1,688,445	1,766,483	1,540,146
Georgia	1,314,395	1,383,004	1,207,829
Guam	101,821	111,996	106,393
Hawaii	229,148	240,821	218,031
Idaho	281,266	295,984	265,834
Illinois	2,104,408	2,195,394	1,911,834
Indiana	1,270,844	1,334,694	1,165,964
Iowa	722,092	717,518	631,129
Kansas	541,715	554,268	489,659
Kentucky	953,090	985,423	863,292
Louisiana	1,160,497	1,200,975	1,050,085
Maine	333,636	351,716	314,131
Maryland	879,718	904,134	792,848
Massachusetts	1,145,965	1,243,140	1,086,625
Michigan	1,810,397	2,028,950	1,767,596
Minnesota	959,020	997,639	873,878
Mississippi	793,472	824,190	723,570
Missouri	1,116,629	1,154,818	1,010,086
Montana	252,064	257,364	232,367
Nebraska	410,707	417,244	370,917
Nevada	171,628	182,886	167,825
New Hampshire	235,747	262,799	237,077
New Jersey	1,336,972	1,359,407	1,187,380
New Mexico	401,895	423,354	376,211
New York	2,970,564	3,267,118	2,840,573
North Carolina	1,428,338	1,475,868	1,288,304

CHILD WELFARE SERVICES

Actual and Estimated Awards[1/]
Fiscal Years 1975 - 1977 (continued)

States	1975 Actual	1976 Estimate	1977 Estimate
North Dakota	$ 239,008	$ 221,896	$ 201,631
Ohio	2,357,365	2,491,000	2,168,001
Oklahoma	709,899	746,238	656,018
Oregon	558,649	584,585	515,931
Pennsylvania	2,458,322	2,565,904	2,232,912
Puerto Rico	1,142,157	1,334,083	1,165,435
Rhode Island	265,075	270,816	244,024
South Carolina	856,589	894,596	784,582
South Dakota	250,147	251,604	227,376
Tennessee	1,142,029	1,156,059	1,011,162
Texas	2,999,868	3,196,515	2,779,390
Utah	429,021	445,831	395,689
Vermont	186,794	199,661	182,362
Virgin Islands	96,565	105,277	100,570
Virginia	1,186,841	1,204,419	1,053,070
Washington	771,451	820,519	720,388
West Virginia	526,721	536,698	474,433
Wisconsin	1,141,060	1,180,175	1,032,060
Wyoming	154,417	159,737	147,765
Sub-Total	$49,832,277	$52,500,000	$46,000,000
Adjustments	+167,723	---	---
Total	$50,000,000	$52,500,000	$46,000,000

1/ Each State receives a uniform grant of $70,000 and an additional grant which varies directly with child population under 21 and inversely with average per capita income.

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Revised Estimate	Transition Quarter
1. Maintenance assistance	$5,897,904,000	$1,576,000,000
2. Medical assistance	8,261,993,000	2,200,000,000
3. Social services	2,698,898,000	580,000,000
4. State and local training	64,972,000	15,000,000
5. Child Welfare service	52,500,000	11,500,000
6. Research and evaluation	9,200,000	2,000,000
7. Training projects	7,450,000	--
Total, obligations	16,992,917,000	4,404,500,000

Explanation

Amounts requested for the transition quarter are at a level of about one-fourth of the fiscal year 1976 program cost level except where for programmatic reasons another level of funding is required.

TUESDAY, MARCH 16, 1976.

WORK INCENTIVES

WITNESSES

DON I. WORTMAN, ACTING ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE
WILLIAM H. KOLBERG, ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, DEPARTMENT OF LABOR
PIERCE A. QUINLAN, ADMINISTRATOR, OFFICE OF COMPREHENSIVE EMPLOYMENT DEVELOPMENT, DEPARTMENT OF LABOR
NICHOLAS NORTON, ACTING ADMINISTRATOR, ASSISTANCE PAYMENTS ADMINISTRATION
MERWIN S. HANS, EXECUTIVE DIRECTOR, NATIONAL COORDINATION COMMITTEE, DEPARTMENT OF LABOR
SHELDON BLOOM, DEPUTY DIRECTOR, NATIONAL COORDINATION COMMITTEE, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
ROBERT FODOR, DEPUTY DIRECTOR, NATIONAL COORDINATION COMMITTEE, DEPARTMENT OF LABOR
T. JAMES WALKER, DEPUTY ADMINISTRATOR, OFFICE OF ADMINISTRATION AND MANAGEMENT, DEPARTMENT OF LABOR
SAMUEL E. MARTZ, ASSISTANT ADMINISTRATOR FOR FINANCIAL MANAGEMENT, SOCIAL AND REHABILITATION SERVICE
JOHN SHINE, BUDGET OFFICER, OFFICE OF ADMINISTRATION AND MANAGEMENT, DEPARTMENT OF LABOR
MISS ANNA L. PERKINS, DIRECTOR, DIVISION OF BUDGET, SOCIAL AND REHABILITATION SERVICE
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER

OPENING STATEMENT

Mr. FLOOD. Continuing with Social and Rehabilitation Services, we have work incentives. The presentation will be made by Don I. Wortman, Acting Administrator, Social and Rehabilitation Service.

We have a biographical sketch of you, Mr. Wortman, which appears in this morning's record.

We also have a sketch of your colleague, Mr. Hans, which we will place in the record at this point.

BIOGRAPHICAL SKETCH

Name: Merwin S. Hans.

Position: Executive director of the work incentives program, Office of Manpower Development Programs.

Birthplace and date: Kossuth County, Iowa, June 15, 1921.

Education: B.A. Economics, University of Iowa; M.A. Personnel Psychology, Denver University.

Military service: Commander, U.S. Navy, 1942–1946.

EXPERIENCE

October 1973 to present—Executive Director, National Coordination Committee (WIN), Department of Labor.

1972–73—Deputy Associate Manpower Administrator, Office of Employment Development Programs, Manpower Administration, U.S. Training and Employment Service.

1969–71—Director, Office of Training and Employment Opportunities, Bureau of Work Training Programs.
1966–68—Chief, Division of Employment Assistance, Bureau of Employment Security.
1964–66—Chief, Branch of Training Needs, Development and Determination, USES, Washington, D.C.
1961–64—Manpower Development Specialist, Kansas City Regional Office.
1958–61—Employment service adviser, Employment Security Commission—Iowa.
1957–58—State chief of technical services.
1954–57—State supervisor of special services.
1952–54—Manager, Davenport, Iowa.
1949–52—Counselor, Davenport, Iowa.

Mr. FLOOD. We know your other supporters. I don't think you have to introduce them.

I see you have a prepared statement. How do you want to handle that?

Mr. WORTMAN. It is a 4-page statement. I can read it for the record or as you desire.

Mr. FLOOD. I would suggest we insert it in the record.

[The statement of Mr. Wortman follows:]

Mr. Chairman and members of the committee, I am pleased to appear here today to present to you the fiscal year 1977 appropriation estimate for the work incentive program.

The budget request for WIN in 1977 totals $315 million, providing about the same program level as fiscal year 1976. Of the total, $206,500,000 is requested for the Department of Labor for training and employment activities including registration of individuals for WIN, program orientation, skills training, counseling, job development, referral and placement, and followup of all employed participants. Additionally, $108,500,000 is requested for the Department of Health, Education, and Welfare in order to provide child care and other supportive services to all program participants who require such services, to enable them to accept work or training.

WIN, authorized under title IV of the Social Security Act, as amended, is the major resource of manpower and employment services for the estimated 2.6 million recipients of Aid to Families With Dependent Children (AFDC) who will be registered for employment and work-related training in fiscal year 1977. This is a State-administered program designed to encourage and assist AFDC recipients to achieve self-support through training, work experience, employment, childcare, and other supportive services.

During 1977, the Departments of Labor and Health, Education, and Welfare intend to continue implementing a redirection of the WIN program in order to increase the emphasis on job placements by exposing to the labor market all persons who register for WIN. The goal is to make as many immediate placements as possible and actively engage all other registrants in seeking a job. Revised regulations emphasizing this thrust were published in September 1975 with a final effective date of March 31, 1976. Most State agencies implemented these regulations prior to that closing date. We also intend introducing legislation this session which will further reinforce this thrust. However, the budget estimates before you are based on existing authorizing legislation.

In 1977, there will be an increased emphasis on job placement accompanied by a slight decrease in work and training components. Appraisals for employability potential will approximate the 1976 level. With increased emphasis on job placements, work experience will decrease 40 percent, public service employment will decrease 20 percent, institutional training will decrease nearly 50 percent to 6,000 man-years, and on-the-job training will remain at the fiscal year 1976 level of 9,000 man-years.

TRAINING AND INCENTIVES

The Department of Labor has the major responsibility for determining employability and placement of WIN participants. Under the redesigned program, all applicants for AFDC, who are not exempt from WIN and those who volunteer, will be registered by the local employment service office.

We estimate that during 1977, 1.3 million individuals will be newly registered for WIN at the employment service office. Five hundred thousand registrants will be appraised for possible direct placement into employment, for job preparation through training, or for job search activities. Twenty-one thousand man-years of subsidized work and training will be provided, and 175,000 participants will be placed in unsubsidized employment. By comparison, in 1975 WIN achieved nearly 171,000 job placements and provided 34,630 man-years of training.

In fiscal year 1976, WIN continues to place AFDC recipients into jobs at a slightly higher rate than during fiscal year 1975. As of November 1975, more than 91,000 persons entered employment through WIN. This has been accomplished in spite of the high unemployment rate. The program results, thus far, indicate it is appropriate to continue the strong placement emphasis. This is borne out by the fact that while unemployment went from 5.2 percent in June 1974, to 8.6 percent in June 1975, and while the number of unemployed job seekers went up 66 percent in that same period, WIN placements decreased by only 3.7 percent.

CHILD CARE AND SUPPORTIVE SERVICES

The Department of Health, Education, and Welfare has responsibility for determining WIN eligibility and providing WIN participants with supportive services which include child care, homemaker services and other services necessary to enable the recipient to participate in work and training.

Child care services encompass full and part-time care for children of WIN participants. Care may be provided in their own homes, in family day-care homes, and in day care centers.

During fiscal year 1977, an estimated 70,000 child care-years and 110,000 man-years of other supportive services will be provided. This level is slightly below the estimated 1976 level.

SUMMARY

In summary, the 1977 budget request for the work incentive program is $315 million. This includes $206,500,000 for the manpower training and incentives activities of the Department of Labor and $108,500,000 for carrying out the child care and other supportive services activities of the Department of Health, Education, and Welfare. This program benefits the individuals receiving AFDC by providing them necessary services so they may independently support themselves and their families through permanent employment. This program also has a beneficial impact on AFDC rolls and costs, since WIN placements in fiscal year 1975 generated about $152 million in AFDC grant reductions. Additional savings will occur in the medicaid, and food stamps programs.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions you or members of the committee may have.

WIN PROGRAM SUMMARY

Mr. WORTMAN. I would like an opportunity for Mr. Hans to give a brief oral summary, if that is all right.

Mr. FLOOD. Fine, proceed.

Mr. HANS. The budget before this committee provides for continuation of the WIN program at its present operating level. Within this budget there are some significance shifts of resources to reflect changing program emphasis. In its early years this program focused primarily on training. This meant that fewer persons were served over longer periods at higher unit costs. Since 1973 there has been a steady shift in emphasis to involve recipients with the WIN component sooner and to get them back onto a job at an earlier point in time. This approach seems to be working.

In spite of a bad employment year, in 1975 WIN was able to maintain its total outcome at near record level. So far in 1976 placements are running ahead of last year by more than 10 percent. In October, 25,000 individuals entered employment.

The fiscal 1977 budget holds in place those elements which are necessary to assist individuals to get jobs; namely, the employment services and necessary support services such as child care and transportation.

Our request for training services has been reduced from prior year levels. This reflects the emphasis of WIN on direct placement but also reflects success in getting welfare recipients into other employment and training programs. There has been a 65 percent increase in WIN enrollments in CETA compared to a year ago.

As a final point, Mr. Chairman, the President's budget indicates that the administration will be requesting additional legislative authority in this area. When the Congress acts on this request we will submit budget revisions to conform to the new authorizations.

This concludes my summary.

FUNDS AUTHORIZED UNDER CONTINUING RESOLUTION

Mr. FLOOD. In the 1976 continuing resolution, Congress provided $70 million for the work incentive program. How much was used to cover the costs for fiscal year 1975, and how much applies to the costs for 1976?

Mr. HANS. $35 million of the $70 million was made available to HEW to cover prior year costs in 1974 and 1975. None of that money was carried into 1976.

The other $35 million that was made available to the Department of Labor was used to provide authority for contracting that carries over from one fiscal year to another. The net effect was not to increase the operating level of the program.

Mr. FLOOD. Talking about that $70 million, how much was split between training and child care?

Mr. HANS. Thirty-five and thirty-five.

CHANGES IN REGULAIONS

Mr. FLOOD. What major changes are you proposing for 1977, either by amending the basic law or by changing your regulations?

Mr. HANS. There were new regulations published in September 1975 which became effective in March of this year. These accelerate the registration process of recipients into the WIN program. Individuals come into the WIN program under the new regulations immediately, where in the past they have been held until they were registered by welfare agencies and then moved through to the WIN program as capacity allowed that to happen. So a part of this change is already in effect. I think we are already beginning to see acceleration in terms of placements and employment as a result of these changes.

In 1977, the administration will be looking for authority to involve applicants for welfare as well as recipients. We feel that there is a good opportunity when an individual applies for welfare to place him immediately into employment, thereby circumventing his becoming a recipient.

The second important part of the administration's proposal is a clear statement that an employable individual has a responsibility to be actively seeking work. This means that the individual has a responsibility beyond the services provided by the agencies. The individual has to be out looking for a job rather than waiting for an agency to

produce a job for him. In this whole change it is anticipated that services such as child care and transportation would be provided for individuals when they engage in the work search.

WIN CONTRIBUTION TO WELFARE REFORM

Mr. FLOOD. Every now and then we hear about the need for welfare reform. We touched upon that yesterday for a while. Usually these reform proposals are aimed at getting people off the welfare rolls and into gainful employment. How do you think this WIN program is going to fit into this welfare reform, or wouldn't it?

Mr. WORTMAN. I think it very likely could. When the family assistance program was before the Congress for debate, and certain portions were incorporated into H.R. 1, the work requirement was very much a part of that general construction.

Mr. HANS. Mr. Chairman, I think we know a lot more about the employment capability of the welfare population as a result of the WIN program than we knew a few years ago. Under the current nonexempt criteria, it is our estimate that for about a third of the present welfare families, employment might be a viable alternative to welfare. For about two-thirds of these, either because of needs of small children, because of sickness or remoteness, or other reasons, employment probably is not the answer. So WIN-type programs can probably deal with a third of the welfare population in the employment setting.

It probably is not going to have much impact on the other two-thirds.

Mr. FLOOD. Do you think this WIN program is something like the old League of Nations—sound in theory but just wouldn't work?

Mr. HANS. I think the WIN program is working.

CHANGES IN PROGRAM LEVEL

Mr. FLOOD. Take a look at the budget request. You see the budget request there for each of the last 5 years. You see enormous fluctuations. The budget seems to be going up and down like a roller coaster. In the 1974 budget request, for instance, over $500 million; this budget request, $315 million. Do you have a simple explanation for that up-and-down business?

Mr. HANS. It is not a simple explanation. Part of it is related to the appropriations process, and part of it is the carryover of program authority from year to year.

At various times in the early stages in the WIN program we had a lot of unexpended dollars. The program was not geared up and so a lot of dollars were carried over from year to year. As a result of it the new obligational authority was lowered. Then you used up those dollars in the ensuing year, and the new obligational authority request had to come back up again to maintain program levels.

If you look at the costing of the program on a year-to-year basis, you find that it has been functioning at a fairly level rate. There are not the fluctuations in it that you see when you look at the new obligational authority.

Mr. FLOOD. In 1974 $500 million and $315 million now. That is quite a fluctuation.

Mr. HANS. The 1974 budget was sent to the Congress with a clear intention to expand the WIN program, which the Congress did not allow.

As far as the costs of the program on the Department of Labor side, it has gone from $205 million in 1973 to $223 million in both 1974 and 1975. The 1976 estimate is $235 million and the 1977 budget is $208 million.

I think there was an effort in 1974 to extend the program that was not accepted by the Congres, but it has been maintained in a fairly level fashion over the last several years.

DUAL RESPONSIBILITY FOR WIN PROGRAM

Mr. FLOOD. For a long time, Mr. Wortman, we felt that the basic problem with the whole WIN program was split responsibilities between HEW and the Labor Department. There seems to be a very fundamental philosophical difference here between the two departments.

HEW wants more child care. Labor wants more job placements, and there you are.

Although you are pretty new at this job, what do you think?

Mr. WORTMAN. Thus far I have visited a couple regional offices of the domestic agencies in both Denver and Atlanta, and I visited with the WIN staff which is composed, in some cases, of a Department of Labor chief and, in some cases, an HEW chief out in the region. They all report to Mr. Hans.

I have not detected severe strains because of our institutional differences. The staff that I have designated, some 15 people I believe, work under Mr. Hans' direction, and his deputy, Mr. Bloom is an HEW employee. The teamwork seems to be very good.

In terms of the new directions, nobody on the HEW side had any problems with the new directions that the administration is proposing to emphasize the job search and to minimize to some extent some of the supportive services.

Mr. FLOOD. That is one side.

Mr. Hans, you are the Department of Labor. What do you say?

Mr. WORTMAN. But he works jointly for Department of Labor and me.

Mr. FLOOD. He is wearing two hats.

What do you say about that split responsibility here?

Mr. HANS. I agree with Mr. Wortman's statement. We have learned over the years—and I think the program has shifted emphasis over the years based on the experience in the program. We really understand better now the relationship of placement, and the importance of placement, rather than involving individuals into long-term training activities. I think we are seeing the payoff in this kind of thing where we are moving our resources into employment-related areas and relying to a greater degree on the manpower resources, the training resources that are available under CETA.

I would not minimize the need for training of welfare recipients. It is very great and always will be, but I think there are many more than we have realized in the past who can be directly placed in jobs at the point in time when they apply for welfare and when they are early on the rolls.

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WIN PROGRAM PARTICIPANTS

Mr. FLOOD. Let's talk about the potential universe of the WIN program. In other words, how many individuals are eligible for the program?

Mr. HANS. Of the approximately 3.5 million total welfare families, about 1.3 million families are mandatory registrants or volunteer for the WIN program.

Mr. FLOOD. How many are participating in 1976?

Mr. HANS. We will register and provide labor market information for considerably more than a million individuals under the program.

Active participation in the program beyond that point is probably in the range of 500,000 to 600,000 heads of households.

Mr. FLOOD. How many do you anticipate will participate next year in 1977?

Mr. HANS. We will probably register and bring into a labor market relationship close to 2 million people.

Mr. FLOOD. Given those figures, what is the basic reason for the relatively low participation in the program? Lack of funds or what?

Mr. HANS. It is true we are funded to deal with only so many people.

Also, we are dealing with the most employable within that population, and I think there isn't any question that if we had more money we could deal with a larger percentage of this population. But as you get down into that population the costs increase.

For example, you may have people that have three or four children and the child care costs go up very dramatically as you bring in mothers with large families, or, for example, there are people who are bilingual and you have to do a very basic training job before you can even get to the skill training. We are not doing as much of that under the current program levels.

What we are dealing with are the most employable. We present this budget with that understanding.

Mr. FLOOD. What groups of participants are exempt from the registration?

Mr. HANS. Under statute, of course, any mother with a child under six is exempt. Anyone who is remote from the WIN program, anyone who is ill or is needed in the family to care for a sick family member. Those are the significant exemptions.

Everyone else is required to register under the law.

A rather interesting aspect of this is that almost 25 percent of the registrants volunteer for the program. The recipients themselves have confidence in it, that it is a way that they have an opportunity to find a job.

AVERAGE COST PER PLACEMENT

Mr. FLOOD. What is the average cost per job placement in the program?

Mr. HANS. This year if you count everything that we spent it is about $1,751 per job placement.

Mr. FLOOD. How does that compare with CETA?

Mr. HANS. I could furnish some information for the record.

Mr. FLOOD. Suppose you do that.

Mr. HANS. WIN is a different thing and costs are difficult to compare. For example, the individuals in WIN are receiving a grant so we don't have to pay certain kinds of costs that CETA has to pay. On the other side, we do have to pay many more support services costs, child care and that kind of thing.

I would be happy to furnish the CETA cost per placement for the record.

Mr. FLOOD. Suppose you do that.

[The information follows:]

CETA COST PER JOB PLACEMENT

Preliminary data for the first 18 months—July 1, 1974, through December 31, 1975—of CETA title I training and employment program operations indicate the cost per job placement is about $3,400. The cost for all terminees in jobs and some other form of positive status, particularly return to school for youth in the in and out of school programs, was about $1,300.

It is important to note that CETA title I is a relatively new program. When a program is in an implementation phase—well over 6 months of increasing current enrollment in title I—the costs for those still in the program attributed to those who left the program are disproportionately large, somewhat like the fixed cost in manufacturing attributed to the first units produced. Similarly, the more units produced through time, the less the proportion of fixed cost attributed to each unit, thus, the average cost per unit declines for some period of time with the volume of output.

Title I has been in operation long enough, however, to have some indication that per participant costs will probably be below $900 on the average. Projecting eventual cost per placement on this basis, that is, dividing the cost per participant by the percent placed, yields a probable eventual cost per job placement at less than $3,300 and for all those in positive status at about $1,200.

WIN EARNINGS VERSUS WELFARE GRANT

Mr. FLOOD. In reviewing comparisons of the States we notice that many participants are placed in jobs that barely exceed the welfare payment. So where is the incentive?

Mr. HANS. In 1975, the average starting rate of pay for men was $2.94 an hour and $2.48 per hour for women who were placed in a job.

The individual under the law, if his earnings are not enough to get him completely off the grant, is entitled to an incentive of the first $30 of earnings and a third of all additional earnings being disregarded in computing his grant, so moneywise the individual does realize a very considerable incentive to work.

Mr. FLOOD. By the way, what happens to the food stamp eligibility when a WIN participant is actually placed on a job?

Mr. HANS. Food stamp eligibility is determined by income levels, and the level would determine whether or not the individual retained food stamp eligibility or at what level of subsidy.

JOB PLACEMENTS

Mr. FLOOD. How many job placements will be made this year?

Mr. HANS. We placed about 95,000 people the first 6 months in full-time jobs, and an additional 9,000 in part-time jobs, so I would estimate from the rate of increase of job placements that we are experiencing right now, this program will probably exceed 200,000 permanent placements during the current fiscal year.

Mr. FLOOD. How many do you estimate for 1977?

Mr. HANS. We estimated 175,000. Based on our last quarter's experience, I would think that we will overshoot that figure considerably.

Mr. FLOOD. Take a look at pages 75 and 76 of the justifications. You show a lot of data there but you don't show any figures at all on job placements. How come?

Mr. HANS. I don't know why those are omitted. We certainly work from a job placement estimate in preparing those estimates.

Mr. FLOOD. I just wonder why they are not there.

Mr. BOLTON. Sir, they are in the text that accompanies those tables.

Mr. FLOOD. I know that, but it just seems funny they are not in that table.

Mr. WORTMAN. We will keep that in mind, sir, next year when we present this.

Mr. FLOOD. You are proposing a reduction of 25 percent in child care. Doesn't that drastically curtail your ability to make these job placements?

Mr. HANS. I can't respond to the 25-percent cut. I was not under the impression that we were looking at a 25-percent cut in overall——

Mr. FLOOD. Take a look at the budget justifications.

Mr. HANS. In 1976, Mr. Chairman, the $150 million has in it the $35 million supplemental which in fact was not applied to 1976. It was used to pay 1974 and 1975 costs, so the actual estimate of expenditures in 1976 is not $150 million; it is $115 million. That is a very misleading chart.

WELFARE SAVINGS

Mr. FLOOD. Tell us something about the welfare savings in the WIN program. How much was there in 1975, 1976? Give us that and then your estimate for 1977.

Mr. HANS. In 1975 there were 170,000 placements and we look at this two ways. One is a grant reduction which is a simple savings in cash outlays for grants, and there was actually reported to us $152 million of savings during that year without any computation for any future year savings as a result of the employment.

If you look at welfare savings, though, it is a broader dimension. You include such costs as food stamps and medicaid. Our estimate of 1-year savings in 1975 was $230 million.

There are other savings which really accrue but the basic items are grant reduction, food stamps and medicaid.

If you apply the average duration of time an individual family is on welfare, which exceeds 2 years, you could take any of those figures, I think, and with a valid application of future year savings probably about double those figures.

Mr. FLOOD. Do you have the estimates for 1975, 1976?

Mr. HANS. I can give you the 1975 actual and I don't have the 1976 figure but it is somewhat higher than 1975. But I can furnish that for the record.

Mr. FLOOD. And an estimate for 1977.

Mr. HANS. Yes, sir.

[The information follows:]

WIN-Related Welfare Savings

We estimate aggregate welfare savings for fiscal years 1975, 1976 and 1977 of $500, $600 and $688 million, respectively. As the following table will show, about 60 percent of these amounts derive from welfare grant reductions, based on rather careful work with our own data. The balance is split between medicaid and food stamps. Our estimates for the amounts from both of these other welfare-related programs are based on what we project is probably happening in those programs. But we do not collect data on these programs for WIN clients; and the programs themselves have no WIN-specific data of their own.

The food stamps savings estimates are based on correlations between welfare grant reductions and food stamp bonus reductions in a 1974 Joint Economic Committee study of welfare benefits in 100 counties nationwide. The medicaid savings estimates are based on assuming a 75 percent saving of the $986 annual average medicaid use by AFDC families, for those WIN clients who leave welfare altogether as a result of employment.

SAVINGS AND WIN-RELATED WELFARE GRANT REDUCTIONS

[In millions of dollars]

	Fiscal year—		
	1975 actual	1976 estimated	1977 estimatep
Welfare grant reductions	152.2	178.5	209.9
Food stamps	60.0	71.4	84.0
Medicaid	38.5	50.3	50.3
Total, 1st-yr	250.7	300.2	344.2
Total, 2-yr	500.0	600.0	688.0

Mr. Flood. Mr. Michel?

WIN Participants

Mr. Michel. Your statement indicates that in 1977, 1.3 million individuals will be newly registered for WIN at the Employment Service Office. Of that, only 500,000 will be appraised for employment, job training, or job search. What happens to the other 800,000?

Mr. Hans. About 30 percent of the additional 800,000 registrants will be employed at the time of registration, but will be receiving supplemental welfare payments. An additional 50 to 55 percent will be removed from registrant status prior to appraisal for a wide variety of reasons. This may be triggered for example by a change in the family situation or a move out of the area. There are many things that can contribute to this kind of action. About 5 percent more are either placed in unsubsidized employment through labor market exposure which occurs prior to appraisal or are found by welfare to be ineligible for AFDC and are immediately removed from registrant status.

The remaining percentage of unappraised registrants are unserved because of budgetary priorities. WIN is not a full-funded program, and it must, therefore, serve first those individuals who appear to be the most employable at the least cost to the program.

Job Placements

Mr. Michel. Only 175,000 will be placed in unsubsidized employment. That seems to be an awfully low percentage of the total number registered. Why are more not being placed in jobs?

Mr. HANS. I think that the information I just gave you on registrants makes it clear that it is more appropriate to compare placements to appraisals. The 500,000 individuals who will be appraised in fiscal year 1977 are the clients with whom WIN will be actually working. Placing in unsubsidized employment over one-third of the individuals who are appraised seems like a more satisfactory performance ratio. This is even more significant when you consider that WIN's clients are drawn from the group which has historically had the hardest time finding employment.

Mr. MICHEL. Are the jobs in which people are placed permanent or temporary in nature? What is the average length of time they stay employed in these jobs?

Mr. HANS. Ninety percent of all jobs entered into by WIN registrants are full time in nature and expected to last 30 days or more. We do have a longitudinal study which will give us more information on average length of time in employment. It will be available later this year. However, our data system does indicate for the 7-month period, July through January 1976, that nearly 85 percent of those WIN registrants who entered employment through WIN and who were actually contacted, remain on the job more than 30 days.

Mr. MICHEL. How long are supportive services provided for the people who are placed in jobs? Is there any time limit?

Mr. WORTMAN. Necessary supportive services may be provided with WIN funds for 30 days after the start of employment. The provision of such services may be extended to a maximum of 90 days if necessary to insure job retention.

At the end of the 30 to 90 day period, supportive services may be provided by the title XX services agency if the registrant is eligible for such services, or allowance may be made for the cost of such services in the calculation of the individual's AFDC assistance payment. In addition, child care may be provided with WIN funds for up to 30 days to enable a registrant who has been working to continue her employment when there is an unanticipated breakdown in her usual child care arrangement.

Mr. MICHEL. According to your justifications, you are projecting a decline in job placements from 1976 to 1977, from 200,000 to 175,000. Why is that? With an expanding economy, one would think the placement level would be greater, not less.

Mr. HANS. The contracting and expanding economy has a relatively small impact on WIN. The projected decline in placements reflected a reduction in the WIN budget. However, the fiscal year 1977 request plus the carry-in from fiscal year 1976 will allow us to exceed the 175,000 estimate and to approach the fiscal year 1976 levels of accomplishment.

PROGRAM REGULATIONS

Mr. MICHEL. Do your regulations contain any suitable employment provisions such as those contained in unemployment compensation regulations?

Mr. HANS. WIN regulations require that certain "appropriate work and training criteria" be met before individuals can be required to accept a work or training assignment. Although somewhat different than the suitable employment provisions, these criteria regulate aspects

of a work or training assignment such as: the maximum commuting time that can be required; that necessary supportive services including child care, must be available; that the job or training must be within the capability of the registrant; wage requirements; and that appropriate work can be full-time, part-time, temporary, permanent, or seasonal employment.

Mr. MICHEL. Would you summarize for us the regulations pertaining to job placements which will be going into effect on March 31 and then provide the regulations for the record. Are these the regulations implementing the work requirement passed by Congress?

Mr. HANS. The regulations went into effect on March 16, 1975. On September 18, 1974, the Departments of Labor and Health, Education, and Welfare published in the Federal Register proposed regulations to redesign the WIN program. A year later, final regulations were published promulgating most elements of the redesign.

The new regulations transferred the registration function from the income maintenance unit of the welfare agency to the WIN sponsor. The WIN sponsor is required to offer job market information to all individuals at registration and to refer appropriate individuals to available employment. These changes permit new WIN registrants to receive timely exposure to job openings while their attachment to the labor market is likely to be strong.

Under the regulations, States may establish an intensive manpower services component to assist certified registrants to obtain employment. The component will include job development, job placement, and activities which will help registrants to improve their job-seeking skills.

The proposed rules included provision that all registrants engage in an active job search if not participating in a WIN component. There was much controversy over the legality of this provision which was resolved by a Presidential decision that a clear legislative mandate would be sought.

A bill to do this has been reported out of the Senate Finance Committee. In addition, the administration has also proposed legislation that would require all WIN registrants to engage in job search. Pending legislative action, the WIN program is continuing to stress the referral and placement of certified registrants who are receiving AFDC.

PROPOSED LEGISLATION

Mr. MICHEL. Your statement indicates you will be proposing legislation to "further reinforce this thrust." What specifically will this legislation seek to accomplish?

Mr. HANS. First, the bill would require nonexempt AFDC applicants as well as recipients to actively seek work and accept appropriate employment. It would also entitle applicants to services such as bus fare and child care where necessary for seeking and obtaining work.

A second major provision of the bill recognizes that wide availability of CETA training obviates the need for WIN-funded training. It therefore eliminates the work and training components, such as public service employment from the WIN legislation.

There are also a number of other program improvements suggested in the bill, including exempting people already working full-time from WIN registration, eliminating the double work registration

required of unemployed fathers and doing away with the 60-day counseling period for persons who have been judged to have refused to participate in the program.

WIN-RELATED WELFARE SAVINGS

Mr. MICHEL. It appears as though the WIN program is costing us more than it is saving from reduced welfare benefits. You mention savings in 1975 of $152 million in AFDC grant reductions, while total WIN costs were $350 million. Is it a losing proposition, and if so, why do we continue to fund it?

Mr. HANS. Let's start with the figures. While we show $350 million on our budget tables, actual fiscal year 1975 adjusted costs were about $332 million because child care and support payments were estimated high. Second, the $152 million in welfare grant reductions is strictly a 1-year figure, and third, it takes no account of savings to other programs. Based on the 1973 AFDC survey which indicated a median stay on AFDC of 2 years, we feel it is appropriate to consider the benefits to AFDC, medicaid and food stamps as likewise running for a 2-year period. So in the aggregate, we believe total welfare savings over a 2-year period from the fiscal year 1975 placements are on the order of $500 million. In other words, our estimates show welfare savings well in excess of program costs.

One must note, however, that WIN legislation is silent about WIN "paying for itself" with welfare grant reductions or other welfare savings. Rather, our legislative direction is to restore AFDC families to independence and useful roles in the community, to help parents of needy children attain capability for maximum self-support, and to acquire a sense of dignity and self-worth, so that there may be a beneficial effect on the children from the example of a working adult in the family. We feel this is being achieved in a cost-effective manner.

Mr. FLOOD. Mr. Conte?

WIN PROGRAM ADMINISTRATION

Mr. CONTE. Does HEW maintain control or oversight over the funds transferred to Department of Labor for the training and incentives portion of the WIN program?

Mr. HANS. The new regulations of September 1975, formally prescribed the National Coordination Committee to administer the WIN program. The committee consists of the Assistant Secretary for Employment and Training from the Department of Labor, and the Administrator of the Social and Rehabilitation Services from the Department of Health, Education and Welfare, who designates a national executive director to manage the program efficiently and effectively. The committee, through the executive director, assures joint planning and review of program and fiscal data.

Mr. CONTE. If 50 percent of the funds transferred to the Labor Department are distributed at the discretion of the Secretary of Labor, what criteria is used?

Mr. HANS. The discretionary funds are allocated on benefit/expenditure concepts that measure State achievement in the areas of welfare grant reductions, wage levels and job duration against actual expenditures.

WELFARE SAVINGS

Mr. CONTE. Could you estimate the amount that this work incentive program saves the Government in welfare costs each year?

Mr. HANS. We estimate first-year welfare grants savings to AFDC of $152.2 million, to medicaid of $38.5 million, and to food stamps of about $60 million. This is a first-year total of about $250 million in savings to Federal, State, and local governments in welfare costs.

We know from the 1973 AFDC survey that the median stay on AFDC is 2 years. Consequently, we estimate a 2-year span of benefits to these programs, from a given year's placements. This means an aggregate welfare savings amount of about $500 million over 2 years, as a result of our experience in fiscal year 1975 of keeping WIN clients employed.

WIN JOB-RETENTION RATE

Mr. CONTE. What is the job retention rate of WIN registrants entering employment? Is anything being done to improve this rate?

Mr. HANS. We contacted about 86 percent of those individuals who entered full-time employment which was expected to last 30 days or more. The retention rate was 85 percent, and we assume the rate would be similar for those who were not contacted.

While we think that 85 percent is a very positive rate, we are, of course, continuing to emphasize quality job development.

Mr. CONTE. Has there been any decrease in job retention after 90 days due to insufficient training or other causes?

Mr. HANS. We are not aware of any decreases in the job-retention rate. WIN data indicate that WIN clients still have a retention rate comparable to other persons in entry level jobs.

DECREASED MAN-YEARS

Mr. CONTE. What is the reason for the 7,100 man-year decrease in work and training?

Mr. HANS. The decrease in work and training reflects further emphasis on placing WIN registrants directly into employment. While work and training has decreased, the number of persons going directly into employment has increased, reflecting the increased application of staff to this effort.

A comparison of data for the period July 1 to December 31 in 1974 and 1975 revealed that there was a sharp increase in the percentage of WIN registrants engaged in non-WIN-funded institutional training, work experience, on-the-job training, and public service employment. During the 6 months of 1974, non-WIN-funded work and training activities accounted for 22,297 individuals or 19 percent of the individuals in work and training components. The same 6-month period in 1975 showed that 36,759 individuals were engaged in work and training, or an increase to 37 percent of the total. While there was no breakout in the data during the time of the samples, it is believed that a large portion of the non-WIN activity involved suspense of WIN registrants to CETA-funded activity.

LONGITUDINAL EVALUATION STUDY

Mr. CONTE. When will the WIN longitudinal evaluation study and the tax credit study be available?

Mr. HANS. We expect that results from the WIN longitudinal evaluation study will be available later this calendar year.

Preliminary results of the tax credit study have been received. This study will be completed late in the year.

PROGRAM REDIRECTION

Mr. CONTE. How successful has the redirection of the WIN program to increased emphasis on placement been since I asked about it last year?

Mr. HANS. Placements increased in the first 6 months of this fiscal year over the same period last year from 87,422 to 95,113. In addition to those full-time jobs, there were 9,135 part-time jobs and 2,146 temporary type jobs found for WIN clients this year, for a total of 106,394. Of the total, 2,361 were obtained as a result of the labor market exposure given all new AFDC applicants as a result of the regulation changes.

WORKLOAD DATA

Mr. CONTE. Your justification states that you expect the same workload this year as last year. You made the same prediction for fiscal year 1976 hearings. How close to accurate were you?

Mr. HANS. While the overall workload has been similar from fiscal year 1975 to fiscal year 1976, the type of workload has shifted due to our increased emphasis on labor market exposure and placement. Our workload in fiscal year 1976 has been essentially as predicted, but with the delay in implementation of the new regulations there may be fewer applicants registering this year than we anticipated.

Mr. CONTE. What assumptions about the unemployment rate are built into your estimate of the workload?

Mr. HANS. We are basing our workload estimates on welfare caseloads instead of the unemployment rate. There is an indirect relationship to the unemployment rate, of course, but the time lag between unemployment insurance and welfare eligibility makes it much more practical to use welfare caseloads as the planning base.

Mr. FLOOD. Thank you, gentlemen. We will now turn to our next account.

JUSTIFICATION OF THE BUDGET ESTIMATES

APPROPRIATION ESTIMATE

For carrying out a work incentives program, as authorized by part C of title IV of the Social Security Act, including registration of individuals for such program, and for related child care and other supportive services, as authorized by section 402(a)(19)(G) of the Act, including transfer to the Secretary of Labor, as authorized by section 431 of the Act [$330,000,000] *$315,000,000*, which shall be the maximum amount available for transfer to the Secretary of Labor and to which the States may become entitled pursuant to section 403(d) of such Act, for these purposes.

[for activities under Title IV, part C, of the Social Security Act, in addition to amounts made available elsewhere in this joint resolution and otherwise, an amount of $70,000,000 for fiscal year 1976 for carrying out a work incentives

program including registration of individuals for such program, and for related child care and supportive services, as authorized by section 402(a)(19)(G) of the Act, including transfer to the Secretary of Labor, as authorized by section 431 of the Act, which together with the previously authorized appropriation for fiscal year 1975, shall be the maximum amount available for transfer to the Secretary of Labor and to which States may become entitled, pursuant to section 403(d) of such Act, for these purposes, for fiscal year 1975 and for any period in the prior fiscal year provided the prior fiscal year expenditures were claimed on quarterly statements of expenditures received by the Secretary of Health, Education, and Welfare prior to February 1, 1975.] (*House Joint Resolution 499, Continuing Appropriation, 1976.*)[1]

WORK INCENTIVES

Appropriation Language

. . . which shall be the maximum amount available for transfer to the Secretary of Labor and to which the States may become entitled pursuant to section 403(d) of such Act, for these purposes.

Explanation

Appropriation is authorized under Title IV, Sec. 431(a):

Language is written to insure the limitation of expenditures incurred in the fiscal year, consistent with the closed end appropriation nature of the program as opposed to the open-ended nature of the authorizing legislation.

SOCIAL AND REHABILITATION SERVICE

Work incentives

[Amounts available for obligation]

Appropriation:	
1976 (estimate)	$400,000,000
1977	315,000,000

[1] Appropriation language contained in the continuing resolution is deleted.

Summary of Changes

1976 Estimated obligations	$400,000,000
1977 Estimated obligations	$315,000,000
Net change	-$ 85,000,000

	1976 Base Pos.	1976 Base Amount	Change from Base Pos.	Change from Base Amount
Increases:				
A. Built-in				
1. Annualization of 1976 pay increase		231,000		+64,000
2. Within-grade promotions		---		+92,000
3. Administrative and program support		20,276,000		102,000
Subtotal				+258,000
Total Increases				+258,000
Decreases:				
A. Built-in				
1. One less day of pay		4,998,000		-17,000
Subtotal				-17,000
B. Program				
1. Training and incentives	255	250,000,000	---	-43,741,000
2. Child care and supportive services	---	150,000,000	---	-41,500,000
Subtotal				-85,241,000
Total Decreases				-85,258,000
Total				-85,000,000

Obligations by Activity

Page Ref.		1976 Estimate Pos.	1976 Estimate Amount	1977 Estimate Pos.	1977 Estimate Amount	Increase or Decrease Pos.	Increase or Decrease Amount
70	Training and Incentives	255	$250,000,000	255	$206,500,000	---	$-43,500,000
73	Child Care and Supportive Services	---	150,000,000	---	108,500,000	---	-41,500,000
	Total obligations	255	$400,000,000	255	$315,000,000	---	$-85,000,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Total number of permanent positions	255	255	---
Full-time equivalent of all other positions	1	1	---
Average number of all employees	246	246	---
Personnel compensation:			
Permanent positions	$4,379,000	$4,516,000	$+137,000
Positions other than permanent	28,000	38,000	+10,000
Other personnel compensation	36,000	12,000	-24,000
Subtotal, personnel compensation	4,443,000	4,566,000	+123,000
Personnel benefits	403,000	415,000	+12,000
Travel and transportation of persons	433,000	433,000	---
Transportation of things	16,000	16,000	---
Rent, communication and utilities	1,217,000	1,252,000	+35,000
Printing and reproduction	128,000	128,000	---
Other services	850,000	921,000	+71,000
Project contracts	12,658,000	9,224,000	-3,434,000
Supplies and materials	77,000	77,000	---
Equipment	51,000	51,000	---
Grants, subsidies, and contributions	379,724,000	297,917,000	-81,807,000
Total obligations by object	400,000,000	315,000,000	-85,000,000

Authorizing Legislation

Legislation	1977 Amount Authorized	1977 Appropriation request
Social Security Act as amended		
Section 431--Work Incentive Program for Recipients of Aid to Families with Dependent Children.....	Indefinite	$206,500,000
Section 401--Child Care (Related to Work Incentive Program).....	Indefinite	$108,500,000

Work Incentives

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1968	$40,000,000	$10,000,000	$10,000,000	$10,000,000
1969	135,000,000	135,000,000	100,000,000	117,500,000
1970	129,640,000	129,640,000	100,000,000	120,000,000
1971	170,180,000	120,180,000	98,180,000	98,180,000
1972	275,198,000	259,198,000	259,198,000	259,198,000
1973	290,420,000 1/	2/	455,133,000	290,420,000 3/
1974	543,434,000	384,434,000	340,443,000	340,443,000
1975	280,000,000	280,000,000	210,000,000	210,000,000
1976	330,000,000	400,000,000	400,000,000	400,000,000
1977	315,000,000			

1/ Comparable revised request shown for 1973.

2/ House did not consider request.

3/ No appropriation received; comparable funds received under a continuing resolution.

Justification

Work Incentives

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Training and Incentives	255	$250,000,000	255	$206,500,000	---	-$43,500,000
Child Care and Supportive Services	---	150,000,000	---	108,500,000	---	- 41,500,000
Total	255	$400,000,000	255	$315,000,000	---	-$85,000,000

General Statement

The Work Incentive Program, authorized under Title IV of the Social Security Act, as amended, is designed to encourage and assist recipients of Aid to Families with Dependent Children (AFDC) to achieve self-support through a program of training, work experience, employment, child care, and other supportive services. Funds are appropriated directly to the Department of Health, Education and Welfare, which provides WIN participants with supportive services including child care, family planning, counseling and vocational rehabilation services, and medical, remedial and health-related care services, to enable them to accept work and training. State expenditures are matched by Federal payments at the rate of 90 percent.

In addition, the Department of Health, Education and Welfare transfers to the Department of Labor sufficient funds to carry out the Training and Incentives portion of the WIN program in 54 States/jurisdictions including over 300 local projects. The transferred funds in the form of Federal grants covering 90 percent of the costs of manpower and training activities are made to the State manpower agencies. Fifty percent of the transferred funds are distributed among the States based on each State's percentage of Work Incentives registrants during the preceding January. The remaining funds in each year are distributed at the Secretary of Labor's discretion, based on performance. The manpower agencies provide for the registration of individuals, program orientation, testing, counseling (including the development of an employability plan for each WIN participant), job referral services, job development, direct job placement, and follow-up of all employed participants. The manpower agencies also negotiate sub-contracts with local employers and educational and training facilities who provide on-the-job training, subsidized public service employment, work experience and institutional training. Funds for overall program development, evaluation, research and administration are retained at the national office level.

The Work Incentive Program is the major resource of manpower and employment services for the recipients of Aid to Families with Dependent Children who will be required to register for employment and work-related training. Therefore, the primary emphasis of WIN remains that of placing the maximum number of participants in self-supporting employment, thus reducing the cost of the nation's welfare assistance.

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Work Incentives

The following data indicate the 1977 planned workload and program levels in comparison with fiscal years 1975 and 1976.

Workload

	1975	1976	1977
Registration/Labor Market Exposure 1/	839,400	1,302,000	1,300,000
Appraisal/Employability Planning 2/	555,400	555,000	500,000
Intensive Manpower Services	---	120,000	100,000
Man-years of work and training	34,600	28,900	21,000
Placements 3/	170,600	200,000	175,000
Average number of children receiving child care	96,800	85,000	70,000
Average number of persons receiving supportive services	141,100	125,000	110,000

1/ Registration includes Labor Market Exposure in 1976 and 1977.
2/ Appraisal includes Employability Planning in 1976 and 1977.
3/ Placements in 1975 are those who "enter job entry" and in 1976 and 1977 those who "enter employment."

Cost/Budget Authority
(dollars in thousands)

	1975	1976	1977
New Obligational Authority	$210,000	$330,000	$315,000
1976 Continuing Resolution (enacted)	---	70,000	---
Program costs funded in prior years	151,162	47,882	57,302
Less unobligated balance lapsing	-136	---	---
Adjustments and reversions	36,875	-35,000	---
Programs costs funded for subsequent year	-47,882	-62,689	-55,590
Current year program costs	350,019	350,193	316,712

Program costs of $316,712,000 represent the level of program activity to be conducted during 1977 from new budget authority and from funds obligated in prior years to continue training and employment activities for WIN participants. For fiscal year 1977, $315,000,000 in new budget authority will be required in addition to funds obligated in 1976 and the transition quarter to continue the training and employment of those participants on board at the beginning of 1977. The program levels are discussed in detail in the following pages.

Training and Incentives

	1976 Estimate		Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel comp. and related services.....	255	$20,276,000	255	$17,083,000	---	-$ 3,193,000
Grants.....	---	229,724,000	---	189,417,000	---	- 40,307,000
Total...	255	$250,000,000	255	$206,500,000	---	-$43,500,000

1977 Program

The primary objective of the WIN program in 1977 will continue to be the placement of AFDC recipients into unsubsidized employment, which will result in self sufficiency and welfare savings. WIN plans to place 175,000 WIN registrants into unsubsidized employment, increase the concern to the retention aspects of employment, and seek to improve the wages of the registrants entering employment.

In 1977, the WIN program will focus on improving the operational efficiencies of the program, and plan for any changes the 1976 legislative requests may require. The comprehensive registration process will assure that the 1.3 million new registrants receive labor market exposure and emphasize the importance of individual initiative in the job market. The National Coordination Committee (NCC) will provide leadership in emphasizing the importance of program linkages between State and local WIN sponsors and other manpower and social service programs such as Comprehensive Employment and Training Act (CETA) sponsors and Title XX agencies. WIN will continue to sponsor pilot cooperative projects which contribute to comprehensive community service programs.

The 1977 projected workload is similar to that of 1976. WIN will register 1.3 million AFDC applicants, of which 500,000 will be appraised. The man-years of work and training will decrease by 7,100 man-years to 21,000, including a reduction of 6,000 man-years of institutional training opportunities. However, increased placement from the improved intake process and the increased suspension of WIN registrants to other manpower work and training programs will provide 175,000 unsubsidized employments.

To expand job opportunities for WIN registrants, of whom 75 percent are women, nontraditional jobs for women will be identified. Implementatlion of the previously tested management indicators for local WIN managers in conjuction with the WIN performance allocation formula will provide the means and incentive for local project managers to improve their program operations. The results of the WIN longitudinal evaluation study and the WIN and welfare tax credit study will be available for policy guidance and modification. The collocated manpower and welfare staffs will continue to work together in joint planning activities, as well as improve the reporting systems introduced in 1976.

A total of $206.5 million will be obligated for training and employment in addition to unspent prior year funds of $57 million. Of this, $193 million will be obligated to State agencies for traning and incentive activities and $13.5 million will be obligated for federal program direction and evaluation. Program expenditures will decrease from 1976 level of $235 million to a level of $208 million, a decrease of 11 percent.

1976 Program

The primary objective of the WIN program in 1976 will continue to be the placement of AFDC recipients into unsubsidized employment, thereby, resulting in self sufficiency and welfare savings. WIN plans to place 200,000 registrants into unsubsidized employment, with improvements in wage and retention rates which affect reductions in welfare grants. An administrative objective necessary to better accomplish the program goals will require the implementation of the modified WIN program, which aims to enhance the return of job ready registrants into the labor market.

The revised WIN regulations, issued September 18, 1975, modify the WIN program by requiring improved manpower services to AFDC applicants and recipients at the time of WIN registration. Legislation will be sought which authorizes job search for uncertified registrants as a condition of eligibility for AFDC benefits. The new regulations shift WIN registration responsibilities from the Income Maintenance Unit to the WIN manpower sponsor. Registration now includes the gathering of work history, exposing registrants to work and training opportunities, and whenever possible, joint appraisal. This process will demonstrate to all AFDC applicants the importance of job seeking as a condition of continued eligibility for AFDC benefits. Other major program changes include: (1) States may at their option, add an intensive manpower services component for the near job ready; (2) the WIN sponsor will also deregister individuals from the program thereby improving the timeliness of response and insuring immediate grant reductions and corresponding welfare saving; (3) necessary supportive services will be available for 30 days for employed registrants after the start of unsubsidized employment and services may be extended up to 90 days at the discretion of the staff if necessary for job retention: (4) a registrant who fails to appear for an appraisal of his/her employability, may be deregistered from the program; and (5) appropriate work criteria are expanded to include part time, temporary, and seasonal employment as well as full time employment, thus expanding the availability of work for the recipients.

To assure coordinated programs at the local level, WIN project managers will be encouraged to establish linkages with appropriate Comprehensive Employment and Training Act (CETA) prime sponsors for training and employment activities. The pilot studies for selected local offices will be conducted to determine the effect on program management. A long range assessment of the WIN and welfare tax credit study will begin to collect and analyze data to ultimately determine the relative impact of the AFDC and WIN tax and the extent to which an expanded public information program can improve the public usage of tax credits. WIN will complete the job option training at local levels to assure increased opportunity for the nontraditional jobs for women. The longitudinal evaluation study of WIN has completed data collection. Analysis into the relationship between the kinds of training and services provided and particicpants' post WIN experience will be studied.

A total of $215 million is required to support the training and employment activities, in addition to the $48 million in program costs obligated in 1975. The $35 million supplemental appropriated in the Continuing Resolution will also be available for program use to fund the work and training subcontracts. The program expenditure level of $235 million compares favorably with the expenditure level in 1975. The 1976 program level will provide for the modified program's emphasis on intake and services. The new authority will provide $235 million for distribution to State WIN sponsors and $15 million for program direction and evaluation.

1975 Program

The primary mission of the WIN program is to place WIN registrants into unsubsidized employment resulting in self sufficiency and welfare savings. The results of the employment oriented program are favorable when viewed in the context of a depressed economy. WIN registered nearly 840,000 persons in 1975, an increase of 20,000, which reflects an increase in the AFDC population. WIN participants obtained 170,641 jobs, of which 66 percent were entered directly, without the need for prior training. The man-years of work and training totaled 34,630. In addition, WIN suspended 47,425 participants, a 62 percent increase, into other manpower programs such as the Comprehensive Employment and Training Act (CETA) programs. The criteria for quality job entries showed some improvement over the preceeding year. The average starting wages for men increased over 5 percent to $2.94 and hour and the average starting wages for women increased nearly 14 percent to $2.48 an hour. Retention rates, those employed 90 days after entering the job, kept pace with the previous year at 66 percent. Slightly more participants were deregistered and removed from the AFDC grant because of employment than in 1974. These WIN activities resulted in greater welfare grant reductions. WIN data reflect over $152 million in grant reductions for fiscal year 1975 compared to $129 million reductions in calendar 1974. The increased savings are partially attributable to the DOL performance allocation formula which increased allocations and entitlements to those States which are more successful in generating high initial grant reductions and maintaining high retention rates.

The aim for quality placements led to a State training program designed to increase the job options for women, who have historically had less opportunity in the labor market. A long term longitudinal study of 800 WIN registrants in 78 projects is continuing with results expected in 1976. A feasibility study for the introduction of vouchers in the WIN program assumed that WIN clients who participated in the decision making regarding his own employment, will have greater commitment and achievement. Preliminary results in institutional training appear promising and final results and continued experimentation in on-the-job training are slated for 1976. Nearly 500 twenty-minute films entitled "What You Should Know About WIN," were distributed to the regions and State agencies. Twenty percent of these were in Spanish. To improve the program management, WIN completed a study of management indicators which will be piloted in 1976.

A total of $139 million was obligated in addition to unspent prior year funds of $124 million to operate the training and incentives portion of th WIN program. Of this amount $130 million was obligated to State manpower agencies for training and employment and $9 million was obligated for federal program direction and evaluation. Program expenditures were $223 million.

Child Care and Supportive Services

	1976 Estimate	1977 Estimate	Increase or Decrease
Grants.....	$150,000,000	$108,500,000	- $41,500,000
Total	$150,000,000	$108,500,000	- $41,500,000

The Work Incentive Program, authorized under Title IV of the Social Security Act, as amended, is a State-administered program designed to encourage and assist recipients of Aid to Families with Dependent Children (AFDC) to achieve self-support through a program of training, work experience, employment, child care, and other supportive services. Funds are appropriated directly to the Department of Health, Education, and Welfare, which is responsible for determining WIN eligibility and providing WIN participants with supportive services including child care, family planning, counseling services, vocational rehabilitation services, and medical, remedial and health-related care services.

The 1971 Amendments to the Social Security Act authorize child care and other supportive services to be provided to all WIN registrants who need such care and services to enable them to accept work or training. State expenditures are matched by federal payments at the rate of 90 percent.

1977 Program

The WIN social service activities support the WIN placement and training goals which will enable 175,000 registrants to enter unsubsidized employment. The welfare managers will continue to search for economical options to provide child care which meets federal day care standards in the face of rising costs. The higher minimum wage will affect nearly 50 percent of the day care provided. This economic fact is encouraging States to provide more family day centers as a less expensive child care option. Because welfare budgets will be receiving increased scrutiny, the supportive service managers will be working closely with the WIN sponsors to improve relationships and use of other welfare sources such as title XX and vocational rehabilitational agencies. This will help to assure comprehensive community service programs will be provided as economically as possible.

The limit of entitlements for child care and supportive services will continue to support the performance factors of the DOL allocation as well as consider the previous level of expenditures.

1976 Program

The objective of the WIN social services activity is to provide child care and supportive services enabling 200,000 WIN registrants to enter employment resulting in self sufficiency and welfare savings.

The availability of resources requires concentration of services with the relatively more employable people. As the new regulations expand the program, larger numbers of persons will need child care and supportive services. The new WIN regulations define the specific social services for WIN registrants. The regulations emphasize providing child care services which meet the federal day care standards and are responsive to the registrants use of employment and manpower services. Providing adequate child care service to registrants with rising costs, with a decreasing numbers of day care

slots which meet federal standards, and with a new higher minimum wage, is encouraging States to provide more family day center as a less expensive child care option. In addition, cost effective models which meet federal day care standards will be promoted as alternatives to existing methods of providing day care services. To assure the best utilization of scarce resources, the necessary services will continue for 30 days after the start of unsubsidized employment. However, at the SAU's discretion, the services may extend to a maximum of 90 days.

The limits of entitlement for child care and supportive services will continue to follow the performance factors of the DOL allocation as well as the level of previous expenditures. Collocation between two agencies at national, regional, State and local levels is continuing to better serve the needs of registrants entering work and training opportunities.

1975 Program

The WIN program resulted in 170,641 job entries in 1975. These placements were supported by 96,800 man-years of child care and 141.100 man-years of supportive services. The major supportives services needed to enable registrants to enter work or training were: home management services (106,000 families), family planning (56,000 families), and remedial medical services (37,000 families). Of the child care provided, over 60 percent were care for on a full time basis and over 35 percent on part time basis. Child care provided in own home accounted for 50 percent of total care, while 33 percent received care with families, and 17 percent were cared for in group care centers.

The minimum wage increase, not less than $2.10 an hour after January 1, 1975, is affecting the in home care, whose standards are state controlled. This expensive child care option is decreasing in some states, resulting in an emphasis on family and group care which meet federal standards.

Collocated DOL/HEW staffs at the national, regional and various state and local levels jointly developed operating plans. These staffs are working more closely together to assure better services to WIN registrants entering employment and training opportunities.

WORK INCENTIVES
PROGRAM COSTS FUNDED
(total costs in thousands)

Training and Incentives	FY 1975 Actual Workload	Unit Cost	Total Cost
Intake/Services			
Registration	839,408	6	5,188
Appraisal	555,447	11	5,978
Employability Planning	359,085	31	11,100
Orientation	142,333	19	2,774
Direct Placement	113,485	478	54,251
Adjudication	29,938	78	2,330
			81,621
Work and Training			
On-the-job Training	10,055	4,782	48,082
Public Service Employment	5,924	6,912	40,932
Institutional Training	15,365	2,181	33,517
Work Experience	3,286	1,538	5,053
	34,630M/Y		127,584
Program Direction and Evaluation			13,585
Total, DOL Costs			222,790
Child Care and Supportive Services			
Child Care	96,805	593	57,405
Supportive Services	141,058	495	69,824
Total, HEW costs			127,229
Total WIN costs			350,019

	DOL	HEW	Total
New Obligational Authority	139,195	70,805	210,000
Adjustments	10,467	29,500	39,967
Reversions of Prior Year Funds	-3,092		-3,092
Program Costs Funded Prior Years	124,193	26,969	151,162
Less Unobligated Balances Lapsing	-91	-45	-136
Total Availability	270,672	127,229	397,901
Program Costs Funded Subsequent Years	47,882		47,882
Costs	222,790	127,229	350,019
Outlays	223,283	90,554	313,837

WORK INCENTIVES
PROGRAM COSTS FUNDED
(total costs in thousands)

Training and Incentives	FY 1976 Estimate Workload	Unit Cost	Total Cost
Intake/Services			
IMU Medical Verification	57,000	21	1,197
Registration/Labor Market Exposure 1/	1,302,000	20	26,040
Appraisal/Employability Planning 2/	555,000	31	17,235
Orientation	150,000	10	2,850
Intensive Manpower Services 3/	120,000	478	57,360
Adjudication	29,000	78	2,262
			106,944
Work and Training			
On-the-job Training	9,000	4,782	43,038
Public Service Employment	5,000	6,912	34,560
Institutional Training	11,600	2,181	25,300
Work Experience	3,300	1,538	5,075
	28,900 M/Y		107,973
Program Direction and Evaluation			20,276
Total, DOL Costs			235,193
Child Care and Supportive Services			
Child Care	85,000	610	51,700
Supportive Services	125,000	507	63,300
Total, HEW costs			115,000
Total WIN costs			350,193

	DOL	HEW	Total
New Obligational Authority	215,000	115,000	330,000
1976 Continuing Resolution (enacted)	35,000	35,000	70,000
Adjustments		-35,000	-35,000
Program Costs Funded Prior Years	47,882		47,882
Total Availability	297,882	115,000	
Program Costs Funded Subsequent Years	62,689		62,689
Costs	235,193	115,000	350,193
Outlays	235,000	115,000	350,000

1/ Registration includes Labor Market Exposure in 1976 and 1977.
2/ Appraisal includes Employability Planning in 1976 and 1977.
3/ Intensive Manpower Services includes Direct Placements in 1976 and 1977.

WORK INCENTIVES
PROGRAM COSTS FUNDED
(total costs in thousands)

Training and Incentives	FY 1977 Estimate Workload	Unit Cost	Total Cost
Intake/Services			
IMU Medical Verification	59,000	23	1,357
Registration/Labor Market Exposure 1/	1,300,000	22	28,600
Appraisal/Employability Planning 2/	500,000	33	16,500
Orientation	130,000	21	2,730
Intensive Manpower Services 3/	100,000	526	52,600
Adjudication	29,000	86	2,494
			104,281
Work and Training			
On-the-job Training	9,000	4,782	43,038
Public Service Employment	4,000	6,912	27,648
Institutional Training	6,000	2,181	13,086
Work Experience	2,000	1,538	3,076
	21,000M/Y		86,048
Program Direction and Evaluation			17,083
Total, DOL costs			208,212
Child Care and Supportive Services			
Child Care	70,000	672	47,000
Supportive Services	110,000	559	61,500
Total, HEW costs			108,500
Total WIN costs			316,712

	DOL	HEW	Total
New Obligational Authority	206,500	108,500	315,000
Program Costs Funded Prior Years	57,302		57,302
Total Availability	263,802	108,500	372,302
Program Costs Funded Subsequent Years	55,590		55,590
Costs	208,212	108,500	316,712
Outlays	207,000	108,000	315,000

1/ Registration includes Labor Market Exposure in 1976 and 1977.
2/ Appraisal includes Employability Planning in 1976 and 1977.
3/ Intensive Manpower Services includes Direct Placements in 1976 and 1977.

Work Incentives

Program Purpose and Accomplishments

Activity: Training and Incentives (Social Security Act, Section 431)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
255	$250,00,000	Indefinte	255	$206,500,000

Purpose: The 1971 amendments to the Social Security Act authorize a work incentive program designed to encourage and promote employment, work experience and training of recipients of Aid to Families with Dependent Children.

Explanation: Federal grants governing 90 percent of the costs of manpower and training activities are made to the State manpower agencies. All non-exempt and voluntary recipients of Aid to Families with Dependent Children (AFDC) are registered and given labor makert exposure. Those with employment potential are certified and provided such services as job counseling, orientation, employability planning, on-the-job training, public service employment institutional training and work experience.

Accomplishments in 1976: By June 30, 1976, the Department of Labor plans to have registered 816,000 new registrants and to provide labor market exposure to all new registrants and to 484,000 prior year registrants. An estimated 555,000 will be appraised and provided employability planning, and 28,900 man-years of work and training will be provided. Placements are estimated at 200,000.

Objectives in 1977: During 1977, an estimated 1,300,000 AFDC recipients will be registered and receive labor market exposure. An estimated 500,000 will be appraised and provided employability planning, and 21,000 man-years of work and training will be provided. Placements are estimated at 175,000.

Work Incentives

Program Purpose and Accomplishments

Activity: Child Care and Supportive Services (Social Security Act, Section 401)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$150,000,000	Indefinite	---	$108,500,000

Purpose: The 1971 Amendments to the Social Security Act authorize child care and other supportive services to be provided to all WIN registrants who need such care and services to enable them to accept work or training.

Explanation: Federal financial participation is provided to States at a 90 percent matching rate to enable them to provide child care and supportive services to persons participating in training or work under the Work Incentive Program.

Accomplishments in 1976: To assure improved coordination with the Department of Labor's placement and training goals, the HEW allocation of support resources will be closely related to DOL, the joint planning and review process will be enhanced, and the provision of day care services will be improved through the development of cost effective models to meet the Federal Interagency Day Care Requirements. It is estimated that 85,000 years of child care and 125,000 man-years of supportive services will be provided. In addition, the appropriation will provide for costs incurred in fiscal years 1974 and 1975.

Objectives in 1977: It is anticipated that 70,000 years of child care and 110,000 man-years of supportive services will be provided.

The supportive service managers will continue to search for economical options to provide child care which meets federal day care standards. States will be providing more family day care centers as a less expensive child care option. In addition, supportive service managers will be working closely with the WIN sponsors to improve relationships and use of other welfare services. This should assure comprehensive community service programs will be provided as economically as possible.

Work Incentives

Actual and Estimated Awards for Training and Incentives
Fiscal Years 1975-1977

State	1975 Actual	1976 1/ Estimate	1977 2/ Estimate
Alabama	$ 1,043,893	$ 2,590,000	$ 2,130,000
Alaska	695,871	762,000	630,000
Arizona	1,494,537	2,600,000	2,140,000
Arkansas	1,567,708	1,520,000	1,250,000
California	11,863,110	33,545,000	27,570,000
Colorado	1,467,445	3,724,000	3,060,000
Connecticut	1,852,508	3,003,000	2,470,000
Delaware	396,840	704,000	580,000
Dist. of Col.	3,068,947	2,567,000	2,110,000
Florida	2,528,508	5,072,000	4,170,000
Georgia	3,505,028	5,700,000	4,690,000
Guam	177,210	200,000	160,000
Hawaii	769,745	1,500,000	1,230,000
Idaho	543,383	976,000	800,000
Illinois	4,379,328	12,533,000	10,320,000
Indiana	1,357,389	3,344,000	2,750,000
Iowa	682,292	2,642,000	2,170,000
Kansas	1,569,709	2,210,000	1,820,000
Kentucky	2,064,311	2,591,000	2,130,000
Louisiana	990,188	2,284,000	1,880,000
Maine	597,168	1,607,000	1,320,000
Maryland	2,867,706	5,045,000	4,150,000
Massachusetts	1,937,462	7,372,000	6,070,000
Michigan	11,226,988	14,210,000	11,700,000
Minnesota	1,852,944	3,884,000	3,200,000
Mississippi	1,202,796	2,850,000	2,350,000
Missouri	2,128,452	4,455,000	3,670,000
Montana	346,742	701,000	580,000
Nebraska	238,108	810,000	670,000
Nevada	427,059	700,000	580,000
New Hampshire	308,525	533,000	440,000
New Jersey	4,632,134	6,262,000	5,150,000
New Mexico	1,188,662	1,143,000	940,000
New York	17,957,700	23,614,000	19,430,000
North Carolina	1,461,032	2,591,000	2,130,000
North Dakota	505,996	605,000	500,000
Ohio	7,648,587	9,341,000	7,690,000
Oklahoma	1,181,314	1,627,000	1,340,000
Oregon	2,970,329	4,971,000	4,090,000
Pennsylvania	3,628,608	11,195,000	9,210,000

Training and Incentives - cont'd

State	1975 Actual	1976 1/ Estimate	1977 2/ Estimate
Puerto Rico	$ 1,219,725	$ 2,865,000	$ 2,360,000
Rhode Island	383,678	1,340,000	1,100,000
South Carolina	1,031,249	1,813,000	1,490,000
South Dakota	767,785	937,000	770,000
Tennessee	1,683,569	2,850,000	2,350,000
Texas	4,373,327	6,030,000	4,960,000
Utah	1,819,300	2,724,000	2,240,000
Vermont	493,996	837,000	690,000
Virginia	1,358,391	3,008,000	2,480,000
Virgin Islands	107,979	200,000	160,000
Washington	3,055,063	6,574,000	5,410,000
West Virginia	1,709,014	3,991,000	3,280,000
Wisconsin	5,416,888	7,480,000	6,160,000
Wyoming	177,919	343,000	280,000
Total	$129,924,145	$234,575,000	$193,000,000

1/ These amounts are subject to change since revised State plans have not yet been finalized.

2/ These amounts are subject to change based on actual number of WIN registrants in January 1976.

Actual and Estimated Awards for WIN Social Service
Including Child Care and Administration
Fiscal Years 1975-1977

State	1975 Actual	1976 1/ Estimate	1977 1/ Estimate
Alabama	$ 915,080	$ 1,700,000	$ 1,230,000
Alaska	324,592	713,000	520,000
Arizona	782,440	1,711,000	1,240,000
Arkansas	509,106	1,077,000	780,000
California	4,878,372	14,890,000	10,770,000
Colorado	905,791	2,251,000	1,630,000
Connecticut	932,196	1,908,000	1,380,000
Delaware	274,800	532,000	380,000
Dist. of Col.	1,218,032	2,160,000	1,560,000
Florida	1,737,473	3,304,000	2,390,000
Georgia	2,103,605	3,904,000	2,820,000
Guam	39,678	77,000	60,000
Hawaii	253,816	703,000	510,000
Idaho	452,746	850,000	610,000
Illinois	1,903,761	6,054,000	4,380,000
Indiana	590,278	1,598,000	1,160,000
Iowa	711,848	1,642,000	1,190,000
Kansas	576,098	1,158,000	840,000
Kentucky	891,975	1,762,000	1,270,000
Louisiana	734,452	1,476,000	1,070,000
Maine	476,324	975,000	710,000
Maryland	1,684,771	3,627,000	2,620,000
Massachusetts	1,294,639	3,800,000	2,750,000
Michigan	7,922,432	13,144,000	9,510,000
Minnesota	1,197,160	2,360,000	1,710,000
Mississippi	443,715	1,309,000	950,000
Missouri	1,349,238	2,770,000	2,000,000
Montana	357,571	569,000	410,000
Nebraska	343,493	557,000	400,000
Nevada	77,531	280,000	200,000
New Hampshire	117,188	265,000	190,000
New Jersey	4,732,034	10,344,000	7,480,000
New Mexico	283,832	622,000	450,000
New York	9,811,973	16,421,000	11,870,000
North Carolina	991,293	1,958,000	1,420,000
North Dakota	168,323	364,000	260,000
Ohio	1,705,718	4,119,000	2,980,000
Oklahoma	605,997	1,093,000	790,000
Oregon	1,928,542	3,768,000	2,730,000
Pennsylvania	1,966,573	5,549,000	4,010,000

WIN Social Service Including Child Care and Administration - cont'd

State	1975 Actual	1976 1/ Estimate	1977 1/ Estimate
Puerto Rico	$714,544	$1,890,000	$1,370,000
Rhode Island	519,201	1,056,000	760,000
South Carolina	723,469	1,364,000	990,000
South Dakota	220,227	665,000	480,000
Tennessee	925,847	1,794,000	1,300,000
Texas	2,199,011	4,158,000	3,010,000
Utah	891,364	1,870,000	1,350,000
Vermont	420,075	690,000	500,000
Virginia	1,001,576	1,827,000	1,320,000
Virgin Islands	24,956	128,000	90,000
Washington	1,327,848	3,486,000	2,520,000
West Virginia	1,107,015	2,387,000	1,730,000
Wisconsin	2,389,915	5,113,000	3,700,000
Wyoming	100,466	208,000	150,000
Total	$70,760,000	$150,000,000	$108,500,000

1/ These amounts are subject to change dependent upon receipt of revised State Plans and development of "needs" patterns from States' estimates and expenditure reports.

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Estimate	Transition Quarter
Training and Incentives	$250,000,000	$52,600,000
Child Care and Supportive Services	150,000,000	27,400,000
Total Obligations	$400,000,000	$80,000,000

Explanation

The $80,000,000 will provide for one-fourth of the 1976 Budget workload as provided by the Congressional Budget and Impoundment Control Act of 1974. It will maintain the 1976 levels through the transition quarter. It will provide for the funding of subcontracts of work and training and for intake services, as well as funding the child care and other supportive services.

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PROGRAM ADMINISTRATION

WITNESSES

DON I. WORTMAN, ACTING ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE
SAMUEL E. MARTZ, ASSISTANT ADMINISTRATOR FOR FINANCIAL MANAGEMENT, SOCIAL AND REHABILITATION SERVICE
M. KEITH WEIKEL, COMMISSIONER, MEDICAL SERVICES ADMINISTRATION
NICHOLAS NORTON, ACTING COMMISSIONER, ASSISTANCE PAYMENTS ADMINISTRATION
LOUIS B. HAYS, DEPUTY DIRECTOR, OFFICE OF CHILD SUPPORT ENFORCEMENT, SOCIAL AND REHABILITATION SERVICE
MISS ANNA L. PERKINS, DIRECTOR, DIVISION OF BUDGET, SOCIAL AND REHABILITATION SERVICE
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER

INTRODUCTION

Mr. FLOOD. Now we continue with Social and Rehabilitation Service, Program Administration.

The presentation will again be made by Don I. Wortman, the Acting Administrator, Social and Rehabilitation Service. Your biographical sketch has appeared earlier.

OPENING STATEMENT

I see you have a prepared statement. How do you want to handle this one?

Mr. WORTMAN. I would suggest, sir, that I just make a couple of points and insert this in the record.

Mr. FLOOD. Without objection, we will do that.

[The statement follows:]

Mr. Chairman and members of the committee, the request of $63,095,000 for fiscal year 1977 provides Federal administrative support for public assistance programs that are expected to assist some 30 million Americans in moving from dependency toward self-support and greater independence. The increase of $2,717,000 over the appropriation for fiscal year 1976 is due entirely to built-in program changes; no new positions are requested.

There is currently authorized for the Social and Rehabilitation Service a Federal staff of 2,124 positions to provide oversight for the $18 billion in Federal formula grant funds used to support the Federal-State public assistance programs. These staff administer the various grant and contract programs associated with providing maintenance, medical and social services.

The 1977 request supports 1,965 full-time permanent man-years and 58 full-time equivalent of other positions. Year-end employment for full-time permanent positions is estimated to be 1,995. In addition to funds for meeting the salaries and benefits requirements of this staff, resources are requested to provide other necessary supportive services such as rent, printing, supplies, etc. Especially important are: (*a*) funds for travel to enable the SRS staff to get into the States to provide the needed technical assistance and to perform the program monitoring and financial reviews required for proper assessment of States' management practices; and (*b*) sufficient funds to allow adequate contractual support of a highly technical nature in such areas as analysis of State management control systems and provider claims processing systems and to carry out financial reviews beyond the capability of the agency.

The priorities in each of the major SRS programs include:

MAINTENANCE ASSISTANCE

AFDC quality control.—Quality Control staff will continue to review Federal subsamples to validate States' samples and evaluate the effectiveness of the States' corrective action plans. They will provide technical assistance to States' staffs to eliminate procedures which are error producing.

Eligibility process.—Reviews will examine the total eligibility process in depth. This includes the initial contact and determinaton of eligibility, periodic redeterminations, and recipient-welfare office response to changes in circumstances of the recipient. The evaluation method will include factfinding surveys in State agencies. Methodologies successful in reducing error rates will be passed on to other States in the management aids series of publications. The reviews are also expected to support the onging simplification project by identifying areas where Federal regulations are either excessive or unnecessary.

Simplified plan format.—Field staff are providing technical assistance to States in the use of a simplified form for their State welfare plans. All States will use the same format and cover only federally-matched cash assistance programs in this one policy document.

Child support enforcement (title IV–D).—The Office of Child Support Enforcement has been established with a regional office of child support enforcement in each regional office to carry out HEW's responsibilities under the new program. Major efforts in 1977 will be oriented toward (1) providing technical assistance to States to meet their principal requirements as outlined in the regulations and (2) assessing States' compliance.

MEDICAL ASSISTANCE

Early and periodic screening, diagnosis, and treatment.—We will continue to assist the States in implementing the EPSDT program, based upon revised regulations and methods developed in fiscal year 1976, to assure effectiveness of program operations. Penalty regulations are under revision to clarify basic program requirements. To correct data and tracking problems, statistical reporting requirements are being revised, and a general systems design of a State-oriented EPSDT management information system will become operational in 1976.

Utilization review.—We are working with the States in putting into effect a system of controls to assure that only those services which are necessary are provided to those who require them, for only as long as they are required and in the setting most appropriate to their needs. We have identified through national onsite surveys, numerous problems in States' utilization control programs. Until supplanted by PSRO's, our staff will continue to program onsite reviews and provide technical assistance to States' staff to further the improvement noted to date.

Quality control.—The medicaid eligibility quality control program is modeled upon the AFDC quality control program whereby each State selects and reviews a statistical sampling of paid claims and, from this review, determines the level of ineligible recipients, the associated amount of erroneous payments, and their cause and corrective action.

SRS staff has developed training manuals, conducted training sessions for regional and State staff, and is conducting on-site reviews. This effort will be intensified.

Fraud and abuse.—A special branch has been established within the Medical Services administration. A staffing allocation of 11 was assigned to this function in 1975 and an additional 108 positions were approved in the 1976 appropriation. This staff's function is to improve State fraud and abuse surveillance through monitoring, technical assistance, technology transfer, and the development of detection techniques.

SOCIAL SERVICES

Title XX.—Technical and program assistance will be provided to States in the development of their services plans and service delivery mechanisms. Program monitoring and review will be carried out to insure that specific conformity requirements and requirements for Federal financial participation are being met. An annual report on results of ongoing evaluation and a special report on program effectiveness during calendar years 1975 and 1976 will be submitted to Congress.

WORK INCENTIVES

Staff of the WIN program will be working with States to make certain that all WIN registrants are actively engaged in job search activities. Additionally, they will implement changes in program management which will achieve overall reductions in program costs.

SUMMARY

In summary, Mr. Chairman, we are requesting for program administration in 1977, $63,095,000.

Mr. Chairman, this concludes my statement on the program administration appropriation. I will be happy to answer any questions you or members of the committee may have.

SUMMARY OF REQUEST

Mr. WORTMAN. Sir, the request of the Social and Rehabilitation Service for program administration amounts to $63,095,000, an increase of $2.7 million over 1976.

The number of positions that we are requesting for authority is 2,124, no change from 1976, and the money we are requesting from you would buy 1,965 full-time permanent man-years and 58 full-time equivalent or temporary positions.

That is our request, sir, and I should point out that in looking at 1976 we do have, based on appropriation from the Congress, two significant increases in staff: 108 positions for medicaid fraud and abuse and 170 positions for the Office of Child Support Enforcement.

SRS ADMINISTRATION

Mr. FLOOD. Mr. Wortman, I see you are the Acting Director. How long do you expect to be acting?

Mr. WORTMAN. Two more months.

Mr. FLOOD. Is someone being considered for the position?

Mr. WORTMAN. I have been advised there has been another name referred to the White House for this position.

Mr. FLOOD. You know this is one agency particularly where you see a lot of people in acting positions. Is there some special reason for that or what?

Mr. WORTMAN. There were a number of associates of Mr. Dwight who, upon his departure, decided to leave. Three people who were senior staff members of SRS upon his departure decided to move on, so we are in that period where a new Administrator will necessarily appoint his or her own team to those jobs.

Mr. FLOOD. Have you been on board long enough to develop a reorganization plan? You know, of course, every new agency head feels compelled to reorganize?

Mr. WORTMAN. Secretary Mathews' judgment of the matter in SRS was the last thing we need is a reorganization. I would share that view.

Mr. FLOOD. This agency no longer administers the vocational rehabilitation program. Why don't you drop the "R" from that title?

Mr. WORTMAN. That has been suggested internally in the Department by the Assistant Secretary who now operates that program. I have for the time being resisted that primarily because I think the term rehabilitation has a broader context than just vocational rehabilitation.

We are as committed to helping Americans in need as any of the other particular programs in HEW that may have a target group focus

or as they say, a categorical program. It may be that the name will be changed but I don't think I want to devote a lot of energy to that right now.

Mr. FLOOD. Do you have anything for the record in the nature of the latest reorganization in the agency?

Mr. WORTMAN. I certainly can provide you the organizational statement with functions and duties.

EMPLOYEE MORALE

Mr. FLOOD. No; that is not necessary.

Since you have been on board what is your opinion about employee morale? Is everyone pretty well satisfied?

Mr. WORTMAN. That would not be a true statement. We in the Social and Rehabilitation Service are going through 100 percent reclassification of our positions.

Mr. FLOOD. That is the reason we ask that. We understand that your organization is going through a major personnel reclassification both in Washington and out in the field, and there appears to be threats of a reduction in force affecting many of your employees.

That is your business and we don't want to interfere with it. However, we are concerned about the operation of the program. How serious is the situation?

Mr. WORTMAN. May I clarify one point?

Mr. FLOOD. Yes.

Mr. WORTMAN. We will not have a reduction in force. The nature of the responsibility of SRS and what the Congress has provided will not result in a reduction in force. This is probably how you have heard it. We are talking about some downgrading actions and reduction-in-force procedures are used for bumping rights based on seniority, so you will hear the term used, but it has more to do with a procedural definition than with any actual laying off of employees.

Now let me answer your question more directly. It is undoubtedly true the productivity of this organization has suffered, rather significantly, from having a requirement of going through the reclassification. That is not to say that the job was not necessary. That I can not make a judgment on. But productivity has been affected.

My own view is that we are coming out of that. We have a good chunk of this work behind us, still much to do, but I think we are coming out of that.

In the downgrades, for instance, in Chicago letters did go out to 11 employees for downgrades. In some other regional offices it might even be more than that, but when these things settle down, there are fewer employees who actually get downgraded, in the last analysis, than the initial notification would indicate.

What it does do is create a great degree of uncertainty in an organization, and that is not something with which human beings like to exist.

VACANCIES

Mr. FLOOD. We continue to be concerned about the large number of vacant jobs. Will you insert for the record the current number of vacancies for each one of the organizational units?

Mr. WORTMAN. I will do that.

[The information follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
Social and Rehabilitation Service
and Office of Child Support Enforcement
Status of Authorized Positions
as of March 1, 1976

Organization	FY 1976 Authorized Positions	On Board Staff	Positions Vacant
Central Office			
Office of Child Support Enforcement	77	5	72
Immediate Office of the Administrator	6	2	4
Office of Field Operations	17	16	1
Office of Policy Control and Coordination	88	84	4
Office of Planning, Research and Evaluation	70	55	15
Office of Management	197	169	28
Office of Information Systems	117	108	9
Assistance Payments Administration	94	86	8
Medical Services Administration	218	150	68
Public Services Administration	89	61	28
Subtotal Central Office, SRS, and Child Support Enforcement	973	736	237
Regional Offices			
Office of Child Support Enforcement	68	3	65
Office of Regional Commissioner a/	191	189	2
Financial Management	228	218	10
Special Initiatives	266	265	1
Assistance Payments	57	54	3
Work Incentives Program	39	38	1
Medical Services	214	129	85
Public Services	88	66	22
Subtotal Regional Offices, SRS and Child Support Enforcement	1,151	962	189
Total SRS and Child Support Enforcement in Salaries and Expenses	2,124	1,698	426

a/ Includes Regional Commissioners, Deputies and Support Staff (Planning, Evaluation Training, Manpower Development, Information Systems and Research and Statistics)

Mr. WORTMAN. We do have a large number of vacancies, and I have undertaken just this last week a number of special recruitment efforts to try to close the gap. We are short on secretaries. We are short at junior professional levels, and some of this has been because of the reclassification, but as we get over that hump I am hopeful that we can more quickly get up to our staff requirements.

STAFFING

Mr. FLOOD. By the way, how many consultants are presently employed by the agency?

Miss PERKINS. We have about three on board right now.

Mr. FLOOD. How does that compare with your level a year ago?

Miss PERKINS. Two years ago it was over 100.

Mr. FLOOD. Wasn't the authority to hire suspended in your agency?

Mr. WORTMAN. All hiring and appointment authority was suspended for a while.

Miss PERKINS. For grade 13 and above it was suspended. For the consultants there was a time we did not have the appointive authority.

Mr. FLOOD. What about now?

Mr. WORTMAN. Currently, GS–13, 14, and 15 authority rests in the Deputy Assistant Secretary of Personnel for Training. It does not rest in SRS at this time.

Mr. FLOOD. You are not requesting any new jobs for 1977. That is the first time in several years we haven't had a request for new jobs in your agency. Is that because you are a new man in the job or what?

Mr. WORTMAN. No. I think these decisions were reached before I became responsible. Of course, we did get some authority from Congress on a couple of the initiatives that we have underway, but basically I think the general view is that until we have settled down, in terms of this reorganization and reclassification, that it is difficult to make judgments about any additional needs.

MEDICAID POSITIONS

Mr. FLOOD. Over the last several years Congress has approved a lot of new jobs for the medicaid program. That was done, of course, largely because of fraud and abuse and other management problems. To what extent do you think these new additional jobs have served to reduce any fraud or abuse in the medicaid program?

Mr. WORTMAN. I see Dr. Weikel just joined us, and he can provide you with the specifics.

But let me say that in my own perspective, a number of jobs that have been provided in the past by the Congress have been used to do important work in information system development.

I, with some background in this, feel the work that has been done on the Medicaid management system by SRS, both in Dr. Weikel's organization and in that of our Associate Administrator for Information Systems, Mr. Weinberg's organization has been outstanding. States that have adopted that system are in much better position to prevent fraud and abuse from occurring. This was in the statement that we gave to the committee a few weeks ago on Medicaid. Just to focus on fraud and abuse in this huge program, without worrying

about what we call in our shop the front-end management of the program, you would never get on top of it.

Dr. Weikel can talk more specifically about some of the other developments.

Dr. WEIKEL. The Congress gave us 108 positions, in the 1976 appropriation, for fraud and abuse in Medicaid. None of those positions have been filled. We hope to have a significant amount of those filled within the next 60 days.

We are proceeding very rapidly on those jobs right now and we will be announcing a very major initiative, within the Medicaid program, specifically directed to the fraud and abuse question because it is a significant problem. We really don't know the extent of it.

Mr. FLOOD. There is no answer right now?

Dr. WEIKEL. In terms of the 108 positions, that is correct.

SIMPLIFIED STATE PLAN FORMAT

Mr. FLOOD. Your justification indicates that you are working with the States on a simplified State plan format. We know that there has been quite a problem with this material being outdated. What percent of your State plans are current, accurate?

Mr. WORTMAN. I think I would like both Mr. Norton and Dr. Weikel to speak to that.

Nick, why don't you start off on the terms of the AFDC.

Mr. NORTON. The reference, in the justification, is to the plan we have for introducing a simplified format in the AFDC area. Of course, that is a pretty basic area because the AFDC plan encompasses people who then become automatically eligible for medicaid.

This has had a very careful review, and I am very optimistic that it will tremendously simplify the States' lives and greatly enhance our ability to track the States' activities and report to you on what the States have introduced in their plans.

All States have a functioning plan in effect. The delay time has to do with amendments. There are not, to my knowledge, any significant overdue amendments to get into really important areas. They are primarily technical amendments, and where they are overdue it is generally because of the regional office, which has the approval authority, wanting to have legal opinion from their regional attorney before they make the approval.

REVIEW OF ELIGIBILITY PROCESS

Mr. FLOOD. You mention that you are reviewing the eligibility process.

Mr. NORTON. Yes, sir.

Mr. FLOOD. I take for granted that will be in all your programs. If that is so, are you expecting some kind of legislative proposal to simplify the process?

Mr. NORTON. This initiated, Mr. Chairman, from our concern that we needed, at the Federal level, more profound and detailed knowledge of State operations in the determination of the eligibility. In view of the President's initiative to ask the Congress for some authorities directed toward simplification of security programs, we will also in that survey process which we will conduct in every State——

Mr. FLOOD. Are you going to come up with a legislative proposal?

Mr. NORTON. We don't know, sir. We will be making studies to examine relationships, because in order to be able to advise the administration as well as the Department whether there might be some legislative initiative——

Mr. FLOOD. Have you actually involved the States in any active way to study this eligibility problem?

Mr. NORTON. The survey will be conducted by our Federal staff but in concert with the States' staffs. The Federal staff will actually visit welfare offices in local jurisdictions to make site surveys.

I might mention the Secretary has launched a major initiative in terms of putting together a forum to involve the States, their knowledge and experience, in any initiatives the Department might want to take in the area of welfare improvement and reform.

Dr. WEIKEL. In the case of the medicaid eligibility, we have been working on that issue. Our staffs have been meeting with the various States, and they are working on plans for simplification because there is a problem in the eligibility area.

MEDICAID MANAGEMENT INFORMATION SYSTEM

Mr. FLOOD. Where do you stand with this matter of medicaid management information system? It seems to us you spent a number of years and a lot of money developing this so-called system, but you still don't have a final product. What has happened?

Mr. WORTMAN. We have a final product in the design. We do not have its universal application in the 50 States.

Dr. WEIKEL. We have 32 States that are now involved in the implementation of that information system. Five have completed the process and are certified to receive the 75 percent matching for system operation. Another 5 States have finished the process of installing that system and have requested us to go out and certify that their system is eligible for 75 percent matching. There are 22 others who are at some stage of the development, where they either have a planning document or are actually installing the system although they have not completed it. So we have 32 States that have now moved.

There is significant progress. We are looking at ways now to speed that implementation up, to provide encouragement to States to implement some part of that system without implementing the whole. For example, installing the provider and patient profile part of it, to prevent fraud and abuse.

Mr. FLOOD. We note that you are developing a separate information system altogether for the early periodic screening diagnosis and treatment.

Why do you want that system? Won't MMIS do the same thing?

Dr. WEIKEL. The system we are developing for the early and periodic screening is to be a component of that system. It is just another module that will fit into that same system.

Mr. FLOOD. It is not an entirely different one.

Dr. WEIKEL. No; it is absolutely not. The reason we needed some additional design work in the system we presently have in place is that it does not have the capability to track patients through to treatment; in other words, identifying that they are screened.

CHILD SUPPORT ENFORCEMENT STAFF

Mr. FLOOD. Concerning the enforcement of the child support, how many people are going to be involved in each phase of your efforts there, both the central office and out in the regions?

Mr. WORTMAN. We will have 170 people in the total staff, and the split between headquarters and regional is 68 on the regional office and the balance would be in headquarters.

Mr. FLOOD. When do you expect all those jobs to be filled?

Mr. WORTMAN. Probably not before November. We just recently set up that organization and have started the process of getting job descriptions approved.

TRAVEL REQUEST

Mr. FLOOD. We see here that you want an increase of $400,000 for travel. That is 10 percent more than last year. Why are your travel increases so much? You are not asking for any new jobs?

Mr. WORTMAN. No; we are not asking for any new jobs. As you pointed out earlier in your comments, we are not presently up to our strength; however, next year we will have more employees. If I were to highlight any particular thing, it is the fraud and abuse initiative that Dr. Weikel spoke about yesterday and we have been speaking about today. If we are to do this job in partnership with the States, we are going to have to put more Federal people onsite working with the States in developing audit procedures, criminal investigation, and linkages with States' attorneys general and Federal attorneys general, in order to get on with this task.

Our travel costs will necessarily increase between now and the end of the fiscal year and all during next year as we mount a major effort on this front.

Mr. FLOOD. You can do this for the record: Supply a detailed analysis now showing how this budget request for travel was computed. I don't mean just the increase but the base.

[The information follows:]

Travel request

	Cost
Fiscal year 1977 request at man-year cost of $2,000	$3,930,000
Revised 1976 estimate at man-year cost of $1,839	3,530,000
Difference	400,000

The difference is made up of these components:

1. $92.000 for man-year increase from 1976 to 1977 of 46.

2. $308,000 for increased travel is based upon the need for travel to the States and localities to implement the child support enforcement program, the medicaid management, and fraud and abuse initiatives, title XX, social services, and the financial management activities to insure that tax dollars are used for the purpose intended in all programs.

The approach used in developing the travel request is to relate the travel requests of the component Bureaus and Offices to the programmatic and management thrusts.

In addition to the above it should be noted that the Secretary announced in a national press conference on Friday, March 26, that the Department is initiating a large-scale initiative to deal with the problem of fraud and abuse in the medicaid program. This strategy was made possible as a result of congressional authorization of 108 new positions for SRS in fiscal year 1976. The strategy consists, in part, in the deployment of Federal/State teams whose function will be to review the largest of the 50 State medicaid programs for the purpose of isolating

and correcting problems with fraud and abuse. These reviews will commence in fiscal year 1976 and continue throughout fiscal year 1977; 50 SRS employees will be engaged in these reviews, 6 of which are anticipated for completion in fiscal year 1977.

Assuming a per diem rate of $33, an average travel cost of $250, and an incidental cost of $100, the cost per person in the field for each State review would be $2,330. Given our estimate, therefore, of 6 reviews to be accomplished during fiscal year 1977 with 50 Federal employees involved in each review, we anticipate $700,000 as a minimum requirement for this activity in fiscal year 1977 within the budgeted travel funds.

Mr. FLOOD. Mr. Shriver.

FRAUD AND ABUSE STAFF

Mr. SHRIVER. Mr. Chairman, I have just one question that relates to page 4 of your statement. You say—

A special branch has been established within the Medical Services Administration. A staffing allocation of 11 was assigned to this function in 1975 and an additional 108 positions were approved in the 1976 appropriation.

How many do you have now?

Dr. WEIKEL. At the present time we have about 11 that are on board throughout the Nation. We are proceeding to fill 108 positions so that we will have a total, hopefully within the next 6 months, of 120.

Mr. WORTMAN. I should point out, Congressman Shriver, in addition to those 11, Dr. Weikel and myself have pulled together people, even from outside HEW, to help us think through and conceive of a more significant fraud and abuse effort than we had in mind say 6 months ago.

Mr. SHRIVER. Everything is really changing in your area.

Mr. WORTMAN. We would be the first to point that out. Sometimes, the way the publicity has been, you would think we are picking on the States. We, ourselves, were not devoting significant resources in conceiving good fraud and abuse attacks as much as a year ago.

We had people on it, but we had not thought about it in terms of the way we are now thinking about it.

Dr. WEIKEL. We also see some increases in the States' interest in tackling the issues of fraud and abuse. In medicaid, during the previous quarter, not the past one—we still haven't got the data on the last quarter—111 providers were terminated from the medicaid program because of abusing the program. So this is an increase, and we expect to see this increase over the next year as we mount our initiatives.

Mr. FLOOD. Mr. Michel?

FRAUD ACTIVITIES

Mr. MICHEL. In the 1976 appropriations, 108 positions were authorized for a fraud and abuse branch under Medical Services Administration. How many of these positions have been filled?

Dr. WEIKEL. As of March 1, 1976, two of the positions have been filled. All of these are in the regional offices. We expect to hire a substantial number of people within the next 3 months.

Mr. MICHEL. When a case of fraud is discovered, who is MSA has the responsibility to forward the information to the HEW Office of Investigations so that a criminal investigation can be conducted? How

do the responsibilities of the medicaid unit differ from those of the Office of Investigations?

Dr. WEIKEL. I have the ultimate responsibility of referring suspected cases of fraud to the HEW Office of Investigations. The MSA responsibilities in the area of fraud and abuse are primarily policy formulation, monitoring Federal regulations, providing technical assistance, coordinating interagency matters and analyzing fraud data. The Office of Investigations is an investigative unit and does not deal with program-related issues.

Mr. MICHEL. A February 18, 1976, letter to me from the Under Secretary states that SRS knows about provider-fraud and the methods required for detecting and prevention. What exactly is provider-fraud and to what extent does provider-fraud exist?

Dr. WEIKEL. Fraud, be it provider or recipient, is only determined by a legal definition. To be fraudulent requires intent and this cannot be assumed outside of legal definitions. As I mentioned earlier, we do not have hard data outlining the extent of fraud or abuse.

Mr. MICHEL. Who established the methods of detection and prevention?

Dr. WEIKEL. The methods of detection and prevention that we have outlined were determined after consultation with various State officials, law enforcement groups, district attorneys, and our own HEW investigative forces. They represent a logical approach to the problem of fraud and abuse prevention, and the basis for all the effort is the establishment of proper edits and audits within the claims processing system. All of these suggested approaches were developed by the fraud and abuse branch within MSA.

Mr. MICHEL. What guarantees are there that the methods will be effective?

Dr. WEIKEL. As with any new effort, there are no guarantees for success. However, general fraud and abuse techniques have existed, and been successful, for a long time in other fields. Also, the list of prosecutions throughout the country indicates that detection, prevention, and investigatory techniques such as we have suggested will be successful.

Mr. MICHEL. We strengthened the HEW Office of Investigation by 30 criminal investigative positions in the 1976 supplemental so that fraud and abuse in HEW could be investigated. SRS has the medicaid eligibility quality control program, the utilization control program, and a fraud and abuse unit under Medical Services Administration. With the majority of fraud cases being investigated by State investigators, is there any kind of coordination, such as the establishment of task forces between the States, the Office of Investigations, your units, and other Federal investigative agencies to jointly get at the fraud and abuse problems?

Dr. WEIKEL. We are currently developing the components of a program that will address many of the coordination issues you raise. We anticipate this program will involve State personnel, HEW interbureau cooperation, interagency involvement here in Washington, as well as some type of public input. At this point, we do not have enough of the details worked out to go into specific detail. However, in the near future we expect to be able to outline our plans more fully.

AUDIT STAFF

Mr. MICHEL. Is it true that you have just 175 audit man-years in your overall agency to cover some $18 billion of Federal expenditures?

Mr. WORTMAN. The HEW Audit Agency has been increasing audit resources allocated to the various SRS programs over the past 6 years. Actual audit coverage has more than doubled in that period of time to the currently planned 183 audit man-years in the fiscal year 1976 HEW audit workplan. This represents about 20 percent of the professional audit staff in a program which makes up 15 percent of HEW's budget.

Mr. MICHEL. How many different jurisdictions do they have to police, counting States, localities, and so forth?

Mr. WORTMAN. States are primarily responsible for administering SRS programs in accordance with applicable Federal laws and regulations. Federal oversight is provided by SRS; the HEW Audit Agency assists by making audits which focus on the controls and procedures established by the States to deliver necessary services to eligible recipients. These audits are made at the State level with emphasis on evaluating controls and procedures in place at that level to insure that the program is properly being carried out by all levels under the State's control. Visits are made as necessary to various participants in the public and private sector to test the adequacy of State administration. In all, there are 54 primary jurisdictions and about 3,000 countries that are periodically visited in connection with audits of the primary jurisdictions. Audits have been made in all States as well as Washington, D.C., Puerto Rico, the Virgin Islands, and Guam.

RETROACTIVE CLAIMS FOR SOCIAL SERVICES

Mr. MICHEL. I understand the States have submitted $3 to 4 billion in retroactive claims for social services moneys. Is this true?

Mr. WORTMAN. Yes; this is true.

Mr. MICHEL. These are basically reconstructed claims which go back to a period before the $2.5 billion spending ceiling was imposed. Is this not correct?

Mr. WORTMAN. With the ceiling, States moved to maximize their claims for fiscal year 1972 and prior years. To date, we have received $4 billion in retroactive claims, $2.2 billion of which is for periods prior to July 1, 1972. It was almost all for statewide purchase of services from other agencies. After the $2.5 billion ceiling was established, some States continued to submit similar claims for later periods.

Mr. MICHEL. Is it still departmental policy not to pay these?

Mr. WORTMAN. It is still departmental policy not to pay these questionable claims until we can determine that they are allowable under the Social Security Act and the Federal regulations in effect at the time of expenditure.

Mr. MICHEL. If so, there is no waivering in this regard, is there?

Mr. WORTMAN. No, sir. We have no intention of paying unallowable claims if we can avoid it.

Mr. MICHEL. I understand it was previous departmental policy to defer social services claims for which adequate documentation was not

provided, but that this has been changed and the Department is now paying the claims without the documentation. Is this true?

Mr. WORTMAN. No, sir. It continues to be departmental policy to defer payment of questionable claims until a review of documentation can be accomplished to determine the allowability of the claim. We recently issued regulations which place time limits on the States for making such documentation available and time limits on us for determining the allowability of the claim. It would be only if we failed to meet these time limits that we would pay a questionable claim pending review.

Mr. MICHEL. This sounds like a loosening of the standards at a time when we should be moving in the other direction. What is the justification for it?

Mr. WORTMAN. No; this is not a loosening of standards. It is an effort to assure proper and efficient operation of the public assistance programs under the law while preserving our stewardship of Federal funds. When we undertook our efforts to improve the management of these programs in 1972, we told the Congress that this was our standard. It is still our standard.

Mr. FLOOD. Mr. Conte?

Mr. CONTE. Will increased manpower solve the fraud and ineligibility error problems?

Dr. WEIKEL. No. As indicated above, the current Federal regulations specifying medicaid eligibility requirements are complex, requiring the obtaining and verifying of as many as 100 different items of information. It is extremely difficult for the local level caseworkers to understand and apply such criteria; therefore, it is not surprising that most eligibility errors are due to administrative, rather than client, error. Increased manpower to detect eligibility errors will only serve to uncover more errors and to produce more corrective action plans; however, the key reduction of elibility errors is simplification of eligibility criteria.

Mr. NORTON. From the maintenance assistance standpoint, increased Federal manpower would help to some degree, but increased State manpower would be more help. Federal manpower would increase technical assistance, including more frequent visits with State staff for mutual efforts in clarifying regulations, and also increase the number of administrative procedure aids available to State agencies. However, the actual eligibility determinations are made at the State or local level, and that is where more manpower could be most effective.

Mr. CONTE. I think the effort to simplify the eligibility process and paperwork is a great idea. How much work needs to yet be done in this area?

Mr. NORTON. Quite a bit. We are really just getting well underway in this effort. Of course, each new legislated change or constraint in AFDC or closely related or semidependent programs generally increases the complexity of the eligibility process. We are trying to simplify Federal regulations and to make them as useful to the States as we can.

Dr. WEIKEL. Unfortunately, most of the complex eligibility requirements are mandated by law. This means that only through amendment of the title XIX statute can basic simplification of criteria be achieved. However, within the area amenable to simplification without

legislation, we are making some progress, including development of clearer eligibility manuals, training of SRS field staff, and Federal/State reviews of individual State eligibility programs.

Mr. CONTE. How wide a circulation do the management aids publications have?

Mr. NORTON. Our "How They Do It" series has been the most popular with 32,000 copies of a dozen different issues being requested by State agencies. Nearly 14,000 copies of four other publications have been furnished as well. Probably all but 50 of the 46,000 have gone to State agencies for distribution to their staffs and for use in training courses.

Mr. CONTE. How many children are screened each quarter under the early and periodic screening, diagnosis, and treatment [EPSDT] program?

Dr. WEIKEL. We can expect that over 500,000 eligible children will be screened this quarter.

We note that 447,000 children were screened in the first quarter of fiscal year 1976, and that quarterly totals of children screened have increased steadily from 331,000 in the first quarter of fiscal year 1975.

The steady rise in the number of children screened can be attributed to increased acceptance of the early and periodic screening, diagnosis and treatment [EPSDT] program by the public and the States.

Mr. CONTE. How does the medicaid utilization control program expect to contain cost increase while increasing the quality of services?

Dr. WEIKEL. The section 1903(g) utilization controls give major emphasis to reducing unnecessary institutionalization and assuring the appropriateness of care provided to medicaid patients. This directly affects quality of care provided by assuring that patients receive only care that is appropriate to their medical needs and that they are not subject to unnecessary procedures or treatment inappropriate for their medical condition.

Appropriate care may mean less care, thereby reducing risk to patients as a result of unnecessary treatment or procedures and reducing cost by eliminating unnecessary care.

Utilization controls result in avoiding unnecessary costs while assuring appropriate care for the individual patient. In some instances appropriate care may be more costly in the short run, but may avoid future costs in terms of the patient's wellbeing and future medical needs.

Mr. CONTE. How will implementation of such a program reduce ineligibility and recipient liability errors?

Dr. WEIKEL. A component of the cost control program is the SRS medicaid quality control program. This program effort involves the review, by both State and Federal staff, of paid claims to determine the incidence of error in the medicaid eligibility determination procedures for each State. Following such reviews, corrective action plans are developed for implementation by the State. Such implementation is designed to reduce administrative errors in the determination of medicaid eligibility.

Mr. CONTE. Have any positive results come from the investigation of prolonged hospitalization abuses that we discussed last year?

Dr. WEIKEL. An investigation has not been done. There are provisions in the regulations which require a review of a sample of admissions and the establishment of a continued stay review date at

which point a patient's need for additional days of institutionalization would be reviewed. In addition, there is a provision in the regulations that requires discharge planning in utilization review. If the process is properly implemented, unnecessary abuses of prolonged hospitalization would be reduced.

Mr. CONTE. Will the funds you are requesting for staff support be sufficient to bring down the fraud and abuse rates?

Dr. WEIKEL. We have every intention to develop programs that will enable the States to effectively control fraud and abuse. As you know it is very difficult, if not impossible, to accurately predict at this time the extent of fraud and abuse in the medicaid program. This is particularly true in the area of abuse. Given this difficulty, it will not be possible to accurately define the exact reduction in fraud and abuse as a result of the added staff.

Mr. CONTE. How much of an increase is there for travel expenses?

Mr. WORTMAN. There is a requested increase of $400,000 from 1976 to 1977. This increase is based upon the need for travel to the States and localities to implement the child support enforcement program, the medicaid mangement and fraud and abuse initiatives, title XX, social services, and the financial mangement activities to insure that tax dollars are used for the purpose intended in all programs.

Mr. FLOOD. Gentlemen, that is all for now. Thank you.

Mr. SHRIVER. Thank you.

APPROPRIATION ESTIMATE

[SALARIES AND EXPENSES] *program administration* [1]

For expenses [not otherwise provided] [1] necessary for the [Social and Rehabilitation Service] [1], *administration of the public assistance programs* [$72,775,000] *$63,095,000.*

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, SOCIAL AND REHABILITATION SERVICE

PROGRAM ADMINISTRATION

Amounts Available for Obligation

1976 appropriation	$60,378,000
1977 appropriation	63,095,000

[1] In accordance with the renamed activity as appears in the budget as presented by the President.

Summary of Changes

1976 Estimated obligations	$60,378,000
1977 Estimated obligations	63,095,000
Net change	+ 2,717,000

	1976 Base Pos.	1976 Base Amount	Change from Base Pos.	Change from Base Amount
Increases:				
Built-in:				
1. Annualization of positions funded part-year 1976	238	$ 4,300,000	--	+$2,062,000
2. Annualization of the October 1975 pay raise	--	1,607,000	--	+ 512,000
3. Statutory within grade increases	--	--	--	+ 402,000
Total, Increases				+ 2,976,000
Decreases:				
Built-in:				
1. Decrease in work-days from 262 in 1976 to 261 in 1977	--	--	--	- 159,000
2. Non-recurring equipment purchase for new positions authorized in 1976	--	398,000	--	- 100,000
Total, Decreases				- 259,000
Total, Net Changes				+ 2,717,000

Obligations by Activity

Page Ref.		1976 Revised	1976 Appropriation	1977 Estimate	Increase or Decrease
	Central operations:				
	Amount.....	$24,844,000	$27,147,000	$28,369,000	+$1,222,000
	Positions...	955	955	955	--
	Regional operations:				
	Amount.....	$30,411,000	$33,231,000	$34,726,000	+$1,495,000
	Positions...	1,169	1,169	1,169	--
	Total obligations:				
93	Amount.....	$55,255,000	$60,378,000	$63,095,000	+$2,717,000
	Positions...	2,124	2,124	2,124	--

Obligations by Object

	1976 Appropriation	1977 Estimate	Increase or Decrease
Total number of permanent positions	2,124	2,124	--
Full-time equivalent of all other positions	58	58	--
Average number of all employees	1,977	2,023	+46
Personnel compensation:			
Permanent positions	$37,286,000	$38,966,000	+$ 1,680,000
Positions other than permanent	1,268,000	1,150,000	- 118,000
Other personnel compensation	469,000	400,000	- 69,000
Subtotal personnel compensation	39,023,000	40,516,000	+ 1,493,000
Personnel benefits	3,478,000	3,764,000	+ 286,000
Travel and transportation of persons	3,530,000	3,930,000	+ 400,000
Transportation of things	267,000	280,000	+ 13,000
Rent, communications and utilities	5,643,000	5,995,000	+ 352,000
Printing and reproduction	417,000	530,000	+ 113,000
Other services	5,124,000	5,305,000	+ 181,000
Contracts	2,200,000	2,200,000	--
Supplies and materials	298,000	325,000	+ 27,000
Equipment	398,000	250,000	- 148,000
Total obligations by object	60,378,000	63,095,000	+ 2,717,000

Significant Items in Senate Appropriations Committee Report

Item	1976 Senate Report	
Medicaid Positions		
	1. The Committee directed that the 108 new Medicaid positions approved should focus their attention on the serious problems of fraud and abuse in the Medicaid program and to report on positive results in testimony on the 1977 budget request.	1. Recruitment of staff, etc. has been delayed pending enactment of the appropriation.
Child Support Enforcement		
	1. The Committee directed that the Department not expend funds for this purpose prior to enactment of the appropriation.	1. Recruitment of staff, etc. has been delayed pending enactment of the appropriation.

Program Administration

Year	Budget Estimate to Congess	House Allowance	Senate Allowance	Appropriation
1966	$16,974,000	$15,748,000	$16,198,000	$16,138,000
1967	17,651,000	17,027,000	17,027,000	17,027,000
1968	19,326,000	18,266,000	18,398,000	18,266,000
1969	21,980,000	20,746,000	20,746,000	20,746,000
1970	25,996,000	21,125,000	23,636,000	22,380,000
1971	33,887,000	31,809,000	29,996,000	30,932,000
1972	38,688,000	34,555,000	35,388,000	34,555,000
1973	55,225,000	55,225,000	55,225,000	52,575,000 *
1974	66,837,000	66,837,000	58,037,000	60,237,000
1975	61,137,000	59,594,000	51,453,000	51,453,000
1976	63,361,000	57,878,000**	60,878,000	60,378,000
1977	63,095,000			

* Continuing Resolution level on comparable basis.
** House acted on $59,061,000 initial request, not on $63,361,000 amended request.

Justification

Program Administration

	1976 Revised	1976 Appropriation	1977 Estimate	Increase or Decrease
Personnel compensation and benefits:				
Amount	$38,409,000	$42,501,000	$44,280,000	+$1,779,000
Positions	2,124	2,124	2,124	--
Other expenses:				
Amount	$16,846,000	$17,877,000	$18,815,000	+$ 938,000
Positions	--	--	--	--
Total:				
Amount	$55,255,000	$60,378,000	$63,095,000	+$2,717,000
Positions	2,124	2,124	2,124	--

General Statement

The basic mission of the Social and Rehabilitation Service (SRS) is to help provide assistance to States in support of the medical, monetary and social services programs for Americans most in need as authorized by the Social Security Act, primarily titles IV, XIX and XX. In fiscal year 1977 nearly 30 million Americans will require the SRS assistance programs to help them move from dependency toward self-support and greater independence. Federal, State and local funds expended will exceed $31 billion to provide necessary services.

The Program Administration appropriation finances the administrative support costs for carrying out various grant and contract programs associated with the provision of these maintenance, medical, and social services. Support activities include policy and program development activities, technical and financial management assistance and consultative services to State and local governments and other grantees, and grants management activities. Also included are monitoring and review activities designed to assure the effective and prudent use of Federal funds by grantees, the conduct of research and the collecting, processing, and dissemination of statistical data and reviews of accomplishments of program activities.

The Social and Rehabilitation Service consists of a Federal staff of 2,124 authorized positions that provide oversight for the $18 billion in Federal formula grant funds used to support the Federal - State public assistance programs. These programs provide financial assistance to needy children, families and adults, principally through cash grants in the AFDC program, payments to providers of medical services through the Medicaid program and payments to State, local and private agencies for the provision of social services.

The delivery of basic services programs is supervised by State, county and local welfare officials. Under statutory formula grants, the State and local governments have broad management authority in establishing program benefit levels and management procedures. SRS staff has been approved by the Congress to provide a Federal capacity to monitor State activity, to assure compliance with Federal statutes, and regulations, review and approve States' expenditures and grant requests and monitor the growth of program costs, in AFDC and Medicaid, through quality control, utilization review and corrective action plans.

Accomplishments and Objectives

Maintenance - Eligibility Process: Quality control reviews in States with excessive error rates have highlighted the recipient - welfare staff relation ship. Consequently, the total eligibility process will be examined in depth. From a major function standpoint this includes the initial contact and determination of eligibility, periodic redeterminations and recipient - welfare office response to changes in circumstances of the recipient.

The method of evaluation will include fact-finding surveys in State agencies including such areas as general policy, eligibility options available at time of determination, nature of instruction to eligibility worker, management structure of the eligibility function, staff manuals, staffing patterns, pay structure and training programs.

Methodologies which have proven to reduce error rates will be written up in the "How They Do It" or Management Aids series of publications for informing other States. The reviews are also expected to support the on-going simplification project by identifying areas where Federal regulations are either excessive or unnecessary.

Maintenance - Simplified Plan Format: Field staff are providing technical assistance to States in their use of a simplified form for their State welfare plans. All States will use the same format and cover only Federally-matched cash assistance programs so that options and responsibilities of that matchable State welfare plan are stated simply, in one policy document.

AFDC Quality Control: In 1977, efforts of the Quality Control staff will continue to conduct of the Federal sub-samples to validate States' samples and evaluate the effectiveness of the States' corrective action plans. The staff will also provide technical and program assistance to States' staffs to eliminate from their operation management and programmatic systems procedures which are error producing. The impact of the quality control effort, based on preliminary data, shows a decline in errors from 32.3 percent in the January-June 1975 period to 25.5 percent in the July-November 1975 period based.

Medicaid - Early and Periodic Screening, Diagnosis, and Treatment: In 1977 SRS will continue to assist the States in implementing the EPSDT program based upon the revised regulations and the methods which were developed in 1976 to assure effectiveness of program operations. Despite continuing problems in some States, FY 1975 figures indicate a steadily increasing number of children screened each quarter. We expect this trend to continue. Penalty regulations are under revision to clarify basic program requirements. Two other activities are underway to correct data and tracking problems: (1) Statistical reporting requirements are being revised to include eligibles, diagnosis and treatment, and costs; and (2) A general system design of a State oriented EPSDT management information system will be available to assist States in 1976.

Medicaid Cost Control: (Utilization Control, Quality Control, Fraud and Abuse, and Management Assessments). This goal is to contain cost increases while increasing the quality of services by assuring that all States have an institutional care utilization control system operational and working effectively and that States have improved their quality of care monitoring systems for mental hospitals and nursing homes. Effective implementation of a QC program in all States will reduce ineligibility and recipient liability errors with the result that States will be able to provide either more services to those eligible or, if faced with fiscal constraints on their program, result in less need to make program cuts. Reduction of provider fraud and abuse through the development and implementation of more intensive and more knowledgeable Federal monitoring of State systems for the detection, investigation, and referral of cases of suspected fraud and abuse will also result in a more cost effective Medicaid program. Comprehensive assessment of a State's overall capability to manage their program in other significant areas will help to assure that the State is running a cost effective program for their citizens.

Title IV-D Implementation: The new child support enforcement program (Title IV-D) was effective August 1, 1975 (except for the authorization of garnishment of Federal employees' salaries for child support obligations, which was effective January 1, 1975). The Office of Child Support Enforcement has been established with a Regional Office of Child Support Enforcement in each Regional Office to carry out HEW's responsibilities under the new program.

There are five major Federal requirements in Title IV-D that are substantial changes from previous Federal practice in the area of child support. They are: the establishment of a separate organizational unit within the Department; operation of a Parent Locator Service; certifying amounts for collection by the Internal Revenue Service; certifying civil actions to the United States district courts; and conducting annual audits in each State to implement the five percent penalty provision.

Principal requirements for the States are to establish or designate a unit to administer the plan; establish paternity and collect support for AFDC children; require child support to be paid to the State for distribution; make child support services available to non-AFDC families upon application and payment of a fee; enter into cooperative arrangements with appropriate court and law enforcement officials; establish a State parent locator service and cooperation with other States in child support enforcement.

Office of Child Support Enforcement 1976 achievements include the development of plans and requirements for a vigorous State and Federal program to locate absent parents of children receiving AFDC benefits and enforce child support payment requirements. Specific activities in 1976 involve basic start-up functions for the program, including: establishing an organization structure, publishing regulations and guidelines, developing program manuals, conducting training sessions, developing audit procedures, initiating public relations activities, and reviewing and approving State plans. Operations during 1977 will be oriented toward providing technical assistance to States and assessing State compliance. States are to have effective IV-D programs in place by January 1, 1977 or be penalized 5% of their AFDC funds.

Work Incentives: The WIN program, conducted jointly with the Department of Labor, has been redesigned with increased emphasis on placement of registrants in unsubsidized employment. The 1976 objective is to place 200,000 registrants in unsubsidized employment and increase program performance through utilization of key management indicators, close program monitoring and implementation of program revisions which create more immediate and continuing exposure of registrants to job opportunities.

In 1977 major emphasis of staff will be working with States to assure that all WIN registrants actively engage in the job search portion of the WIN program and to carry out changes in WIN program management which will achieve overall program cost reductions.

Title XX Social Services: In 1977, technical and program assistance will be provided to States in the development of their services plans and service delivery mechanisms. A program of monitoring and program review will be carried out to assure that the specific conformity requirements and requirements for Federal financial participation are being met. An annual report of results on the ongoing evaluation, as well as a special report on the effectiveness of the program during calendar years 1975 and 1976 will be submitted to Congress.

SOCIAL AND REHABILITATION SERVICE

Program Administration

Program Purpose and Accomplishments

Activity: Program Administration

1976 Appropriation			1977 Estimate	
Pos.	Amount	Authorization	Pos.	Amount
2,124	$60,378,000	Indefinite	2,124	$63,095,000

Purpose: Funds are used for the Federal administration of Social and Rehabilitation Service programs. These programs provide basic support, medical assistance, and services for the needy, disabled, aged, and other disadvantaged persons in our population.

Explanation: Funds included in this appropriation provide for the operational costs related to program administration activities. Costs include salaries of Federal employees and related costs for travel, communication, supplies and equipment. Services for administrative and management contracts are also supported.

Accomplishments 1976: The basic thrust of the SRS activities for 1976 is in the areas of medicaid cost control, medicaid fraud and abuse, implementation of the new Child Support Enforcement program in Title IV-D and Social Services in Title XX of the Social Security Act and improved management of the AFDC program.

Objectives for 1977: The Medicaid quality control, EPSDT, utilization control systems, and fraud and abuse will continue to be emphasized in 1977 as part of the overall efforts to improve Medicaid management. Particular attention will be directed at problems related to fraud and abuse in Medicaid activities.

Efforts will continue in the AFDC quality control area with attention aimed at implementing corrective action plans. Major activities will include providing assistance to States in implementing recent legislation for title XX Social Services, title IV-D Child Support Enforcement, and activities relating to early screening of children through the Medicaid program, review of day care standards, and increasing emphasis on job placements in the Work Incentives Program.

DEPARTMENT OF HEALTH, EDUCATION AND WELFARE

SOCIAL AND REHABILITATION SERVICE

Program Administration

Transition Quarter Analysis

	1976 Appropriation	Amounts Available for Obligation Transition Quarter
Appropriation.....	$60,378,000	$16,265,000
Total, obligations.....	60,378,000	16,265,000

The purpose of this amount is for continuance of the administration of SRS activities through the period, at the 1976 rate.

SOCIAL SECURITY ADMINISTRATION

PAYMENTS TO SOCIAL SECURITY TRUST FUNDS

TUESDAY, MARCH 16, 1976.

WITNESSES

JAMES B. CARDWELL, COMMISSIONER
ROBERT P. BYNUM, ASSOCIATE COMMISSIONER, OFFICE OF PROGRAM OPERATIONS
FRANCIS D. DeGEORGE, ASSOCIATE COMMISSIONER, OFFICE OF MANAGEMENT AND ADMINISTRATION
THOMAS M. TIERNEY, DIRECTOR, BUREAU OF HEALTH INSURANCE
ROBERT L. TRACHTENBERG, DIRECTOR, BUREAU OF HEARINGS AND APPEALS
FRED SCHUTZMAN, DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
PHILIP A. O'BRIEN, ACTING BUDGET OFFICER, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER

Mr. FLOOD. We have this afternoon the Social Security Administration, social security trust funds, and the presentation will be made by James B. Cardwell, the Commissioner.

We have your biological sketch which we will place in the record at this point.

[Mr. Cardwell's biographical sketch follows:]

Name: James B. Cardwell.

Position: Commissioner of Social Security, Social Security Administration, Department of Health, Education, and Welfare since October 10, 1973.

Former positions: Began his Federal service in 1942 as a clerk in the Public Housing Administration. Served with the U.S. Army in the European theater of operation during World War II, and returned to the Public Housing Administration in 1945 where he served in administrative and budget assignments until 1954.

Joined the Department of Health, Education, and Welfare in 1955 and served as a budget officer in the Office of Vocational Rehabilitation until 1957. From 1957 to 1958, was a budget examiner with responsibility over the Department's health budget in the Office of the Secretary. Was Assistant Commissioner for Administration in the Food and Drug Administration during the period 1958 to 1965.

Appointed in 1965 as Deputy HEW Comptroller and Departmental Budget Officer, and served from 1970 to 1973 as Assistant Secretary and HEW Comptroller.

Education: Graduated in 1955 with a bachelor of commercial science degree from Columbia University.

Awards: DHEW Superior Service Award in 1961; the FDA Award of Merit, 1965; the HEW Distinguished Service Award, 1967; HEW Secretary's Special Citation, 1968; and the HEW Certificate of Outstanding Performance, 1968. Received the National Civil Service League Career Service Award in 1971; the Rockefeller Public Service Award, 1974.

Personal: Born in the District of Columbia. Married to the former Mary Louise Sheppard of Kansas City, Kans. Resides in Rockville, Md. Four children: James Jr., Mark Edward, David Bryan and John Richard.

Mr. FLOOD. I see you have a prepared statement. How do you want to handle this?

Mr. CARDWELL. With your permission, Mr. Chairman, and in order to expedite matters I would be glad to either read the summary statement or to summarize it. I would with your permission suggest that we put in the record the full statements on each of the several appropriations.

Mr. FLOOD. Suppose we put in the record your statements and then you can just summarize.

[The statements follow:]

STATEMENT BY THE COMMISSIONER OF SOCIAL SECURITY

1977 APPROPRIATION REQUESTS

Mr. Chairman and members of the committee, I am pleased to have this opportunity to discuss the Social Security Administration's 1977 appropriation requests.

SSA BUDGET REQUESTS

The Social Security Administration's appropriation requests total $16.1 billion. These include general fund appropriations of $6.7 billion for payments to social security trust funds, $914 million for special benefits for disabled coal miners, and $5.9 billion for the supplemental security income program. Our requests from the trust funds are for $2.6 billion for the limitation on salaries and expenses (our basic appropriation for administrative costs) and $14 million for the limitation on construction.

In the aggregate, total outlays in the 1977 President's budget for programs administered by SSA, funded by both trust funds and general revenues, amount to $109.2 billion. That is 27.7 percent of the President's $394.2 billion proposed outlays for fiscal year 1977. The $109.2 billion in SSA outlays is $12.9 billion higher than the estimated 1976 level of $96.3 billion. The most significant factors of increase are the automatic cost-of-living benefit adjustments for social security and SSI recipients, scheduled to become effective during the transition quarter and in 1977. These adjustments, projected at 6.7 percent in July 1976 and 5.9 percent in July 1977, account for about $6.8 billion, or more than half of the $12.9 billion SSA increase.

Increases in the numbers of people becoming entitled to retirement, survivors, and disability insurance benefits and to SSI payments account for about $4.7 billion. An additional $4.1 billion reflects expected increases in health care costs, a larger number of beneficiaries, and increased utilization of services in the medicare program under present law. These increases are offset partially by the legislative proposals in the President's 1977 budget, which modify some provisions of the cash benefit program, and provide for increased cost-sharing and limits on beneficiary liability under medicare.

MAJOR PROGRAM EMPHASES

I would like to discuss what I consider to be the major programmatic issues facing social security during the next several years.

First, the financial integrity of the social security system—both short- and long-range

Social security financing has received extensive publicity in recent years and I am much concerned about the unsettling influence it has had upon both retirees and workers. Both the report of the 1975 Advisory Council on Social Security and the 1975 trustees' report highlighted the actuarial imbalance of the system. The President's 1977 budget addresses the financing issue and includes proposals for improving the system's financial soundness in the immediate future and over the long term.

I believe we are all aware of the basic problems facing the social security cash benefits program.

First, the system is now paying more in benefits than it is taking in in taxes. For example, outgo exceeded income by $1.5 billion in the tax year just ended. Without remedial legislation this will continue.

Second, without remedial legislation, trust fund reserves would, under present estimates, either be depleted or become precariously low in the early 1980's.

Third, with growing deficits and declining trust funds, public confidence in social security is being eroded.

Fourth, we must correct the flaw in the benefit formula which will cause future benefits to bear an unreasonable—and unintended—relationship to past earnings. I am talking, Mr. Chairman, about what we refer to as "decoupling."

We believe that the first order of business is to correct the short-term deficit facing the system. To this end, the administration has proposed that the current tax rate be increased, effective in 1977, by three-tenths of 1 percent each for employees and employers, and that the current tax rate on the self-employed be increased by nine-tenths of 1 percent. Under the administration's assumptions, the tax rate increases, along with wage base increases already prescribed in law, should be sufficient to assure adequate resources for the program at least until the 1980's. Under these assumptions, we estimate that the reserves would not fall below a third of a year's benefits and that they might well hold at a level of 40 percent or more well into the 1980's.

Now I would like to explain the decoupling proposal. Under existing law, every time a cost-of-living increase is computed for retirees, the benefit formula is also recomputed to increase future benefit levels for current workers. Separating these two computations is what we term "decoupling." Under the proposal, computation of cost-of-living increases for retirees, based on changes in prices, and computation of initial benefit amounts for workers, based solely on wages, would be separate calculations. Present economic assumptions show that for all workers the present formula will result in a steady rise in replacement rates—that share of a worker's preretirement earnings replaced by his social security benefit. For a significant number of workers, the present formula will result in social security benefits that exceed preretirement wages.

The purpose of the decoupling proposal that we plan to submit to the Congress is to make future benefit levels less sensitive to fluctuations in wage and price increases and also to assure that replacement rates will be relatively constant over time. Our objective is to stabilize replacement rates—not social security benefit amounts. Under our proposal, as under present law, benefits will be adjusted automatically for changes in the cost-of-living, thereby maintaining the beneficiary's purchasing power. Furthermore, decoupling will not, and is not intended to, have a remedial effect on the short-term deficit. Its adoption would significantly reduce the long-term costs of the system.

The administration believes that an early decision about decoupling is the necessary first step in solving the long-range financing problems of social security. Permanent financing choices—choices that will have a profound effect on our society for generations to come—should be made only after the decoupling matter has been settled.

A second major programmatic issue is the need to constrain runaway medicare costs

The Nation's health care system continues to be one of the most inflationary sectors of the economy. Hospital costs have risen by more than 200 percent since 1965—from $40 per day to $123 per day—and physician fees more than 85 percent in the same period. Both rates of increase are significantly higher than the corresponding increase in the overall consumer price index.

Medicare is a major component of Federal health spending. It provides protection to more than 24 million aged and disabled Americans, and is expected to pay out nearly $17 billion in benefits in 1976. However, medicare has its own brand of inflation. Like most health insurance plans, it reimburses largely on the basis of actual costs or customary charges, giving providers little incentive for limiting cost increases. Under present law, we expect provider costs to increase by 14.5 percent in 1977, and physician fees to increase by at least 10 percent. By comparison, the expected rate of increase in the overall cost-of-living index is projected at only 6 percent under the economic assumptions in the budget.

In order to contain these increases, the administration has proposed medicare legislation to establish a 7-percent ceiling on increases in reimbursable provider costs, and a 4-percent ceiling on increases in reasonable charge levels for physician services. These are temporary measures which are intended to apply for only 2 years. During this period, the Department will continue to study alternative cost-control methods and evaluate their feasibility in the context of a more long-term and multifaceted cost-containment program.

A third programmatic emphasis is the administration's proposed catastrophic medicare coverage and reform of medicare cost sharing

The basic idea of the President's medicare improvement proposals is to establish a better balance of coverage by improving protection for program beneficiaries against the costs of long-term and catastrophic illness and by increasing initial cost sharing. With this in mind, the President has proposed several much-needed reforms in the medicare benefit and cost-sharing structure.

The President's proposal would provide an unlimited number of days of covered care in a hospital or skilled nursing facility and would limit a beneficiary's out-of-pocket expenses for covered services to $500 under the hospital insurance program for 1976 and 1977, and $250 under the supplementary medical insurance program for 1977. These limits would be increased in future years as social security cash benefits are increased.

Insurance against catastrophic medical costs is a protection that many of the 25 million aged and disabled medicare beneficiaries do not now have and generally cannot purchase in the private marketplace. Its enactment would assure that no beneficiary would be financially devastated by prolonged illness or high health care expenses.

The features of the medicare legislative package which increase cost sharing during the initial stages of hospitalization, and increase the supplementary medical insurance deductible, would raise a beneficiary's costs at the beginning of an illness, when generally he more likely can afford them. In return, under the administration's proposal, the beneficiary would be provided with expanded benefits and catastrophic protection when they are most needed. We consider this tradeoff to be not only desirable from the beneficiary's point of view, but essential for the guarantee of true protection against catastrophic illness.

A fourth major program matter is the need for legislation to provide equal treatment of men and women under social security

It is widely known that there are a handful of provisions of the social security law that treat men and women differently based solely on their sex. Most of these provisions are relatively minor ones affecting few people and not involving significant cost or administrative implications. Suffice it to say for the moment that correction of these provisions appears to be both necessary—in view of court decisions and public attitudes—and proper, as well as easy to accomplish.

There is one major provision that explicitly affords different rights to men and women. Providing for equal rights in this one particular area, though, poses serious questions and has significant cost and/or administrative implications. I am talking here about the fact that, under present law, a husband's or widower's benefit is payable only if he can prove his dependency on his wife, while a wife or widow is presumed dependent on her husband, and benefits are payable without proof of support.

While we have as yet not developed a fully satisfactory way to deal with this provision, let me briefly outline the possible alternatives and mention some of the problems that would arise under them.

First, men could be presumed dependent on their wives in the way that women now are presumed dependent on their husbands. This alternative would allow large numbers of men who are not in fact dependent to become entitled to dependents' or survivors' benefits—a significant cost to the program of over $450 million in the first year alone.

A second alternative would be to have women as well as men prove dependency in order to receive a dependent's or survivor's benefit. Under such an alternative, many women who would receive benefits under present law would no longer be able to get benefits in the future. In addition, applying a test of dependency to millions of men and women each year could have very significant administrative implications.

A third alternative that we are exploring is to eliminate the test of dependency, but offset any adult dependent's or survivor's benefit by the amount of any pension earned in noncovered employment.

MAJOR ADMINISTRATIVE EMPHASES FOR 1976–77

Now I would like to turn to what I consider to be our most significant administrative and management emphases in 1976 and 1977. They reflect several related themes: improvement in the accuracy and efficiency of SSI payments; stabilization of the SSA work force; increased emphasis on training and retraining of

our field staff; reduction in overtime; improvements in disability processing times and hearings and appeals backlogs; and emphasis on quality control and fraud prevention.

Improvement in SSI Payment Accuracy and Efficiency

An extremely important area which I'd like to discuss is the supplemental security income program: our performance, payment accuracy, actions taken to improve our efficiency, and the need to simplify the excessive complexity of the program.

The SSI program was enacted based on the concept of a simplified flat grant with limited variables for determining eligibility and payment amounts, thus making it readily susceptible to the use of computerized mass data processing techniques which the Social Security Administration had employed for many years. However, the assumption that the program would be simpler and inherently easier to administer than the prior State-run programs has turned out to be false. As one examines the law as enacted and its surrounding policy and operating procedures, it becomes apparent that this "simplified" program retained a fair proportion of the variables which made the State programs so difficult to administer. We are striving to improve the SSI program's payment accuracy and efficiency through administrative and management actions under our own control, and have made some gains. At the same time, serious consideration needs to be given to legislative changes designed to simplify the program.

I should give some brief background on our SSI experience before discussing the management efforts we have begun, or plan to begin, to improve program administration. At the start of the SSI program, we operated with one overriding priority: to continue payments to the aged, blind, and disabled people taken over from the State rolls. The changeover went off on schedule. Checks were paid to 3.2 million people the first month, and we never have failed to meet the monthly payment deadline since. By concentrating heavily on making payments to converted recipients, we built up large backlogs of new claims, which since have been worked off. However, claims processing times are still higher than we would like them to be, and payment accuracy needs to be improved.

Many interruptions, legislated changes, and delays during the planning period for SSI resulted in on-again, off-again planning and a great deal of improvisation by the Social Security Administration to make sure we could pay the first Federal benefit on January 1, 1974. It is clear to me that given the changes and interruptions, sufficient time was not available for adequate planning and preparation. This caused SSA to begin without all needed automated systems in place—and, perhaps more important, without time to field test those that were ready. This also left the agency without the chance to verify the accuracy of more than 3 million case records that were taken over from the States. These two factors—an unreliable conversion records base, and untested or incompleted systems—are primary contributors to present payment accuracy and efficiency problems. In my view, however, the critical period is now behind us. We have successfully initiated a major new Federal program, and the prospects are for gradual, but steady, improvement. We have begun efforts to correct deficiencies and recognize the need to make these efforts our number one administrative priority.

Measures already taken are expected to result in an improvement in overall payment accuracy, reducing the most recent 24.4 percent inaccuracy rate to a national average of around 19 percent by the end of fiscal year 1976. We have set a goal of 15 percent for the end of fiscal year 1977. This will depend on the success of additional administrative actions to be undertaken next year. Improvements much beyond the 15-percent level on a national basis, in my opinion, would require basic changes in the statute that essentially would simplify and streamline eligibility and other criteria.

Most of SSA's administrative and management emphases for 1976 and 1977 which I already have cited—and will discuss further—can be related at least partially to our efforts to improve SSI accuracy and efficiency. In addition, other actions also have been taken, or are planned, to improve the SSI program. I'd like to state them briefly.

Actions already taken include:

1. The major effort on SSI redeterminations to verify the eligibility and payment amounts of each SSI recipient which began in fiscal year 1975 and continues in 1976. In fiscal year 1976, SSA expects that the redetermination efforts will result in $190 million saved in Federal benefit payments because of correc-

tive payment actions taken. These estimated savings take into account payment increases where recipients were previously underpaid.

2. Expanding the SSI payment system by the addition of seven subsystems between January 1974 and September 1975. We have verified that the basic computation portion of the payment system is functioning properly.

3. Improving the interface with the social security beneficiary records to insure that individuals who receive both social security and SSI payments receive the correct amounts.

Additional actions planned include:

1. Systems interfaces with other governmental agencies, such as the Veterans' Administration and Railroad Retirement Board, to insure up-to-date information on benefits paid by these agencies to SSI recipients.

2. Further enhancement of the SSI system to reduce the amount of manual processes currently required for special payment situations, such as those caused by meeting due process requirements.

3. Implementation of the SSI outside study group recommendations which the executive branch determines are appropriate for fulfilling SSI program goals. The study group, commissioned by SSA and HEW to review and criticize the program, included specialists in public welfare, public administration, and computer technology. It released a very comprehensive report on January 26, 1976.

As I mentioned earlier, I believe serious consideration needs to be given to legislative changes designed to simplify the SSI program. The categories of program changes now under discussion include:

1. *Redefining the benefit payment and adjustment periods.*—A host of events now occur that have no bearing on the quality of the program, but which cause events not subject to administrative control to be recorded as "errors." A part of the problem can be traced to that part of the law that establishes the benefit period on a quarterly basis but expects adjustments to be made on a monthly basis. The law expects events occurring in the middle of the month to be translated into payment adjustments then and there. This is not possible, and the law should be changed to take into account practical realities, including the need to provide "due process" rights to beneficiaries before benefit corrections can be made.

2. *Limiting variations and complexities in federally-administered State supplements.*—Under the present arrangement, States are allowed many difficult-to-administer variables of their own choice. Each such variable takes the program away from its original objective of a simplified uniform Federal grant program.

3. *Reduce the multiplicity of income and resource rules now found in the act.*

Stabilization of Work Force

Efforts to improve SSI payment accuracy and efficiency, as well as the quality of SSA service to the public, cannot succeed unless SSA has a stable work force—a work force not subject to high turnover and one that is in place long enough to be trained to do a job that is growing in complexity. We have been relying on 2-year-term employees in lieu of permanent additions to the Federal work force—a practice criticized by this committee. This has not been a satisfactory arrangement, and the budget request for fiscal year 1976–1977 converts these term positions to full-time permanent positions. This conforms fully with the intent of the Congress, as expressed in the 1976 Labor-HEW appropriations bill.

Increased Emphasis on Training

We know that our employees are not adequately trained in all aspects of the SSI program, and lack training in SSA's insurance programs as well. The tremendous workload pressures during the first 6 to 9 months of the SSI program caused managers and employees alike to emphasize the processing of claims, and training was assigned a lower priority. As a result, not all of our claims and service representatives are adequately versed in SSI's many complexities and variables. We also know that a great deal of our training was invested with little return—due largely to turnover and relocation of our base staff. Training and improved instructional materials have been stressed in the 1976–1977 budget. Examples of training initiatives we are preparing to undertake include off-site refresher training, to be provided this spring to about 11,000 employees engaged in SSI operations; and a separate effort to supplement the training received by term employees who are expected to become permanent.

Reduction in overtime

Excessive use of overtime over an extended period is an inefficient and expensive use of manpower. In 1975, SSA's overtime amounted to 7.4 percent of total manpower—a level which, I believe, is too high. The budget before you reduces the overtime level to 5.1 percent of total manpower in 1977.

The combination of a more stable work force resulting from the elimination of term employees, additional training, and reduction of overtime to a reasonable level, represents important and timely steps toward improved performance. In my view, all are necessary to improve SSA's overall quality of service to the public.

Improvements in disability processing times and hearings and appeals backlogs

We were able to reduce the disability insurance pending workloads from 248,000 on June 30, 1974, to 160,600 on December 30, 1975. This means that the amount of work on hand was reduced from more than 9.5 weeks on June 30, 1974, to about 7 weeks at the end of December 1975. During the same period, the median calendar days to process a disability insurance claim has dropped from 82 days to 59 days. We expect to see some further improvement in processing time during the balance of this year.

The backlog of hearings requests in SSA has decreased substantially since the beginning of the year. The present level is under 96,000 cases compared with over 110,000 on June 30, 1975. This is a reduction of approximately 2 months' work in the hearings backlog, and results in a current pending of 11 months' work. We are budgeting to reduce our pending workloads further, so that by the end of fiscal year 1977, approximately 4 months' work of hearings will be pending.

Emphasis on quality control and fraud prevention

The committee expressed concern over the potential for fraud and abuse within major HEW programs, particularly the larger ones such as medicare, medicaid, and guaranteed student loans. Speaking for medicare, I would emphasize that the program's claims processing systems are operated by insurance carriers as contractors to the Government. These systems incorporate many internal checks and balances to assure proper medicare payments.

Our quality control and verification procedures result in disallowance of many millions of dollars in claims against the program each year. In fiscal year 1975, for example, about 13 million bills for services were denied in whole or in part; in about 51 million instances, the charge allowed as reasonable was less than the charge billed by the physician or supplier. In most cases, though, disallowances result from differences in opinion rather than outright fraud. For example, disagreement between the program and the physician as to the necessity or reasonable charge for a service, or between the program and a hospital as to the need for services rendered to beneficiaries or the allowability of costs incurred in providing such services.

Where there are indications of potential fraud, the contractors turn over the cases to program integrity specialists located in each of our Bureau of Health Insurance regional offices. These specialists review the evidence presented and then either undertake a thorough investigation of the case or, if the situation warrants, the matter is turned over to a professional investigator. Until recently, SSA maintained its own staff of professional investigators. In an attempt to provide the administrative flexibility needed by the Department to deal with the whole realm of fraud within HEW administered programs, this staff, plus the small staff of investigators previously assigned to HEW and additional staff authorized by the Congress, recently were merged into one investigative unit reporting directly to the United Secreteary. This, I believe, is responsive to suggestions made by the Congress to consolidate HEW investigative resources.

We believe that this restructuring of the Department's investigative capacity will serve two purposes. First, it will provide a departmentwide emphasis on fraud detection and investigation. Second, placing authority for this effort directly at the departmental level provides the flexibility needed to use available investigative resources on all HEW programs in a balanced way.

Once the investigative work is completed, those cases where fraud is still believed to exist will, of course, be turned over to the U.S. attorneys for prosecution. Since the medicare program began in fiscal year 1967, we have investigated over 38,000 fraud and abuse cases. Over 20,000 of these involved potential fraud.

Prosecution has been recommended in 326 cases involving 423 defendants; there have been 143 convictions. At present, 106 cases are awaiting trial or action by the U.S. attorneys. Unfortunately, for some years existing regulations did not permit an exchange of information on suspected violators between the medicare and medicaid programs. However, SSA and SRS have taken steps to permit full coordination between the two agencies.

Budgeted staffing resources

The budget provides for an increase of 1,950 permanent authorized positions during 1977 over the 1976 level for all programs administered by SSA. Several purposes are served by the increase in authorized staffing. It will enable SSA to obtain more permanent man-years from our 1977 full-time permanent employment ceiling by allowing us to staff up as high as 81,243 permanent positions shortly after June 30, 1976. Through normal attrition, employment will drop to the ceiling of 78,309 by the end of fiscal year 1977. The 1,950 increase in authorized staffing will enable SSA to prepare in advance to meet workload peaks during the year by hiring and training new employees early in the year. By obtaining more man-years from permanent staff, reliance on overtime will be reduced by over 1,800 man-years in 1977. At present, we anticipate meeting the end-of-year employment level projected in the budget.

ADVANCED SYSTEMS PLANNING PROJECT

An administrative area of special concern to me is our present systems dilemma. Through the years, SSA has absorbed several major programs. Within the past 10 years alone, these have included medicare, black lung, and the supplemental security income program. Moreover, during this same period, SSA has had to respond to recurring legislative mandates such as general benefit increases and changes in the supplementary medical insurance premium deduction amount.

Partly because of its rapid growth and the need to respond on short notice to legislative initiatives, SSA has not always had the opportunity to devise and implement systems and process refinements in a planned, orderly fashion. As a result of this ad hoc approach to each new legislative requirement. SSA's processes have become fragmented and in many ways operationally unwieldy. Our experience shows that our present processes are not always responsive to either the agency's needs or those of the public it is designed to serve. Particularly since the advent of SSI, these problems have become visible outside the agency, resulting in a loss of confidence on the part of the public in SSA's ability to administer the programs for which it is responsible.

In my judgment, these problems can be resolved fully only through a total redesign of the SSA process—by making a dramatic technological leap forward. Thus, the Office of Advanced Systems has been established to initiate an intensive, integrated, and cohesive advance systems planning effort. We have embarked on a 6-year project to review SSA's total operating systems and processes, and replace our existing processes with new ones that will be more efficient and more responsive to the public's needs.

This will be a costly undertaking both in terms of time and money, but it should pay off when completed with a less costly process—particularly one that is less labor intensive. The staff dedicated to this effort will number 103 by the end of this fiscal year, and increase to a level of about 300 by the end of next year. The project will cost about $400 million through the target completion date of 1981. This cost includes new technology and hardware as well as manpower to conduct the project. The payoff will be a less labor-intensive and more efficient operation. Our goals are to keep pace with the inevitable growth in program workloads without accompanying increases in manpower, or, if possible, with reduced manpower; and to take advantage of the most advanced technology available. This effort is just beginning. I will keep you informed of its progress.

RECENT LEGISLATION AND COURT DECISIONS WHICH AFFECT THE SSA BUDGET

Before concluding my statement, I would like to brief the committee on several new laws and recent court decisions which impact significantly on SSA operations and resource requirements now, or will in the future.

Medicare amendments

Public Law 94–182—a bill containing several amendments to the medicare program—was enacted December 31, 1975. It contains two technical provisions which have a significant dollar impact:

It corrects a technical defect in the law which froze the enrollee premium in the supplementary medical insurance program at the fiscal 1975 level. This defect prevented a rate increase last year, even though program costs had risen substantially. This had the effect of increasing the proportion of the program funded by Federal funds and decreasing the proposition paid for by the program participants. The request for payments to social security trust funds before you today would be $184 million higher if the corrective legislation had not been enacted.

Public Law 94–182 also corrected a problem brought about from implementing the economic index on physician fees mandated by the Social Security Amendments of 1972. The index limits increases in physician charges recognized for reimbursement by medicare. For technical reasons, use of the index caused some physicians to be reimbursed less in fiscal year 1976 than they were in 1975 for the same services. To implement the correction, medicare contractors will be required to review all physician bills submitted for 1976, determine which ones were reimbursed below the 1975 prevailing charge level, and make the necessary payment adjustments. Although we anticipate that these contractor operations will cost roughly $4 million, they are not reflected in the appropriation requests before you. The timing of the legislation did not permit modification of SSA's administrative budget estimates. However, rather than amend the budget now, we will attempt to absorb the additional costs within appropriated 1976 and transition quarter funds; or if that is not possible, request authority to use our contingency fund provision. The impact on benefit payments—$35 million in 1976—is reflected in the trust fund outlay estimates presented in the President's budget.

Privacy Act

Just over a year ago, the Privacy Act—Public Law 93–579—was signed into law. In view of the huge amount of data on individuals which SSA must store to administer its programs, this legislation is particularly important. It places three new responsibilities with the agency: We must keep a record of information supplied to other agencies about individuals; we must formally inform individuals who supply personal data to us why the information is needed and what use will be made of it; and we must provide persons access to their records upon request.

The fiscal 1976 budget did not provide for these new workloads. Current estimates are that they will require 242 man-years in 1976 and 207 man-years in 1977.

Pension reform

Pension reform—Public Law 93–406—is another example of recent legislation which impacts on SSA operations but was not anticipated in the 1976 budget. This law charges SSA with two new responsibilities:

We must establish and maintain a record of pension fund names and addresses, and a record of employees with deferred vested rights in the plans.

We must supply, under the provisions of the Freedom of Information Act, certain pension funds—mainly large, multiemployer funds—with detailed earnings information which they need to comply with the Pension Reform Act.

These functions will require 235 man-years of effort in 1976 and 329 man-years in 1977, as reflected in the budget estimate for salaries and expenses before you today. In addition, they will require 268 man-years of new reimbursible work in 1976 and 825 man-years in 1977.

Annual reporting

A provision of Public Law 94–202, enacted January 2, 1976, institutes a single annual wage reporting system for social security and Federal income tax purposes. This provision is designed to lighten the tax reporting burden on the Nation's employers by reducing the number of wage reports employers are required to submit each year from five to one. It will be effective for statements reporting earnings received after 1977, and SSA will begin processing the statements in 1979. The Congress has invited the executive branch to propose changes in the new law, if appropriate, to better enable efficient administration. As written, although the law now permits annual reporting, it still requires employers

to provide information on quarterly wages. Since the administration favors "true" annual reporting with no requirement at all for quarterly wage information, this is one aspect of the law which we plan to address in our proposals for modification.

Court decisions on due process

A series of court decisions involving "due process" is proving to be very costly in terms of administrative manpower. The budget requests before you provide for 1,209 man-years in 1976 and 552 man-years in 1977, mainly to comply with court requirements to provide beneficiaries with the opportunity for oral hearings before benefits are adjusted or reduced to recover overpayments. However, I should alert the committee to the fact that the manpower estimates in the budget for due process are conservative, and may have to be modified in the future. The budget does not reflect the manpower that would be needed to implement the recent *Cardinale, et al.* v. *Mathews* decision. This decision extends protection to a number of SSI areas previously excluded by regulations. For example, it requires SSA to give advance notice of a benefit change and to offer the opportunity for a hearing while continuing unreduced payments even where SSI benefits must be reduced because of an increase in social security benefits, or because of a clerical error, or because of facts the beneficiary himself reported to SSA. The court now has for consideration an agreement reached by SSA and the plaintiffs which would eliminate retroactive application of the decision. If the agreement is approved, the administrative manpower required to implement the decision will be approximately 800 man-years. The issue of manpower requirements for due process is further complicated by a Supreme Court ruling on the *Eldridge* v. *Richardson* case, made in late February. The new ruling overturns lower court decisions requiring oral hearings for disability insurance beneficiaries prior to termination of benefits. The administrative impact of this latest decision is now being evaluated, and may partilly offset the cost of other due process activities.

Mr. Chairman, this concludes my general statement.

STATEMENT BY THE COMMISSIONER OF SOCIAL SECURITY ON "PAYMENTS TO SOCIAL SECURITY TRUST FUNDS"

The first appropriation request total $6,713,902,000 and covers four Federal fund payments to the social security trust funds. Three of the four payments are necessary to place the trust funds in the same position they would have been in had they not borne the cost of benefits chargeable to Federal funds. The fourth payment is a Federal fund matching of premiums paid by or for individuals covered by the voluntary supplementary medical insurance program—that part of medicare which covers physician and other medical and health services. In all four situations, the amounts paid to the trust funds derive from individuals exercising their rights under the law, and the payments are not subject to administrative control.

COMPONENTS OF REQUEST

The total request of $6,713,902,000 for fiscal year 1977 is made up of the following:

A Federal payment for supplementary medical insurance of $5,053 million. This payment, together with premiums paid by an estimated 24,586,000 aged and disabled enrollees in the program, must be sufficient to finance all medical insurance benefits and administrative costs.

A payment for hospital insurance benefits for the uninsured of $803 million. When medicare began, the Congress decided that people already age 65 but uninsured under social security or railroad retirement should also receive hospital insurance coverage. This Federal fund payment finances the cost of covering these uninsured individuals (a steadily declining group) and will provide protection for approximately 906,000 persons in fiscal year 1977, compared to 1,047,000 persons in 1976.

A payment for noncontributory military service credits of $622 million. This payment finances the additional costs of paying benefits which are based on military service for which no social security contributions were made. It includes a $587 million annual installment related to military service during World War II and part of the postwar period before servicemen received regular coverage under social security. The remaining $35 million is for esti-

mated benefit payments based on noncontributory credit for wages-in-kind (such as food, shelter, and medical services) which have been granted members of the Armed Forces for services performed after 1956, as authorized by the Social Security Amendments of 1967 and 1972.

A payment of $235,902,000 to reimburse the old-age and survivors insurance trust fund for special benefits paid during fiscal year 1975 to certain persons age 72 and over. These persons were not eligible for regular monthly social security benefits primarily because they retired before the enactment of social security legislation or before their occupations were covered by social security. At the end of fiscal year 1975, there were 240,000 persons receiving benefits under this program which, by law, is funded from general revenues.

EXPLANATION OF INCREASE OVER 1976 REQUEST

The total request for 1977 is $2,601,155,000 more than the amount estimated for 1976. Most of this increase is for fiscal year 1977 Federal payments for supplementary medical insurance. As I said earlier, these payments, together with monthly premiums paid by enrollees, must be sufficient to finance the supplementary medical insurance program. Monthly premiums were not increased last year due to a legislative technicality, but will be increased from $6.70 to $7.20 effective this July based on recently enacted corrective legislation—Public Law 94–182. The monthly premium rate which aged and disabled enrollees pay is supposed to represent one-half of the monthly cost of benefits for the aged. The Federal matching payment covers the balance of the estimated program costs. However, the law limits premium increases to no more than the percentage by which monthly social security benefits were increased. This limitation came into play when the premium rate for next July was set at $7.20. With no limitation, the premium would have been increased to $10.70—one-half of the estimated $21.40 cost per aged enrollee. However, this would have been a 60-percent increase over the current $6.70 premium; and since social security benefits went up by 8 percent last July, the new premium was limited to $7.20. This means that in order to adequately finance the program, the Federal matching payment which we are requesting must increase by a much greater percentage than the increases in program costs. The social security actuaries are projecting a 13-percent increase in physician fees under medicare and a 3-percent increase in utilization of physician services. It should be noted that these figures take into account program growth over a 15-month period due to conversion to the new fiscal year.

On the matter of the transition quarter, Congress has already appropriated $878 million to match enrollee premiums during this period. The appropriation was based on a December 1974 estimate of total supplementary medical insurance program costs, enrollee premiums, and required matching Federal contributions for the transition quarter. Experience to date has shown that the utilization of covered medical services and hence total program costs have exceeded our December 1974 estimates. We have, therefore, revised upward our total program cost estimates for the transition quarter.

Since, as discussed earlier, enrollee premium increases are limited by law, and premium collections plus Federal matching payments must be sufficient to finance total program costs, an additional $271 million in Federal matching payments will be required for the transition quarter. In our 1977 appropriation, we have requested this $271 million plus an interest adjustment of $12 million for a total of $283 million. This is consistent with our approach to provide funds in each year's appropriation request to cover adjustments between amounts previously appropriated and actual experience with the program, or revised estimates of program costs. In this year's appropriation request, these adjustments represent $313,403,000 of the total year-to-year increase. As I have just mentioned, $283 million relates to underfinancing of the Federal matching activity in the transition quarter. The remainder is for similar underfinancings for this activity and the hospital insurance for the uninsured activity, and adjustments related to special benefits for certain uninsured persons. In addition, our request includes $150 million for reimbursement for the transition quarter costs of hospital insurance for the uninsured. As I mentioned to the committee last year, the transition quarter costs for this activity were not included in the President's 1976 budget.

The balance of the increase for this appropriation over our 1976 request includes $31 million for hospital insurance for the uninsured due to higher hospital

costs per patient day in 1977, partially offset by a decrease in the number of beneficiaries, and $327 million for military service credits, which I will address in a moment. Partially offsetting the increases I have described is a $38,348,000 decrease for special benefits paid to certain persons age 72 and over. As I previously mentioned, these persons are primarily aged individuals who are not eligible for regular social security benefits because they retired before the enactment of social security legislation. The decrease in costs for this activity reflects a constantly declining beneficiary population.

With regard to the $327 million increase in our request for military service credits, this reflects the recent increase in the annual installment payable from the General Funds to finance the cost of noncontributory credit for military service rendered before 1957. Under that law, a determination of this installment is made every 5 years. The installment is derived by determining the amount of reimbursement in equal annual payments necessary to place the trust funds in the same position on June 30, 2015, that they would have been in if noncontributory military service credits were not provided. The new determination produces a large increase in the annual installment because it takes into account actual benefit increases granted during the last 5-years—after the last determination was made—as well as projections of future increases under the automatic cost-of-living adjustment mechanism.

This concludes my statement on payments to the social security trust funds.

Summary Statement by the Commissioner of Social Security

1977 APPROPRIATION REQUESTS

Mr. Cardwell. Mr. Chairman and members of the committee, I am pleased to have this opportunity to discuss the Social Security Administration's 1977 appropriation requests. I will read a general statement outlining our budget requests and their major emphases, and report on the status of administration of the programs for which we are responsible. Also, for the record, I have a longer overall statement and short individual statements for each appropriation request.

SSA BUDGET REQUESTS

The Social Security Administration's appropriation requests total $16.1 billion. These include General Fund appropriations of $6.7 billion for payments to social security trust funds, $914 million for special benefits for disabled coal miners, and $5.9 billion for the supplemental security income program. Our requests from the trust funds are for $2.6 billion for the limitation on salaries and expenses (our basic appropriation for administrative costs) and $14 million for the limitation on construction.

MAJOR PROGRAM EMPHASES

I would like to discuss what I consider to be the major programmatic issues facing social security during the next several years.

First, the financial integrity of the social security system—both short and long range.—Social security financing has received extensive publicity in recent years, and I am much concerned about the unsettling influence it has had upon retirees and workers. The report of the 1975 Advisory Council on Social Security and the 1975 trustees' report highlighted the system's actuarial imbalance. I believe we are all aware of the basic problems facing the social security cash benefits program. First, the system is now paying more in benefits than it is taking in in taxes. Second, under present estimates, trust fund reserves

would either be depleted or become precariously low in the early 1980's. Third, with growing deficits and declining trust funds, public confidence in social security is being eroded. Fourth, we must correct the flaw in the benefit formula which will cause future benefits to bear an unreasonable—and unintended—relationship to past earnings. This, Mr. Chairman, is what we refer to as "decoupling."

We believe that the first order of business is to correct the short-term deficit facing the system. To this end, the administration has proposed that the current tax rate be increased, effective in 1977, by three-tenths of 1 percent each for employees and employers, and that the tax rate on the self-employed be increased by nine-tenths of 1 percent.

Now I would like to explain the decoupling proposal. Under existing law, every time a cost-of-living increase is computed for retirees, the benefit formula is also recomputed to increase future benefit levels for current workers. Separating these two computations is what we term "decoupling." Under the proposal, computation of cost-of-living increases for retirees, based on changes in prices, and computation of initial benefit amounts for workers, based solely on wages, would be separate calculations. Current economic assumptions show that for all workers the present benefit formula will result in a steady rise in replacement rates—that share of a worker's preretirement earnings replaced by his social security benefit. For a significant number of workers, the present formula will result in social security benefits that exceed preretirement wages. The decoupling proposal that we plan to submit to the Congress will assure that replacement rates are relatively constant over time. As under present law, benefits will be adjusted automatically for changes in the cost-of-living, thereby maintaining the beneficiary's purchasing power. Adoption of decoupling will not, and is not intended to, have a remedial effect on the short-term deficit. However, it would significantly reduce the system's long-term costs.

The administration believes that an early decision about decoupling is the necessary first step in solving the long-range financing problems of social security. Permanent financing choices—choices that will have a profound effect on our society for generations to come—should be made only after the decoupling matter has been settled.

A second major programmatic issue is the need to constrain runaway medicare costs.—The Nation's health care system continues to be one of the most inflationary sectors of the economy. Hospital costs have risen by more than 200 percent since 1965—from $40/day to $123/day—and physician fees more than 85 percent in the same period. Both rates of increase are significantly higher than the corresponding increase in the overall consumer price index.

Medicare is a major component of Federal health spending. It provides protection to more than 24 million aged and disabled Americans, and is expected to pay out nearly $17 billion in benefits in 1976. However, medicare has its own brand of inflation. Like most health insurance plans, it reimburses largely on the basis of actual costs or customary charges, giving providers little incentive for limiting cost increases. Under present law, we expect reimbursable provider costs to increase by 14.5 percent in 1977, and physician fees to increase by at least 10 percent. By comparison, the budget projects the overall cost-of-living index to increase by only 6 percent.

The administration has proposed medicare legislation to establish a 7-percent ceiling on increases in reimbursable provider costs, and a 4-percent ceiling on increases in reasonable charge levels for physician services. These are temporary measures, intended to apply for only 2 years. During this period, HEW will continue to study alternative cost-control methods and evaluate their feasibility in the context of a long-term cost-containment program.

A third programmatic emphasis is the administration's proposed catastrophic medicare coverage and reform of medicare cost sharing.—The basic idea of the President's medicare improvement proposals is to establish a better balance of coverage by improving protection for program beneficiaries against the costs of long-term and catastrophic illness, and by increasing initial cost sharing. With this in mind, the President has proposed several much-needed reforms in the medicare benefit and cost-sharing structure.

The President's proposal would provide an unlimited number of days of covered care in a hospital or skilled nursing facility, and would limit a beneficiary's out-of-pocket expenses for covered services to $500 under the hospital insurance program and $250 under the supplementary medical insurance program. The limits would be increased in future years as social security cash benefits are increased. This insurance against catastrophic medical costs is a protection that many medicare beneficiaries do not now have, and generally cannot purchase in the private marketplace.

The medicare proposals to increase cost sharing during the initial stages of hospitalization, and increase the supplementary medical insurance deductible, would raise a beneficiary's costs at the beginning of an illness, when generally he more likely can afford them. In return, the beneficiary would be provided expanded benefits and catastrophic protection when they are most needed.

MAJOR ADMINISTRATIVE EMPHASIS FOR 1976–77

Now I would like to turn to what I consider to be our most significant administrative and management emphases in 1976 and 1977. They reflect several related themes:

Improvement in the accuracy and efficiency of SSI payments.
Stabilization of the SSA work force.
Increased emphasis on training and retraining of our field staff.
Reduction in overtime.
Improvement in disability processing times and hearings backlogs.
Emphasis on quality control and fraud prevention.

Improvement in SSI payment accuracy and efficiency.—An extremely important area which I'd like to discuss is the supplemental security income program: our performance, payment accuracy, actions taken to improve efficiency, and the need to simplify the program's excessive complexity.

The SSI program was enacted based on the concept of a simplified flat grant with limited variables for determining eligibility and payment amounts, thus making it readily susceptible to the use of computerized mass data processing techniques which the Social Security Administration had employed for many years. However, the assumption that SSI would be simpler and inherently easier to administer than the prior State-run programs has turned out to be false. As one exam-

ines the law as enacted and its surrounding policy and operating procedures, it becomes apparent that this simplified program retained a fair proportion of the variables which made the State programs so difficult to administer. We are striving to improve payment accuracy and efficiency through administrative and management actions under our own control, and have made some gains. At the same time, serious consideration needs to be given to legislative changes designed to simplify the program.

Measures already taken are expected to reduce payment errors to a national average of around 19 percent by the end of fiscal year 1976, from the most recent 24.4 percent rate. We have set a goal of 15 percent for the end of fiscal year 1977. This will depend on the success of additional administrative actions to be undertaken next year. Improvements much beyond the 15-percent level on a national basis, in my opinion, would require basic changes in the statute that essentially would simplify and streamline eligibility and other criteria.

Most of SSA's administrative and management emphases for 1976 and 1977—which I already have cited, and will discuss further—can be related at least partially to our efforts to improve SSI accuracy and efficiency. In addition, other actions also have been taken, or are planned, to improve the SSI program. I'd like to state them briefly.

The actions already taken include:

First. A major effort in fiscal years 1975 and 1976 to redetermine the eligibility and payment amounts of each recipient.

Second. Expanding the SSI payment system by adding seven subsystem between January 1974 and September 1975. We have verified that the basic computation portion of the payment is functioning properly.

Third. Improving the interface with the social security beneficiary records to insure that individuals who receive both social security and SSI payments receive the correct amounts.

The additional actions planned include:

First. Systems interfaces with other governmental agencies, such as the Veterans' Administration and Railroad Retirement Board, to insure up-to-date information on benefits paid by these agencies to SSI recipients.

Second. Further enhancement of the SSI system to reduce the amount of manual processes currently required for special payment situations, such as those caused by meeting due-process requirements.

Third. Implementation of the SSI outside study group's recommendations which the executive branch determines are appropriate for fulfilling SSI program goals. The study group, commissioned by SSA and HEW to review and critisize the program, included specialists in public welfare, public administration, and computer technology.

As I mentioned earlier, I believe serious consideration needs to be given to legislative changes designed to simplify the SSI program. The categories of program changes now under discussion include:

1. *Redefining the benefit payment and adjustment periods.*—Many events that have no bearing on program quality, and which are not subject to administrative control are now recorded as "errors." Part of the problem can be traced to the part of the law that establishes a quarterly benefit period but expects monthly payment adjustments. The law expects events occurring in the middle of a month to be translated into payment adjustments then and there. This is not possible.

The law should be changed to take into account practical realities, including the need to provide "due process" rights to beneficiaries before benefit corrections can be made.

2. *Limiting variations and complexities in federally-administered State supplements.*—Presently, States are allowed many difficult-to-administer variables of their own choice. Each variable detracts from the original objective of a simplified uniform Federal grant program.

3. *Reduce the multiplicity of income and resource rules now in the act. Stabilization of work force.*—Efforts to improve SSI payment accuracy and efficiency, as well as the quality of SSA service to the public, cannot succeed unless SSA has a stable work force—a work force not subject to high turnover and one that is in place long enough to be trained to do a job that is growing in complexity. We have been relying on 2-year term employees in lieu of permanent additions to the Federal work force—a practice criticized by this committee. This has not been a satisfactory arrangement, and the budget request for fiscal year 1976–1977 converts the term positions to full-time permanent positions. This conforms fully with the intent of the Congress, as expressed in the 1976 Labor-HEW appropriations bill.

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The combination of a more stable work force resulting from the elimination of term employees, additional training, and reduction of overtime to a reasonable level, represents important and timely steps toward improved performance. In my view, all are necessary to improve SSA's overall quality of service to the public.

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months' work. We are budgeting to reduce pending workloads further, so that by the end of fiscal year 1977, approximately 4 months' of hearings work will be pending.

Emphasis on quality control and fraud prevention.—The committee expressed concern over the potential for fraud and abuse within major HEW programs, particularly the larger ones such as medicare, medicaid, and guaranteed student loans. Speaking for medicare, I would emphasize that the program's claims-processing systems are operated by insurance carriers as contractors to the government. These systems incorporate many internal checks and balances to assure proper medicare payments.

Our quality control and verification procedures result in disallowance of millions of claims. In fiscal year 1975, for example, about 13 million bills for services were denied in whole or in part; in about 51 million instances, the charge allowed as reasonable was less than the charge billed. In most cases, though, disallowances result from differences in opinion rather than fraud—for example, disagreement between the program and the physician as to the necessity or reasonable charge for a service.

Where potential fraud is indicated, contractors refer the cases to program integrity specialists of our Bureau of Health Insurance for review and investigation. If the situation warrants, the program integrity specialists request that the case be developed by a professional investigator. Until recently, SSA maintained its own staff of professional investigators. In an attempt to provide the administration flexibility needed by the Department to deal with the whole realm of fraud within HEW-administered programs, this staff, plus the small staff of investigators previously assigned to HEW and additional staff authorized by the Congress, recently were merged into one investigative unit reporting directly to the Under Secretary. This restructuring of the Department's investigative capacity will provide a departmentwide emphasis on fraud detection and investigation. Also, placing authority for this effort directly at the departmental level provides the flexibility needed to use available investigative resources on all HEW programs in a balanced way.

Once the investigative work is completed, cases where fraud is still believed to exist will, of course, be turned over to the U.S. attorneys for prosecution.

Budgeted staffing resources.—The budget provides for an increase of 1,950 permanent authorized positions during 1977 over the 1976 level for all programs administered by SSA. Several purposes are served by the increase in authorized staffing. It will enable SSA to obtain more permanent man-years from our 1977 full-time permanent employment ceiling by allowing us to staff up as high as 81,243 permanent positions shortly after June 30, 1976. Through normal attrition, employment will drop to the ceiling of 78,309 by the end of fiscal year 1977. The 1,950 increase in authorized staffing will enable SSA to prepare in advance to meet workload peaks during the year by hiring and training new employees early in the year. By obtaining more man-years from permanent staff, reliance on overtime will be reduced by over 1,800 man-years in 1977.

ADVANCED SYSTEMS PLANNING PROJECT

An administrative area of special concern to me is our present system dilemma. Through the years, SSA has absorbed several major programs. Within the past 10 years alone, these have included medicare, black lung, and the supplemental security income program. Moreover, during this same period, SSA has had to respond to recurring legislative mandates such as general benefit increases and changes in the supplementary medical insurance premium deduction amount. Partly because of its rapid growth and the need to respond on short notice to legislative initiatives, SSA has not always had the opportunity to devise and implement systems and process refinements in a planned, orderly fashion. As a result of this ad hoc approach to each new legislative requirement, SSA's processes have become fragmented, operationally unwieldly, and increasingly unresponsive to the agency's needs and those of the public we serve. Particularly since the advent of SSI, these problems have become visible outside the agency, resulting in a loss of confidence on the part of the public in SSA's ability to administer the programs for which it is responsible. These problems can be resolved only through a total redesign of the SSA process—by making a dramatic technological leap forward. The Office of Advanced Systems has been established to initiate an intensive, integrated, and cohesive advance systems planning effort. It has begun a 6-year project to review SSA's total operating systems and processes, and replace our existing processes with new ones that will be more efficient and more responsive to the public's needs.

This will be a costly undertaking, but should pay off when completed with a less costly process—particularly one that is less labor intensive. The staff dedicated to this effort will number 103 by the end of this fiscal year, and increase to a level of about 300 by the end of next year. The project will cost about $400 million through the target completion date of 1981. This cost includes new technology and hardware as well as manpower to conduct the project. The payoff will be a less labor-intensive and more efficient operation. Our goals are to keep pace with the inevitable growth in program workloads without accompanying increases in manpower, or with reduced manpower, and to take advantage of the most advanced technology available. This effort is just beginning. I will keep you informed of its progress.

Mr. Chairman, this concludes my statement.

With that summary, Mr. Chairman, we would be glad to try to answer any questions the committee might have.

PAYMENTS TO SOCIAL SECURITY TRUST FUNDS

Mr. FLOOD. Most of these social security programs are uncontrollable but we must appropriate the amounts to cover the costs. We generally accept the budget estimate but the justifications for 1977 show quite a few adjustments. What is the reason for all these adjustments? Does that mean your estimates were bad to begin with or what?

Mr. CARDWELL. We can summarize very quickly for you the major adjustments.

Federal payment for supplementary medical insurance would go up to a total of $5 billion. This is occasioned by increased enrollment on the part of beneficiaries and increases in costs and utilization of covered services.

We talked a moment ago about the rapid rise in medical costs generally, and that has been reflected in medicare.

Next would be a payment for noncontributory military service credits. Under the law we are required to give veterans of World War II and the postwar period credit for their military service even though it was not covered under social security. The cost of benefits payable as a result of this credit is financed by the general revenues of the Government through this appropriation. Under the law, this is to be reimbursed over a long term, and every 5 years the amount of the annual contribution is recomputed to recognize changes in the program and rising costs in benefits. The cost of living has also driven up benefits, and this is reflected in that particular area.

Mr. FLOOD. But this increase for 1977 is over $2.6 billion in the payments to the trust fund.

Mr. CARDWELL. That is right.

Mr. FLOOD. That is a pretty big jump for 1 year. Are you fairly confident about these estimates?

Mr. CARDWELL. I think the estimates before you are fairly sound. The one factor that could change them would be a downturn or upturn in inflation. Most of these costs are very sensitive to changes in the economy, and they are mostly geared to the built-in increases that are available to beneficiaries as a result of changes in the economy.

FINANCIAL CONDITION OF SOCIAL SECURITY TRUST FUNDS

Mr. FLOOD. Everyone seems to be pretty much concerned about the financial condition of the social security trust funds. We hear about that every day. What is the present surplus?

Mr. CARDWELL. At present we have in the social security cash benefit funds about $44 billion. That represents about 57 percent of 1 year's outlays.

Mr. FLOOD. How much of an operating deficit is estimated in fiscal 1976?

Mr. CARDWELL. In fiscal year 1976 we expect the deficit to be about $3 billion, and it increases to about $3½ billion in fiscal year 1977.

Mr. FLOOD. Some of us were a little frightened at that 1975 report of the Board of Trustees when they say—

> Without additional funding, the assets of both funds will be exhausted soon after 1979.

Shouldn't we be worried about that conclusion?

Mr. CARDWELL. We think so. If one believes in the basic principle of the system and its present arrangement for financing, we think the indicators are quite clear that we will run the reserve dry around 1980, or if not dry we will run it so perilously low that we will have endangered the credibility of the reserve.

Precisely when this zero point or near zero point would be reached depends on one's forecast of what will happen in the near-term economy. The President's budget assumes some pickup in the economy

over the next 5 years. Most other analysts also predict there will be some improvement in the economy.

But even under those optimistic projections they would show continuing deficit for each year, the first deficit having been experienced in calendar year 1975, and those deficits will continue until the fund is either exhausted or, as I say, perilously low under the most favorable economic predictions.

While I can't give you any clear and certain facts about the 1976 board of trustee's report, from what I have seen of the analyses that have been completed so far, I think they are going to show a more pessimistic long-term picture—post-1980—than last year's report shows.

Mr. FLOOD. What changes are being recommended in financing the social security trust funds?

Mr. CARDWELL. We recommended for consideration by this session of Congress two specific changes. The first would be directed to the question that you asked; namely, what should we do about additional resources for the near term?

We propose an increase of three-tenths of 1 percent in the tax rate applied to all employees covered by the system, and to their employers, and a nine-tenths of 1 percent increase for the self-employed.

This would be sufficient under the most pessimistic near-term economic assumptions to avoid deficits beginning in 1977, and to start to build the trust fund reserves back up to a point where, starting around 1980, the reserves would run about 40 percent.

That additional revenue should be sufficient to keep the reserves in a fairly healthy state on into the 1980's. It would not solve the long-term problem.

We have suggested another provision for consideration of this session of Congress which will begin to attack the long-term problem. That is the so-called decoupling proposal.

DECOUPLING

Mr. FLOOD. The Secretary talked about that. It sounds like something they do on the railroads.

Mr. CARDWELL. It is not too dissimilar. We want to uncouple the present formula, which causes future retirement rights of workers to increase every time the cost of living triggers an automatic benefit increase for people who are already retired. We would continue the automatic benefit increase system only for people already retired.

The present formula produces a double indexing for the long term, so that around the turn of the century the share of a person's earnings that would be replaced by benefits upon retirement will gradually and steadily go up. The President's proposal would prevent that uncontrolled rise in future replacement rates from occurring. At the same time, however, he would protect the cost of living rise for anyone who was already retired. This could substantially reduce the long-term deficit in years——

Mr. FLOOD. Have you had any reaction to this so-called decoupling?

Mr. CARDWELL. Yes. Just about everybody who has an interest in the system—the former Commissioner, two former chief actuaries, the

Society of Actuaries, the 1975 Advisory Council on Social Security, the two legislative committees of the Congress, Ways and Means and Finance, a special panel that they commissioned through the Library of Congress, and others who have examined this feature of the program—all agree that the flaw should be removed, and removed fairly soon.

Not everybody agrees on the technique.

WAGE BASE INCREASE

Mr. FLOOD. Are you opposed to increasing the taxable wage base? That is not as regressive as increasing the tax rate.

Mr. CARDWELL. As a general proposition, we are not opposed to the base increasing to keep up with rising wages. We point out that the wage base is already increasing under present law. In fact, it has doubled since 1970. It went up over 40 percent in the last 3 years.

If you look at the cost to the high wage earner in 1977, what is going to happen is that the present wage base for this year of $15,300 is automatically going to go up under existing law. It will go up to $16,500 in 1977. That will cost a worker at that income level and above $70.

The President's tax proposal would add approximately a little less than $1 a week to that, so the total increase would be about $120.

Yet a person at the low end of the spectrum—for example, one with wages of $7,000—would have an annual increase under the President's proposal of only about $20.

What we are saying is that under present law, the wage base will increase automatically, and we don't think it should increase any more rapidly than under present law.

GENERAL REVENUE FINANCING

Mr. FLOOD. You know there are several bills introduced in Congress to use general revenues.

Mr. CARDWELL. Yes, sir.

Mr. FLOOD. For instance, the AFL, among others, feel that would be much more equitable. Of course, we know you don't support that idea. But what are your objections to it besides the fact the Treasury has a very big deficit?

Mr. CARDWELL. I think that is a very important point to make. If people think the trust funds are scarce, the general funds are even more scarce.

We really have two primary arguments, however, and both have to do with our strong commitment to the original idea of the program; namely, that the benefit right should be earnings related.

First, the only people who are eligible for a benefit are those who paid in, and their dependents and survivors. The earmarked payroll tax is the link.

If you go to general revenues, you weaken that linkage, and the closed circuit financing system that has served the program so well in its 40-year history would begin to erode.

Second, it is our guess that advocates for larger benefits would begin to raise the issue in time that general funds should not go to people of means. The way the present system works, if you have savings or other means, other than wages from work, you still receive your social security benefit, as a matter of earned right, if you paid in.

We think that once that issue is raised within our political system, given its tendency to respond to that issue as it has in the past, it would only be a matter of time before the system became a means-tested system.

If public policymakers want to choose that as a means of providing income maintenance for the poor and elderly, so be it, but I would hate to see that choice through a back-door route.

INCREASES IN FEDERAL PAYMENTS FOR SUPPLEMENTARY MEDICAL INSURANCE

Mr. FLOOD. Now, as to payments to the supplementary medical insurance, you are requesting an increase of $2.1 billion. That is a 72-percent increase over last year. That is much, much more than we have seen in past years. Most of that increase is in the Federal matching rate. Will you tell us briefly the reasons for such a large increase.

Mr. CARDWELL. If you break the increase down, you will find that inflation and increased utilization by the people eligible in 1977 compared with 1976 account for a little less than half of the increase, about $800 million against the $2.1 billion total.

Normal growth in the population—the fact that the beneficiary population which is enrolled in the program increases every year, and that the same share of the total population uses the system every year—accounts for about $100 million.

The remainder is accounted for by much higher than anticipated increases in outpatient, hospital, and home health costs, and utilization of physician services. In addition, there is about $300 million that is related to the transition quarter and is attributable to these same factors.

Mr. FLOOD. When will this monthly premium reach a point where it is one-half of the monthly cost of benefits?

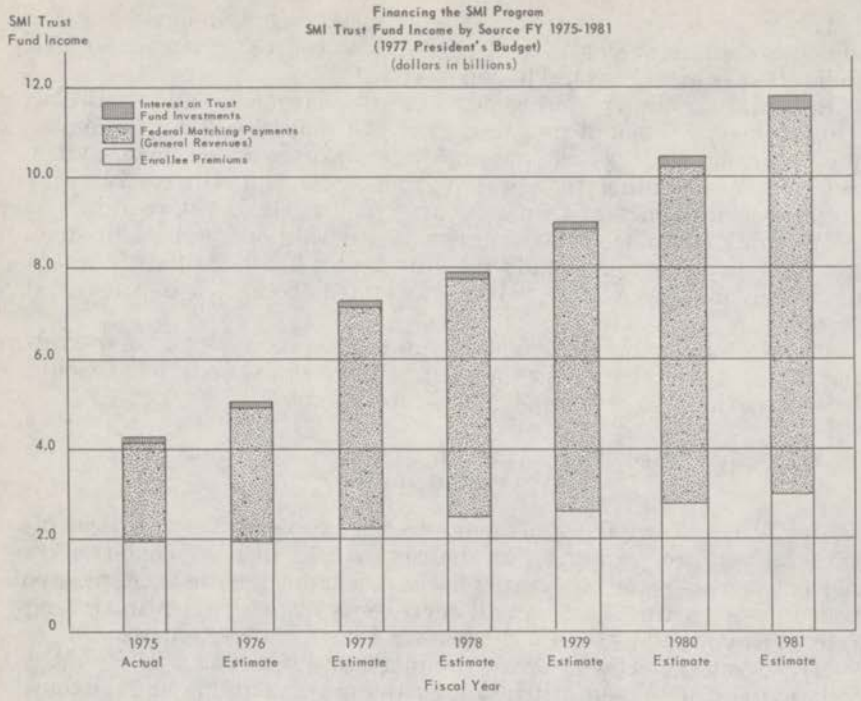
Mr. CARDWELL. I am not sure that it ever will. We have a graph that we would be glad to introduce into the record. It is designed to show the fact that the Federal matching, even if you consider interest on trust fund investments, is becoming an ever larger share of the supplementary medical insurance program's total financing, with the enrollee premium share also rising, but at a much lower rate.

I think if we offer this graph for the record, it will help illustrate the answer to your question.

Mr. FLOOD. Without objection, you may do that.

[The graph follows:]

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Mr. FLOOD. You mentioned in your original statement that physician fees are estimated to increase by 13 percent. That seems rather high. What was the rate of increase this year?

Mr. CARDWELL. I think the record is that physician fees have gone up about 13 percent—12.8 percent, to be exact. The year before it was 5 percent. The year before that, 2.6 percent.

Mr. FLOOD. Why this much?

Mr. CARDWELL. Our budget estimates are based on projections of the increases this year and in 1977 which will be recognized by the program as reasonable under the medicare law.

Mr. FLOOD. Do you expect the physician fees will continue to rise by that rate each year?

Mr. CARDWELL. We have a provision in the budget which is designed to constrain the natural tendency of that rate of increase so as to hold physician fees recognized as reasonable by the program to a 4-percent increase in 1977. Otherwise, this increase would be about 10 percent.

Mr. FLOOD. Do you think the cost of malpractice insurance is a major factor in increased physician fees?

Mr. CARDWELL. Yes; we do think it is a factor but not necessarily the dominant factor.

Mr. FLOOD. It is a major factor, isn't it?

Mr. CARDWELL. Mr. Tierney, I think you know more about that than I.

Mr. TIERNEY. It is a major factor, Mr. Chairman. As the Commissioner said, program recognition of physician fee increases is limited by law; specifically, the economic index, which last year amounted to

about a 7½-percent cap, if you will, on the amount the program recognizes.

Our most recent study of the impact of current trends in malpractice insurance indicates that if you tried to pay medicare's share of those cost increases it would add two points to that. In other words, 9½ percent rather than the 7½.

So that makes it a very major thing, yes, sir.

INCREASES IN MILITARY SERVICE CREDITS

Mr. FLOOD. You show an increase of $327 million for military service credits. That is more than double the figure for last year.

Mr. CARDWELL. That is occasioned by a revision required by law of the annual contribution. This contribution is recomputed every 5 years, and the actuaries take into account the trend in benefit costs as well as legislative changes in the program during the last 5-year period.

What has happened is we have updated the annual contribution to recognize that benefit costs under retirement insurance have been going up steadily and disability costs have been going up steadily, and they will continue to go up as the cost of living increases—due to the automatic benefit increase provision of the 1972 social security amendments. The retirement and survivors' reimbursement amount has gone up by $218 million to $354 million; disability insurance, by $43 million to $92 million; health insurance, by $93 million to $141 million, for a total of $587 million.

This annual payment will be $354 million higher than during the last 5-year period, when it stood at $233 million. As I said, this is due primarily to the impact of including the automatic benefit increases that were not in the law when the last computation amount was defined.

Mr. FLOOD. Do you think those payments for these military service credits could rise that much year after year in the future?

Mr. CARDWELL. It will hold at this $354 million for the next 5 years, and then it will be recomputed again.

VOCATIONAL REHABILITATION

Mr. FLOOD. You remember on January 22 the GAO sent a letter to the Secretary about their study of the disability benefits. One of the findings there was that very few disability applicants are being referred to the State rehabilitation agencies. What is the problem? You could save a lot of money if you made those referrals; wouldn't you?

Mr. CARDWELL. The way the program is arranged, we depend on the State rehabilitation agency to make the selection from among our disability beneficiaries of those who might best be served by rehabilitation services.

What the GAO comments add up to is that the State disability determination agencies were not referring a large number of beneficiaries who might be helped to the State rehabilitation agencies. In other words, the ones with the most difficult cases, the ones that tend to cost the social security system the most overtime, might never be given an apportunity to participate in the program. GAO also indicated that a pattern had evolved of referring and selecting many bene-

ficiaries with temporary disabilities who would probably have recovered and gone back to work without rehabilitatives services.

They suggested in order to put the system under some pressure, to be more selective, that funding be frozen at the fiscal year 1976 level pending a reassessment of the needs of the program. The budget before you holds these costs slightly below that level.

MEDICARE: DURABLE MEDICAL EQUIPMENT

Mr. FLOOD. We understand that medicare has been charged with very excessive costs resulting from the rental of expensive medical equipment. How big a problem is that? What can we do about that?

Mr. CARDWELL. It has been a problem in the system from its inception. The task of making a decision as to whether to lease, rent, or to purchase, based on medical prognosis, has been inherently difficult for both the patient and physician who might advise the patient, and for our carriers and intermediaries who have to review the billing to see whether the right decision is made.

Mr. Tierney?

Mr. TIERNEY. I think that sums it up, Mr. Chairman. It is a very difficult problem. If you look at the impact of durable medical equipment expenditures in terms of the total program, they are relatively small. But the act provides that the beneficiary make the decision on whether to purchase or to rent. That is a difficult decision. It is a betting game. Obviously if you purchase and need it for a long time, you have made a good decision. If your need ends very quickly, you have made a very bad decision.

We think that a new approach ought to be adopted which would specify items such as walkers, crutches, this type of thing that will be purchased, and that the more expensive items like the hospital bed be rented.

That is arbitrary but at least it makes it unnecessary that the aged person make this kind of decision.

One of the problems is you rent a hospital bed, for example, for 12 months and you think, "Perhaps I'm going to pay too much, but maybe I'm only going to need it another month." I really think the answer lies in specifying items, either directing their purchase or rental.

CHRONIC RENAL DISEASE COSTS

Mr. FLOOD. How much of the medicare funds are used to pay for a kidney dialysis?

Mr. TIERNEY. As you know, the whole renal disease area came under medicare coverage so we pay for all kidney dialysis treatment now. During fiscal year 1975 about $184 million was expended for those who qualified under the chronic renal disease provision of the medicare law. It is estimated it will rise to about $700 million by the early 1980's and that is only for 26,000 beneficiaries. It is a very expensive proposition.

Mr. CARDWELL. In 1977 we estimate we will pay out about $68 million in benefits.

COVERAGE OF CHIROPRACTORS

Mr. FLOOD. To what extent are the services of chiropractors covered under medicare?

Mr. TIERNEY. They have a limited coverage, Mr. Chairman, of manipulation of the spinal column for the treatment of a subluxation which is indicated by an X-ray. That is a lot of words about trying to straighten up your spine by rubbing it. These figures always sound big to me—it is in the range of $200 million now being expended, but I guess the thing that is interesting about it, Mr. Chairman, is that there is about $1 turned down for every dollar paid, and an excessive amount of times spent on trying to check whether or not the treatment is necessary and whether it falls within the very limited scope of medicare coverage.

Mr. FLOOD. Is chiropractic coverage under medicare comparable to what is provided for physicians' services?

Mr. TIERNEY. No, sir. It is just this one procedure that is covered at all.

Mr. FLOOD. Why must the chiropractic patient under medicare be X-rayed before any reimbursement is provided?

Mr. TIERNEY. It was the concern of the Congress, Mr. Chairman, that particularly among aged beneficiaries, manipulations and backrubs and that sort of thing are very attractive, but that they might not be medically necessary or chiropractically necessary, and therefore if you are going to cover this treatment you ought to make sure there is a condition for which the treatment is appropriate.

Mr. FLOOD. Why, then, didn't medicare reimburse this chiropracitic patient for the X-rays that are mandated by the medicare regulation?

Mr. TIERNEY. That is a good question, Mr. Chairman. Again, it was a congressional decision. I don't mean to throw the ball back to you. But the concern was that chiropractic physicians are really not qualified to do a radiologist's job of examining an X-ray. They didn't wish to make it subject totally to the decision of an M.D. and it was left hanging in the air. It has to be demonstrated by an X-ray, demonstrated to whom I don't know, but an X-ray must accompany each bill.

We now have a provision trying to cover chronic and acute conditions. Acute conditions would need an X-ray every 3 months; on a chronic condition an X-ray would be required at least once a year. That doesn't seem to be excessive, Mr. Chairman. Whether or not that X-ray ought to be paid for is another subject.

Mr. CARDWELL. Could I take you back for one moment to the amounts that are involved in chronic renal disease. The $68 million I gave you dealt only with the hospital portion of the total costs. If you add to that the costs of physicians, nursing, and home dialysis technician's care, the bill runs up to $338 million by 1977.

Mr. FLOOD. All right. Thank you very much.

SSI EXPERIENCE

Mr. CARDWELL. Mr. Chairman, I would close by saying we have a tremendously big job to do. We have had a difficult last 2 years.

The SSI program is still proving to be troublesome. We think that we can demonstrate and have demonstrated progress in the program. In the last year, we have made improvements in all of our basic processes.

We are still troubled by a very high so-called error rate. That rate has been stubborn; it has not gone down. We have set some goals to reduce it. It still proves to be much higher than a lot of the sponsors for the original program find acceptable. It frankly is paralleling the States' experience on public assistance. What I think we are experiencing is a kind of mirror performance to that of the States. We think we can promise steady improvement but we are very concerned that we not overpromise to this committee of the Congress.

Mr. FLOOD. Mr. Michel?

FEDERAL PAYMENTS FOR SUPPLEMENTARY MEDICAL INSURANCE

Mr. MICHEL. The increase of $2.1 billion in the Federal payment for supplementary medical insurance represents a rather shocking 70-percent increase over the current level. How do you account for this much of an increase?

Mr. CARDWELL. Approximately $1 billion of the $2.1 billion increase is due to projected cost increases in fiscal year 1977. The remainder results from cost increases greater than expected in 1976 which were therefore not included in the 1976 appropriation request. Generally, it is to be expected that general fund contributions will increase faster than program costs because limitations on the standard premium rate paid by enrollees dictate that the general fund payment cover an increasing share of total program costs.

Mr. MICHEL. The increase of 50 cents in the monthly premium, beginning in July, will result in how much additional income?

Mr. CARDWELL. The 50-cent premium rate increase will result in an additional $147 million in premium income between July 1976 and June 1977—the 12-month period that the new rate will be in effect.

Mr. MICHEL. The estimated cost of $21.40 per enrollee represents how much of an increase over the 1976 level?

Mr. CARDWELL. The estimated cost of $21.40 per aged enrollee for the July 1976 to June 1977 period represents a $6.40 increase over the fiscal year 1976 level of $15. This reflects projected increases in the cost and utilization of covered physician, outpatient hospital, and home health services, as well as funding deficiencies resulting from an underestimate of the fiscal year 1976 cost per aged enrollee.

Mr. MICHEL. How much of your budget increase is due to an increase in the number of participants in the program?

Mr. CARDWELL. About $0.1 billion of the increase in the appropriation request is due to increased enrollment under the program.

Mr. MICHEL. Is the remainder of the increase due solely to increased costs and utilization?

Mr. CARDWELL. Yes; the remainder of the increase is due to increased costs and utilization. However, some of that cost and utilization increase occurred in 1976 and was not anticipated in the 1976 appropriation request. The 1977 request allows part of the 1976 deficit to be repaid to the trust fund.

Mr. MICHEL. What rationale is there for physician's fees to rise 13 percent on the average when the inflation rate is expected to be less than half of that?

Mr. CARDWELL. The 13-percent rise in physician's fees is really a 1¼-year increase, going from the period July 1975 to June 1976 to the period October 1976 to September 1977. This is due to the transition to a new fiscal year period. The comparable figure for 1 year, on the old fiscal year basis, would be 10 percent. In addition, increases in physician fees are recognized by the program only after a time lag of about 1½ years. Thus, the increase recognized by the program in fiscal year 1977 reflects primarily the large increases in fees that occurred in calendar year 1975.

Mr. MICHEL. If the President's proposal to place a lid on increases in physician's fees and institutional costs were adopted, would this have an impact on this program, and if so, how much?

Mr. CARDWELL. The President's proposal to limit increases in physician fees and institutional costs would reduce hospital insurance outlays by $730 million and supplementary medical insurance outlays by $179 million in fiscal year 1977.

Mr. MICHEL. That proposal wasn't cranked into the budget request, was it?

Mr. CARDWELL. No sir.

Mr. MICHEL. Why not?

Mr. CARDWELL. The effect of the President's proposals are not included in the appropriation request before you because these proposals require substantive legislation action. However, their effect was reflected in the President's total budget, which included his legislative program.

Mr. MICHEL. What accounts for the estimated 3-percent increase in the utilization of physician services per capita?

Mr. CARDWELL. Historically, the cost per person for physician services has increased about 3-percent faster than physicians fees have increased, as measured by the physician service component of the Consumer Price Index. This additional 3 percent represents more services per person and a trend toward using a more expensive mix of services.

Mr. MICHEL. At what point along the line did premium payments stop representing one-half of the total monthly cost of benefits?

Mr. CARDWELL. In fiscal year 1975 aged enrollees and the general fund each contributed $6.70 monthly. Since that time the general fund has contributed more than the aged enrollee. The general fund contribution for disabled enrollees has always been larger than the enrollee contribution.

Mr. MICHEL. Obviously if a lid is not clamped on cost increases and premium payments do not increase any faster than the inflationary rate the Federal percentage will continue to increase, will it not?

Mr. CARDWELL. Yes; under current assumptions, supplementary medical insurance program costs are expected to increase more rapidly than premium rates will rise. Medical expenses have generally increased faster than the overall cost of living, and as I said earlier, use of services is increasing year to year as well.

Mr. MICHEL. Have you made any projections as to what the total dollar increases will be in the years ahead if these current trends continue?

Mr. CARDWELL. Current projections of income to the supplemental medical insurance program indicate that by fiscal year 1981 general fund payments will have increased to $8.6 billion a year. This represents 74 percent of the $11.8 billion projected income to the supplementary medical insurance program in that year.

Mr. MICHEL. How do you explain a $31 million increase in hospital insurance for the uninsured despite a nearly 15 percent decrease in beneficiaries?

Mr. CARDWELL. The decrease in beneficiaries is more than offset by increases in the cost and utilization of covered services. The cost per day of inpatient hospital services, for example, is expected to increase at an annualized rate of 14.5 percent from 1976 to 1977. Since the increase reflected in the budget take place over a 15-month period—due to the change in the Federal fiscal year—the compounded increase in hospital costs per day for this period comes to almost 19 percent.

Mr. FLOOD. Mr. Conte?

FINANCIAL STATUS OF THE SOCIAL SECURITY SYSTEM

Mr. CONTE. Many experts believe that employer-employee contributions are already insufficient to keep the social security system solvent. Has this point already been reached?

Mr. CARDWELL. Current projections of the future operations of the cash benefits program indicate a need for additional income over what the financing provisions of present law are expected to produce. While program outgo is currently exceeding program income, relatively modest amounts of additional income will be sufficient to reverse this situation in the short range. The major problem facing social security is the long-range deficit.

The reasons for the short-term problem are these: First, since social security benefits are, by law, tied to the Consumer Price Index, higher than previously anticipated levels of inflation in the economy mean higher than previously anticipated expenditures for social security benefits. Second, decreased levels of employment mean less income to the program through the social security tax on earnings.

The long-range deficit in the program results in part from economic factors but primarily from demographic trends. The recent sharp decline in birth rates means that the number of people working and paying social security contributions in the future will be smaller in relation to the number of people drawing social security benefits. For example, today there are about 32 people getting social security benefits for every 100 workers; in the next century this will rise to about 50 beneficiaries per hundred workers. Consequently, the cost per worker will rise.

An economic factor affecting the long-range financial status of the cash benefits program is the combined effect of price and wage increases on future benefits. The benefit adjustment mechanism under present law is extremely sensitive to the movement of prices and wages. Under reasonable projections of rising wages and prices over the long range, benefits in the future would replace a much larger proportion of preretirement earnings than they now do, and in some cases would

exceed preretirement earnings. This will consequently increase the costs of the program substantially.

However, I want to emphasize that the program is not insolvent. There are or will be funds on hand to meet expected benefit payments over the next several years. Meanwhile, I think we can safely assume that the long-range actuarial imbalance that has been portrayed will result in executive branch and congressional actions that will insure the solvency of the social security programs in future years.

Mr. CONTE. What do you recommend to remedy the situation?

Mr. CARDWELL. To meet the need for additional funds in the short range, the administration has proposed to the Congress that the social security cash benefits contribution rate be increased by 0.3 percent for employees and employers, each, and by 0.9 percent for the self-employed, effective in 1977. Enactment of this change should be sufficient to assure adequacy of both income and reserve levels during the period immediately ahead.

As for the long-range deficit, as I previously mentioned, a major factor affecting that long-range financial status of the cash benefits program is that future benefits are expected to replace a much larger proportion of preretirement earnings than they do now. Correction of this problem, which we have proposed in the 1977 President's budget, could significantly reduce the long-range deficit, with the extent of that reduction dependent on the specific form of the corrective legislation.

Once such legislation has been adopted, we will be in a position to review the remaining long-range deficit and evaluate alternative remedial proposals.

STATE AND LOCAL COVERAGE

Mr. CONTE. Figures indicate that in 1974, 59 State and local entities with 7,485 employees withdrew from the social security system. In 1975, 79 entities with 18,000 employees withdrew. Now 207 entities with over 58,000 employees have notified intent to withdraw. This appears to be a significant trend. How will it affect the situation should it continue?

Mr. CARDWELL. Although the number of entities and employees withdrawing from social security coverage has grown in the last few years, this does not appear to be a national trend. Coverage has actually been terminated for only about one-half of 1 percent of all covered State and local employees, with most of the changes in only three States—California, Louisiana, and Texas. A total of 11 States are involved in pending terminations, with most of the changes limited to California and Louisiana.

A State is given the option under the law of terminating coverage for employees of the State and/or any political entity of the State upon giving 2 years notice, after the coverage has been in effect for at least 5 years. Since the notice may be withdrawn at any time before the 2-year period has expired, it is possible that not all of the employees for whom notice has been given will actually terminate.

If, however, a trend toward withdrawal should develop on a national basis, the impact would depend on the pace and extent of the withdrawals. The effect in any given year might be minimal but the cumulative effect could be significant over a long-range period.

In calendar year 1975 contribution payments on behalf of State and local employees were about $8.4 billion, or about 11 percent of total contributions. There were nearly 9 million State and local government employees covered as of the end of 1975.

DETERMINATION OF PREMIUM AND GENERAL REVENUE CONTRIBUTIONS FOR THE SMI PROGRAM

Mr. CONTE. How much will the preimum on the voluntary medical insurance plan rise in fiscal year 1977?

Mr. CARDWELL. The supplementary medical insurance premium rate will be increased from $6.70 to $7.20 per month, beginning July 1, 1976.

Mr. CONTE. How is this rise determined?

Mr. CARDWELL. Under the medicare law, the Secretary of Health, Education, and Welfare must annually calculate a premium rate which, together with the Federal general-revenue contribution, would provide sufficient income to meet the costs of the program over the premium period, and to provide a modest contingency reserve. However, the law limits increases in the premium amount actually charged to beneficiaries. Such increases may not exceed the percentage increase in social security cash benefits in the prior year. Without this limitation, the premium would have been set at $10.70 beginning July 1, 1976, rather than $7.20. The general-revenue contribution, by law, makes up the difference.

Mr. CONTE. How does the rise in this premium compare with the rise in medical costs nationwide?

Mr. CARDWELL. As I indicated, the supplementary medical insurance premium is scheduled to go from $6.70 to $7.20 as of July 1, 1976—an increase of about 8 percent. This will be the first increase in the premium rate since July 1, 1974. By comparison, the physician fee component of the Consumer Price Index rose 12.8 percent in 1975 and may well increase by another 11 percent in 1976. As you can see, because of the limitation in the law on increases in the supplementary medical insurance premium, the rate of increase in the premium has been substantially less than the rate of increase in the costs of the care which beneficiaries receive.

Mr. CONTE. The justification states that the estimated cost per aged enrollee for the period July 1, 1976 to June 30, 1977, will be $21.40 per month. How is this projection arrived at?

Mr. CARDWELL. The projection is based upon actuarial analysis of past experience and expected cost and utilization trends. The estimate reflects projected increases in allowable physician fees of 10 percent and increased use of physician services of 3 percent per enrollee during the period July 1, 1976, through June 30, 1977. Institutional services, such as outpatient hospital and home health services, are projected to increase about 25 percent per enrollee in the same year. A detailed statement of the derivation of that estimate appeared in the Federal Register of January 7, 1976. I'd like to supply a copy of that statement for the record.

[The information follows:]

APPENDIX A

STATEMENT OF ACTURIAL ASSUMPTIONS AND BASES EMPLOYED IN DETERMINING THE MONTHIY ADEQUATE ACTUARIAL RATES AND THE STANDARD MONTHLY PREMIUM RATE FOR THE SUPPLEMENTARY MEDICAL INSURANCE PROGRAM BEGINNING JULY 1976[1]

This is a statement of actuarial assumptions and bases employed in determining the adequate actuarial rates and the standard monthly premium rate for the Supplementary Medical Insurance Program for the period July 1976 through June 1977. The monthly adequate actuarial rate for enrollees age 65 and over is $10.70. The monthly adequate actuarial rate for disabled enrollees is $19. The standard premium monthly rate for both types of enrollees is $7.20.

I. ACTUARIAL STATUS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

The law requires that the supplementary medical insurance (SMI) program be financed on an incurred basis. That is the income to the program during the 12-month period for which adequate rates are effective must be sufficient to pay for services (including associated administrative costs) rendered during that period even though payment for some of these services will not be made until after the close of the period. The portion of income required to cover those benefits not paid until after the close of the year is added to the trust fund until needed. Thus, the trust fund at any time should be equal to the cost of the benefits and administration incurred but not yet paid. Because the adequate rates are established prospectively, they are subject to projection error. As a result, the income to the program may not be equal to incurred costs and therefore the trust fund may not be equal to the value of incurred but unpaid expenses. Modest deficiencies in the trust fund balance do not interfere with the operation of the program if the fund is large relative to outlays and if future financing is established to correct the deficiencies. Table I summarizes the estimated actuarial status of the trust fund as of June 30, 1974, 1975, and 1976.

TABLE I

[In millions of dollars]

Year ending June 30	Fund at end of period	Liability for incurred but unpaid services	Fund, liabilities
1974	1,272	1,146	126
1975	1,424	1,462	−38
1976	1,176	1,775	−599

The sizable deficit shown at the end of fiscal year 1976 results from programing cost increases substantially in excess of those anticipated in setting the adequate rates for 1976. In particular, outpatient hospital and home health costs per enrollee appear to have increased approximately 50 percent in 1975, well in excess of typical increases of 20 to 25 percent. Also, "utilization" of physician services appears to have increased at the rate of 6 percent per year in 1973 through 1975 after several years of 2–3 percent increases. ("Utilization" here, is measured indirectly and refers to increased costs per capita due to added visits, the use of more expensive services, and other factors not explained by simple price per service increases.) This deficiency must be considered in establishing the financing for subsequent years.

II. MONTHLY ADEQUATE ACTUARIAL RATES FOR ENROLLEES AGE 65 AND OLDER

The monthly adequate actuarial rate is one-half the monthly projected per capita cost for benefits and administrative expenses adjusted to allow for interest

[1] This statement appeared in the Federal Register of Jan. 7, 1976. Projections shown in this statement differ slightly from the projections shown in the rest of this report because of minor changes in assumptions since the rate were promulgated.

earnings on the fund, to allow for a contingency margin, and to allow for amortization of the program surplus or deficit.

The monthly adequate actuarial rate for enrollees age 65 and older for the year ending June 30, 1977, was determined by projecting the fiscal year 1974 per capita cost by type of service. The projected cost for the years ending June 30, 1974, 1975, 1976, and 1977, are shown in table II. The 1974 values were established from program data. Subsequent years were projected using a combination of program data and data from external sources. The projection factors used are shown in table III.

DERIVATION OF SMI AGED RATE REQUIRED FOR YEARS ENDING JUNE 30, 1974–77

	1974	1975	1976	1977
Covered services (at level recognized):				
Physicians' reasonable charges	$7.06	$8.11	$9.04	$10.25
Radiology and pathology	.32	.36	.39	.43
Group practice plans	.16	.18	.20	.22
Independent lab	.06	.07	.07	.08
Home health agencies	.08	.12	.17	.21
Outpatient hospital and other institutions	.89	1.33	1.80	2.25
Total services	8.57	10.17	11.67	13.44
Cost sharing:				
Deductible	−1.60	−1.64	−1.68	−1.73
Coinsurance	−1.31	−1.61	−1.89	−2.21
Total benefits	5.66	6.92	8.10	9.50
Administrative expenses	.65	.80	.88	.94
Incurred expenditures	6.31	7.72	8.98	10.44
Value of interest on fund	−.14	−.18	−.15	−.17
Margin for contingencies and to amortize unfunded liabilities	.13	−.84	−1.33	.43
Promulgated rate	6.30	6.70	7.50	10.70

TABLE III

[In percent]

	Year ending June 30		
	1975	1976	1977
Physicians' services:			
Fees [1]	8.4	7.2	10.0
Number and mix [2]	6.0	4.0	3.0
Outpatient hospital and home health agencies	50.0	35.0	25.0
Group practice plans	15.0	10.0	10.0
Other	10.0	10.0	10.0

[1] As paid by the program.
[2] Increase in the number of services received per capita and greater relative use of more expensive services.

There is some ambiguity created by the change in fiscal year (to an October through September basis) regarding the updating of the physician reasonable charge screens. This ambiguity affects the projection factor to be used for physician fees in the July 1976 to June 1977 period. This projection assumes that the screens will be updated in July 1976 based on calendar 1975 fees—the same procedure as has occurred in the past. Taken literally, the law implies that the screens would be updated in October 1976 based on calendar 1975 fees; but the screens for July to September 1976 are not defined. Presumably this ambiguity will be resolved by technical amendment during the next few months.

The projected monthly rate required to pay for benefits and administrative costs for the year ending June 30, 1977, net of interest is $10.27. The monthly actuarially adequate rate of $10.70 will allow approximately 40 percent of the $599 million projected deficit to be amortized between July 1976 and June 1977.

III. ADEQUATE ACTUARIAL RATE FOR THE DISABLED

The monthly adequate actuarial rate for disabled enrollees applies to persons eligible because they have been entitled to disability insurance benefits for not less than 24 months or because they are suffering from chronic renal disease.

Data on an incurred basis are not yet complete enough to be used in the cost projection of these enrollees. From the cash payments it is possible to infer, at least approximately, the level of incurred costs for the disabled. Table IV summarizes the results of this procedure. The monthly rate required to pay for benefits and administrative costs for disabled beneficiaries for the year ending June 30, 1977, net of interest earnings is projected to be $19.08. The monthly actuarially adequate rate of $19 is appropriate in view of the excess amounts estimated for disabled enrollees in prior years.

TABLE IV.—DERIVATION OF SMI DISABLED RATE REQUIRED FOR YEAR ENDING JUNE 30, 1974–77

	1974	1975	1976	1977
Total benefits	$7.85	$10.89	$14.78	$17.63
Administrative expenses	3.08	1.34	1.62	1.75
Incurred expenditures	10.93	12.23	16.40	19.38
Value of interest on fund	−.09	−.27	−.27	−.30
Margin for contingencies and to amortize unfunded liabilities	3.66	6.04	2.37	−.08
Promulgated rate	14.50	18.00	18.50	19.00

IV. SENSITIVITY TESTING

Several factors contribute to uncertainty about future trends in medical care costs, notably, the recent deviations from long-term trends referred to above. In view of this, it seems appropriate to test the adequacy under alternate assumptions of the rates promulgated here. The most unpredictable factors which contribute significantly to future costs are outpatient hospital costs, physician utilization and the increase in physician fees as constrained by the reasonable charge screens and the newly implemented economic index. Two alternative sets of assumptions and the results of those assumptions are shown in table V. All assumptions not shown in table V are the same as in table III.

Table V indicates that under fairly optimistic assumptions the monthly rates promulgated will result in a surplus of $79 million by the end of June 1977. Under fairly pessimistic assumptions the deficit increases to $1,421 million but the trust fund remains positive allowing the program to continue paying claims as presented.

V. STANDARD PREMIUM RATE

The law provides that the standard monthly premium rate, promulgated in December to apply for both aged and disabled enrollees under the supplementary medical insurance program, shall be the lesser of:

A. The actuarial rate for enrollees age 65 and older; or

B. The standard monthly premium currently being charged, increased by the same percentage that old-age, survivors, and disability insurance benefits were increased since the May preceding the promulgation (and rounded to the nearer dime).

The standard monthly premium currently being charged is $6.70. The OASDI benefit table was increased 8 percent in June 1975. The $6.70 rate increased by 8 percent is $7.20 rounded to the nearer 10-cent multiple. Since this is less than the $10.70 actuarial rate, the standard premium rate is $7.20 for the 12 months ending with June 1977.

TABLE V.—ACTUARIAL STATUS OF THE SMI TRUST FUND UNDER 3 SETS OF ASSUMPTIONS

[Dollar amounts in millions]

	This projection		Low assumption		High assumption	
	1976	1977	1976	1977	1976	1977
Per enrollee increases (in percent):						
Physician fees	7.2	10.0	7 0	9.0	8.2	11.0
Physician utilization	4.0	3.0	3.0	2.0	6.0	6.0
Outpatient hospital and home health agencies	35.0	25.0	25.0	20.0	50.0	50.0
Trust fund as of June 30	$1,176	$1,798	$1,251	$2,119	$1,002	$991
Liabilities as of June 30	1,775	2,141	1,730	2,040	1,859	2,412
Trust fund, liabilities	−559	−343	−479	79	−857	−1,421

HOSPITAL INSURANCE FOR THE UNINSURED

Mr. CONTE. How many individuals do you estimate will obtain hospital insurance for the uninsured benefits in fiscal year 1977?

Mr. CARDWELL. About 923,000 persons age 65 and over who do not meet the usual requirements for insured status are protected, nevertheless, under the hospital insurance program.

Mr. CONTE. Of that number, how many will be required to pay monthly premiums?

Mr. CARDWELL. Of the 923,000, an estimated 17,000 persons will be enrolled on a voluntary, premium-paying basis in fiscal year 1977. These persons are not otherwise eligible for hospital insurance protection but have elected to enroll in the program by paying a monthly premium.

Mr. FLOOD. Mr. Roybal.

SOCIAL SECURITY FINANCING

Mr. ROYBAL. At this point, it appears that the Ways and Means Committee has decided against increasing the tax rate on social security. If the tax rate is not increased, would you support a move to provide additional funds to the social security trust fund by an appropriation from the General Treasury?

Mr. CARDWELL. No. Using substantial amounts of general tax revenues to pay for social security benefits would undercut public support for the social security program, which comes largely from the contributory, earned-right nature of the program. The social security program has widespread public acceptance and support largely because those covered under the program earn their social security protection by working and help pay toward the cost of the protection through earmarked, earnings-related contributions. In addition, when the risk insured against under the program occurs, benefits are paid as a matter of earned right without a test of individual need. Financing part of the cost of social security out of general revenues, rather than through contributions on work income, would weaken the tie between benefit payments and contributions, and would undermine one of the main bases for public confidence in and support of the program. This could also lead to pressures for the introduction of a needs test for benefit eligibility, since it could be argued that general revenues should not be used to finance benefits for middle- and upper-income people.

It should be noted, too, that some advocates of general revenue financing for the social security cash benefit program seem to believe that there is some vast untapped source of funds in general revenues. Of course, the fact is that although social security trust funds may be in short supply, general revenues are in even shorter supply.

Mr. ROYBAL. Would you support a move to raise the wage base now set to be $16,500 next year to some higher number?

Mr. CARDWELL. In reaching our decision about how the short-term financing deficiencies of the social security program ought to be met, full and careful consideration was given to the possibility of an increase in the contribution and benefit base. Several facts entered into the decision that the deficit should be met through increasing the tax rate, rather than raising the wage base.

The base has increased rapidly in recent years, and under existing law will increase automatically in the future. The future increases in the base that are provided for under present law will, of course, raise the social security contributions of covered workers who earn more than $15,300. For example, the estimated $1,200 increase in the base in 1977, raising it from $15,300 to $16,500, will raise the 1977 social security contributions of each worker who earns $16,500 or more by $70.20.

Under the administration's proposal for a modest increase in the social security contribution rates—0.3 percent for employees and employers each—the cost of providing additional funds for the social security program in the short range would be shared by all covered workers and their employers. This would minimize the impact of the increase on any one workers or particular group of workers. For the average worker, the increase would amount to only $30 for the year.

The additional contributions that would be received in 1977 will arise from both the proposed tax rate increase and the expected increase in the base that is already prescribed in law. In other words, the proposed social security tax rate increase would build upon a wage base increase already in place.

If the need for additional funds for the social security program in the short range were to be met through a further increase in the base, beyond that provided for under the automatic adjustment provisions of the law, all of the additional funds for the program would come from the small proportion of covered workers—about one out of seven—who earn more than the base amount. Such a change in the law would undoubtedly be questioned by them on the basis of fairness, since their social security contributions have increased more rapidly in recent years than those of lower paid workers.

Another consideration is the fact that any rise in the earnings base increases future benefit rights. Obviously, this would add to the long-term outgo of the present program, and we would question any action at this time that would further increase long-term expenditures. I would note that decoupling could correct this. In other words, further costs might not necessarily rise as a result of a wage-base choice under some decoupling models.

Mr. ROYBAL. You talk to us about decoupling, and you make the point that your objective is to stabilize replacement rates, not social security benefit amounts. Aren't you playing games with words?

Mr. CARDWELL. No; I do not think that we are playing games with words. We have been concerned that people might get the incorrect impression that decoupling would freeze benefit amounts for current workers and their families. Stabilizing replacement rates refers to assuring a constant relationship between initial benefits and preretirement earnings. This means that workers retiring in the future will have the same share of their preretirement earnings replaced as workers retiring today. It does not mean freezing social security benefit amounts—and this is the point we are trying to make.

Mr. ROYBAL. Won't the benefit amounts be cut if we approve decoupling?

Mr. CARDWELL. It is, of course, true that future benefit amounts under a decoupled system would not be as high as those currently projected under present law. However, under present law and current

economic assumptions, future benefit levels for current workers and their families are affected by the automatic cost-of-living benefit increases as well as by the rises in wage levels that take place during their working years. Decoupling proposals are generally intended to correct this overadjustment in potential benefits.

MEDICARE PROPOSED LEGISLATION

Mr. ROYBAL. You are requesting that Congress pass legislation to establish a 7-percent ceiling on increases in reimbursable provider costs and a 4-percent ceiling on increases in reasonable charge levels for physician services under medicare. If this is passed, what will the additional cost be to the recipients?

Mr. CARDWELL. The 7- and 4-percent ceilings are designed to slow inflation in health care costs generally, not to shift costs from the medicare program to beneficiaries. The 7-percent ceiling would have no effect on out-of-pocket expenses for services covered under the hospital insurance plan, since hospitals and other institutional providers of services would continue, as at present, to charge beneficiaries only the deductible and other copayments prescribed in the law.

Whether the 4-percent limit on increases in medical fees will mean higher beneficiary payments for these services will depend on the charging practices of the individual physician or other supplier. If a physician raises his charge above the prescribed limit and does not agree to accept medicare's reasonable charge as his full charge, the beneficiary may have to make up the difference. However, this would not necessarily be a change from the present situation, since physicians have never been required to accept medicare's reasonable charge in every case. Presently, physicians accept assignment—that is, adhere to medicare's reasonable charge—in about one-half of medicare billings. We do not anticipate a significant change in this assignment rate.

Mr. ROYBAL. You indicate that the administration is proposing catastrophic medicare coverage but that recipients would have to pay more for basic health services. How much more will an average individual have to pay?

Mr. CARDWELL. The administration's proposal would require a beneficiary who has an average hospital stay of roughly 12 days to pay cost-sharing amounts totaling approximately $274 in 1976—a deductible of $104, as under present law, plus additional cost sharing of $170. This figure is based on average hospital charges of $150 a day. In exchange for responsibility for this relatively small payment at the beginning of an illness, when he more likely can afford it, the beneficiary would be provided with expanded benefits and catastrophic protection. We believe this trade-off to be not only desirable from the beneficiary's point of view, but essential for the guarantee of true protection against the cost of catastrophic illness.

Mr. ROYBAL. How can they afford to pay these additional costs?

Mr. CARDWELL. We believe most beneficiaries will be able to meet these additional costs. About one-half of all medicare beneficiaries have private health insurance which supplements the protection they have under medicare, and which we anticipate would cover the additional cost-sharing expenses. The additional out-of-pocket expenses for these beneficiaries would be in the form of adjustments in the premiums for

this supplementary protection. Also, about 10 percent of all beneficiaries are eligible for medicaid, which would continue to pay deductible and coinsurance amounts incurred under medicare.

SSA OUTLAYS

Mr. SHRIVER. Mr. Cardwell, you have had some bad press this year concerning administrative problems which I am convinced were largely the result of hasty congressional action on the supplemental security income program. I commend you for your restraint in your reactions to this criticism.

The total outlays under your jurisdiction for fiscal 1977, including the trust fund, are $109 billion, so again this year you will outspend the Department of Defense; is that correct?

Mr. CARDWELL. Yes, that is correct. In fiscal year 1977, the total outlays of the Social Security Administration will exceed the outlays of the Department of Defense by roughly $8 billion. Of course, almost all of SSA's total outlays are for benefit payments.

MEDICARE AND MEDICAID COSTS

Mr. SHRIVER. The General Accounting Office issued a report dated February 11, 1976, to the human resources task force of the House Budget Committee, on which I also serve, concerning the rising costs of medicare and medicaid. Are you familiar with that report?

Mr. CARDWELL. Yes, I am.

Mr. SHRIVER. I asked Mr. Wortman of the Social and Rehabilitation Service to comment on the GAO recommendations regarding medicaid. Would you give us your reactions on the criticism in the report that you may have been slow in implementing by regulation laws passed by the Congress to help control medicare costs?

Mr. CARDWELL. The promulgation of regulations to implement the cost control and other provisions of legislation enacted in 1972 and later has not been as prompt as we would have wished. This was caused by the need to become thoroughly familiar with new areas of responsibility and to assure, through compliance with the requirements of a complex rulemaking process, that the legitimate concerns of all affected public and private interests were adequately considered.

The Social Security Amendments of 1972 for example, have required the development and addition to the social security regulations of four entirely new subparts. Almost every other subpart had to be revised, many substantially. In several areas, notably with respect to health maintenance organizations and end stage renal disease, new and highly complex and, in many cases, controversial rules had to be formulated, discussed, tested and revised before final regulations could be issued. This process is necessarily time-consuming. In other cases, such as utilization review, litigation has interfered with issuing and implementing final regulations.

Of the 44 medicare regulations required by the 1972 amendments, 35 have now been published in final form; 18 of these by the end of 1974. Seven others have been published as notice of proposed rulemaking, of which two are almost ready for publication as final regulations. The remaining two are well along in preparation.

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Mr. SHRIVER. If you wish, you can provide a more detailed reaction statement for the record, since there were many recommendations in that report.

Mr. CARDWELL. Although we are preparing a detailed reaction statement to the GAO report, it is not yet complete. As soon as it is, we'll forward a copy of it to your office.

DECOUPLING PROPOSAL

Mr. SHRIVER. I'm not sure I understand this "decoupling" plan you say is necessary before any substantive changes are made in the social security program, even though you explained it in your statement. I certainly do agree with you that we should not allow a situation to develop wherein persons would get more by going on social security than they make on their jobs. No pension plan can operate long that way.

My question regards your comments on page 4 where you say the decoupling plan could make future social security benefit levels "less sensitive" to fluctuations in wage and price increases. Then you say that current law will not be changed under which benefits will still be adjusted automatically to reflect increases in the cost-of-living. How can you have it both ways—will the benefits adjust the cost-of-living changes; or will they not?

Mr. CARDWELL. Under virtually all decoupling plans that have been advanced thus far, cost-of-living benefit increases would continue to apply to the benefits of all beneficiaries on the rolls at the time of the increase. Under present law, automoatic cost-of-living increases apply not only to the benefits of current beneficiaries, but also to the potential future benefits of people who have not yet qualified for retirement, disability, or dependent's or survivor's benefits. The decoupling models would not apply these increases to the potential future benefits of current workers and their dependents. Instead, there would be a new method of figuring the initial benefit amount when the worker retires, becomes disabled, or dies. Since the application of the automatic cost-of-living increases would be restricted as I just described, the sensitivity of future benefit levels to future interaction of wage and price increases would be reduced.

Under present law, potential benefits for current workers and their families are affected not only by the automatic cost-of-living benefit increases I mentioned, but also by the rises in wage levels that take place during their working years. The effect of these two factors is that, under current long-range economic assumptions potential benefit levels will generally rise faster than wages. Decoupling proposals are generally intended to correct this overadjustment in potential benefits.

Mr. SHRIVER. Bringing this to a personal level, how will this decoupling affect the average beneficiary, if at all?

Mr. CARDWELL. As I mentioned in responding to your last question, decoupling would not alter the provision now in the law to automatically adjust benefits to increases in the CPI once a person comes on the benefit rolls. Any beneficiary on the rolls, including one who becomes entitled under the new system, would continue to receive this adjustment to maintain the purchasing power of his or her benefits.

In this respect, the average beneficiary—once on the benefit rolls—would not be affected by decoupling.

Under decoupling, the way initial benefits are computed would be changed so that future benefit amounts would not rise faster than earnings rise. In general, under a decoupled system, a person who retires in the future would be treated the same way as a person retiring now. That is, the relationship of benefits for the future retiree to pre-retirement earnings would generally be the same as this relationship for the worker who retires in 1976 or so. After retirement, benefits would continue to be adjusted for changes in the CPI.

MEDICARE COVERAGE

Mr. SHRIVER. As you mention, like most health insurance plans, medicare reimburses on the basis of actual costs or customary charges. If a physician presents a bill which is above customary charges for the service rendered, and medicare refuses to pay, the beneficiary is still liable for that part of the bill not reimbursable, is that correct? Does the beneficiary have any recourse in that case?

Mr. CARDWELL. Under part B of medicare, the reasonable charge on which payment for a physician's service is based is generally the lowest of (1) the physician's actual charge for the service; (2) his customary charge for the service; or (3) the prevailing charge in the locality for the service. Also, the reasonable charge for a service may not exceed the charges applicable for comparable services, and under comparable circumstances to the policyholders and subscribers of the carrier.

Medicare payments for physicians' services may be made either to the beneficiary or directly to the physician when he accepts an assignment. When a physician accepts assignment, he agrees to accept the amount determined to be the reasonable charge by the medicare carrier as his full charge for the service. However, if he does not accept assignment, he may collect from the patient any difference between his fee and the amount allowed as reasonable by the program.

The beneficiary may, of course, discuss the matter of fees with his physician. Also, he or the physician, if he has accepted an assignment may ask the carrier for a review of the claim. Such a request should be made in writing and be filed with a social security office or with the carrier which made the initial determination within 6 months after the date of that determination. The claimant or the physician may submit any relevant and material information and evidence. The review made by the carrier in such instances is a completely new, independent, and critical reexamination of the claim, by persons other than the employee who made the initial determination.

The claimant is mailed a written notice of the results of the review by the carrier. The notice describes the basis for the review determination, and advises the claimant of his right to request a hearing before a hearing officer if he is still dissatisfied with the carrier's determination, and if the amount in controversy is $100 or more.

The purpose of the hearing is to give the dissatisfied claimant an opportunity to present the reasons for his grievance, and to afford him a further impartial review based on the substance of his claim. The claimant is given an opportunity to appear in person, and if he wishes,

to be represented by legal counsel or by any other qualified individual, and to offer oral and written evidence. He may also examine and reply to the evidence relied upon by the carrier as the basis for its determination, and present and examine witnesses.

The hearing is conducted by a hearing officer appointed by the carrier. He must be a competent, qualified, and impartial individual who has not been involved in any way with the determination in question, and who has neither advised nor given consultation on any claim which is a basis for the hearing.

A complete record of the proceedings of the hearing is made. A written decision is prepared by the hearing officer, and a copy is mailed to each party to the hearing. The law does not provide for an appeal to the Social Security Administration from the hearing officer's decision, or for judicial review by State or Federal courts.

DEPENDENCY REQUIREMENT

Mr. SHRIVER. Would you comment further on the alternatives you are exploring to eliminate the test of dependency for both husbands and wives?

Mr. CARDWELL. There is not a great deal that I can add to my statement. As I indicated, there are essentially two basic approaches to changing the dependency requirements in the social security law to treat men and women equally—the first is to eliminate the dependency test, the one-half support requirement, for husbands and widowers. The second is to provide a depedency test for wives and widows.

The first approach would be relatively costly—$450 million in the first year—and would benefit nearly half a million men, most of whom were probably not dependent on their spouses' earnings. This approach could be modified, as suggested by the 1975 Advisory Council, to reduce or prevent payment of dependent's benefits where the individual had worked in noncovered employment—such as Federal civilian employment—and had a pension based on that work. Such a modification would substantially reduce the cost of eliminating the dependency test and would help to prevent "windfall" payments. However, it would add significantly to administrative cost and complexity.

The second alternative—a dependency test for both men and women—would be clearly in line with the general purposes of providing dependent's benefits under social security. A one-half support test for both men and women would result in a reduction in program costs. However, it would be viewed by many as a significant deliberation, since women can now get dependent's benefits without meeting such a test. Consideration might be given to developing a new test of dependency for men and women—one less difficult to meet than the present one-half support test. In any case, however, application of a dependency test to both men and women would present administrative difficulties. Additional manpower would be required to administer a dependency test, and administrative costs would be increased.

SSI STUDY GROUP REPORT

Mr. SHRIVER. What were the recommendations of the supplemental security income outside study group? If that is too lengthy, summarize it for the record.

Mr. CARDWELL. The final report of the supplemental security income study group contained quite a few recommendations touching on all aspects of the program, including State supplements, quality assurance, computer systems, and administration. Even a summary would be quite lengthy. Rather than try to recite them from memory, I would prefer to submit for the record, a summary of the study group's 30 major recommendations, as taken directly from that report.

[The information follows:]

HIGHLIGHTS

Summary of Major Recommendations

STATE SUPPLEMENTS

1. Federal administration should be retained only in States agreeing to a uniform supplemental payment level, and administration of assistance payments based on special needs should be returned to the States (chapter 2).

2. Only one level of supplementation should be permitted within a State. A reasonable period of time should be established during which States electing Federal administration would be required to eliminate variations in supplemental payment amounts (ch. 2).

3. The requirement that States provide a supplement to maintain the income that a recipient under former assistance programs had or would have had in December 1973 and the penalty of withholding medicaid funds if States do not provide a supplement should be eliminated (ch. 2).

FEDERAL SSI PAYMENTS

4. The long-term goal should be a basic payment level equal to the poverty level. First steps toward this goal should be taken immediately (ch. 2).

5. The one-third reduction applied when the recipient lives in another person's household should be eliminated. Only cash contributions should be counted as income (ch. 2 and 3).

6. The law should be amended to include only liquid assets in determining the value of resources; to exempt the home as long as it is occupied by the recipient; and to exclude consideration of household goods, personal effects and an automobile as resources (ch. 3).

7. The SSI program should be modified to provide the same exemptions for the noneligible spouse as allowed the eligible individual; and provide that deemed income of parents no longer be considered when a child recipient reaches age 18 (ch. 3).

8. The law should be amended to shorten the duration of disability requirement from 12 to 6 months (ch. 3).

ELIGIBILITY PROCEDURES

9. Specific rules, including forms, should be developed concerning informal denials (ch. 3).

10. The Social Security Administration should establish processing goals: Initial decisions on applications for the aged should be made within a 30-day period and for the disabled and blind within 45 days (ch. 3).

PROGRAM QUALITY

11. An analytic systems review should be made and updated periodically so that resources can be concentrated where the risks are the greatest (ch. 5).

12. The HEW Audit Agency should conduct an audit of the quality assurance system to identify any remaining problems that need correction (ch. 5).

13. Corrective actions should be monitored to insure they do in fact correct the target deficiencies and resulting errors and do not create unintended effects and introduce new deficiencies and errors (ch. 5).

14. Revisions necessary to make the accounting system acceptable to the States for the SSA reports of supplements paid on their behalf should be negotiated (ch. 5).

15. State governments should be fully involved in revising the quality assurance system following the audit so that the system becomes the basis for determining Federal fiscal liability (ch. 5).

16. Until the revised system is in place, the present quality assurance system, with the States exercising their audit rights, should form the basis for settling Federal fiscal liability, except that settlement for the July to December 1974 period should follow the contract provision requiring case-by-case settlement (ch. 5).

ADMINISTRATION

17. The current SSA reorganization should be utilized to create strong program bureaus with full responsibility and authority for their programs (ch. 6).

18. A better distribution and utilization of available staff must be achieved and inappropriate use of temporary and term employees stopped (ch. 6).

19. Mandatory case responsibility should be established from interview through authorization (ch. 6).

20. High priority should be assigned the development of performance goals and standards. A corollary process of periodic formal reviews of actual performance against goals by line management should be instituted. These reviews should stress problem identification and resolution (ch. 6).

21. Employee specialization should be the norm rather than the exception in the internal organization of social security offices (ch. 6).

22. The Social Security Administration should establish a means of regularly interrelating with advocacy and legal aid groups (ch. 4).

23. The original projections of the SSI universe should no longer be considered a significant factor in administering the SSI program. The major reliance should be placed on projections based on the existing caseload (ch 4).

24. A decision should be made soon about permitting the States to use the State data exchange for outreach efforts (ch. 7).

25. Personnel policies in the BDP should be modified to recruit and retain persons trained (through the master's level) in the computer sciences and related fields, to encourage present employees to obtain degrees in these computer related fields, and to more effectively use the probation period of employment and promotional opportunities to reward quality (ch. 7).

26. Bureau of Data Processing organizational structures, especially the branch level, should be much less important than they now are in determining how a project will be staffed and how development will proceed. The SSI provisional staff should be reorganized along functional lines (the computer related function of the employee, such as systems design, programing, and maintenance—not the function of the application) (ch. 7).

COMPUTER SYSTEMS

27. The SSI system should be frozen and updated at regular intervals. Each version of the system should be documented, labeled, and a backup should be retained. As new versions are implemented, old versions can be retired. Portions of the documentation may be transferred from one version to the next (ch. 7).

28. A project leader should be named for the development of each new version o fthe SSI system. That project leader should be in the bureau responsible for the program; that is, the Bureau of Supplemental Security Income. This individual would direct, schedule, and coordinate the efforts of the various teams required to develop the new version (ch. 7).

29. Systems development and programing effort on each new version should be organized into teams for this purpose. A team leader within the Bureau of data processing responsible for only this one project should be named, and organizational ties and loyalties (both within BDP and between bureaus) must not be permitted to inhibit the work of these teams in any way. Validation of each module and of the whole new version should be a standard part of its development. Once it is validated and implemented a new version of the SSI system would become the responsibility of the operating bureau, BSSI (ch. 7).

30. The input and output formats for the SSADARS system should be redesigned in order to make these formats more intelligible—more English-like, and to separate the data acquisition function from the information retrieval function (ch. 7).

PROCESSING DELAYS

Mr. SHRIVER. As you are no doubt aware, Members of Congress receive a great deal of mail concerning your programs, at least when things go wrong. In general, we receive a good response when we refer these problems to you, but the processing delays for disability insurance cases still bother us. You say this delay is down to 59 days, and you expect to achieve some further improvement. What is the best we can hope for with your present facilities?

Mr. CARDWELL. The 59 represents a median processing time for all disability claims. We have an objective to reduce this time to 50 days.

Mr. SHRIVER. If you get more money for this, would it help?

Mr. CARDWELL. We are currently trying to lower the processing time, and also improve the quality, since a balance between speed and quality is important. Improving the quality of our disability decisions frequently requires a consultative medical examination, and we know that one of the major delays is the time needed to obtain this examination. We are looking at ways of getting the consultative exams quicker as well as internal changes to our operations. If we find that these changes require more money, we will be back.

NEW WORKLOADS

Mr. SHRIVER. You mentioned the man-years involved, but would you tell us how much it will cost the Social Security Administration for new duties imposed on it by the Privacy Act and the Pension Reform Act?

Mr. CARDWELL. For the Privacy Act we have in the budget before you 242 man-years and $4.1 million in 1976 and 207 man-years and $3.4 million in 1977. Under this law, we are required to tell individuals why we need to get certain information from them and how we will use it. Also, we must make their records accessible to them and keep a listing of disclosures made to other agencies about them.

The Pension Reform Act involves a great deal more work than Privacy and is more complicated. Some of the work coming from this law is work that we can do and legitimately charge the costs to the trust funds. Among other things, this work involves correcting discrepancies in our records of earnings, and we have in the budget before you 235 man-years and $5.3 million in 1976 and 329 man-years and $3 million in 1977. These costs are included in our salaries and expenses budget request.

However, there is a big block of work that we are being asked to do that we have not included in the budget before you because we feel strongly that the cost of this work should not be borne by the contributors to the social security trust funds. We want to be reimbursed by the pension plans for doing this work. The Pension Reform Act requires that most employee pension plans furnish to their participants information on their benefit rights. Also, employers must maintain sufficient records, in accordance with Department of Labor regulations, to determine what benefits are, or may become, due to participants. Some pension plans do not have the earnings data necessary to

provide this information. Since we do maintain the information needed by the plans we have already received requests from some plans for complete earnings histories.

We think that there may be as many as 4 million individual earnings history requests coming into us from these pension plans. The approximate cost of processing 4 million such requests is $90 million, and we would want to be reimbursed by the pension plans as we do this job.

However, under present law, we would not be able to collect the full reimbursement. Reimbursement for furnishing detailed earnings histories is governed by the Freedom of Information Act, if the request for the earnings histories were made by a pension plan, or by the Privacy Act, if the request were made by an individual participant of a pension plan. Under the provisions of these acts, it is estimated that the allowable reimbursement to the Social Security Administration would be no more than about $20 million of the $90 million estimated. In effect, the social security trust funds would stand the difference.

For this reason we are preparing legislation to amend the Social Security Act to permit SSA to charge the full cost of providing the information to the party requesting information for purposes of the Pension Reform Act. We hope this legislation will be submitted to the Congress in the near future. Meanwhile, we are assuming that the pension plans will reimburse us $4.2 million in 1976 for 268 man-years of effort and $13.4 million in 1977 for 825 man-years of effort to do less than 1 million of the 4 million history items.

Mr. SHRIVER. You said you favor true annual reporting requirements for employers rather than quarterly requirements. Does this include State and local governments in their roles as employers? If not, why not?

Mr. CARDWELL. The so-called true annual reporting which I favor does include State and local governments; however, the legislation recently enacted by the Congress does not. Let me explain: In their joint report to the Congress on annual reporting, the Secretaries of the Treasury and Health, Education, and Welfare recommended that Congress adopt legislation to repeal the quarterly reporting requirements which apply to wages covered under social security and adopt instead a system of annual reporting of annual wages only—so-called true annual reporting—under which the form W–2 would be used as the annual report of wages for both social security and income tax purposes. Under the recommendation, the States would be included in the change to annual reporting, so that the savings to employers which annual reporting is expected to achieve would also be gained by the States.

Under the annual reporting provisions of Public Law 94–202, the Secretaries of the Treasury and Health, Education, and Welfare are directed to enter into a system of annual reporting under which the form W–2 would include either a quarterly breakdown of wages or a checkoff of the quarters in which an individual was paid at least $50 in addition to the annual wage totals normally listed on the form. The public law does not change the reporting requirements that apply to the States. Maintaining a quarterly reporting system for the States while all other employers report annually would increase the Social

Security Administration's workload burdens, and increase administrative costs under annual reporting by about $4 million a year.

Mr. FLOOD. Thank you, gentlemen.

USE OF 9- BY 12-INCH ENVELOPES TO MAIL NEWS RELEASES

Mr. FLOOD. We will include at this point a letter from my colleague, Mr. Giaimo, asking about certain SSA mailing practices and the answer of the Department.

[The letter follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 26, 1976.

HON. DANIEL FLOOD,
Chairman, Labor-HEW Subcommittee,
Washington, D.C.

DEAR MR. CHAIRMAN: It has come to my attention that the Social Security Administration (SSA) uses 9- by 12-inch envelopes to mail news releases printed on standard letter-size paper. According to the information which I have received, a letter size envelope costs a nongovernmental organization about eight-tenths of a cent, while a 9- by 12-inch envelope costs 4.4 cents each. I was also told that, according to the postal scale, the first-class postage on a 9- by 12-inch envelope is 24 cents as opposed to 13 cents for a standard letter-size envelope. Using these figures, a mailing of 1,000 news releases using the large envelopes costs $284, but it would cost only $138 if the standard letter-size envelopes were used. In other words, the Social Security Administration seems to be spending more than twice the amount of money it could spend for these mailings.

I realize that you have concluded your hearings on the Social Security Administration's budget for fiscal year 1977; nevertheless, I would appreciate your asking the appropriate officials to comment on this allegation for the record.

If this charge is accurate and if other departments and agencies engage in the same practice, we have a situation in which hundreds of thousands, if not millions, of dollars are being wasted each year.

With best wishes,

Sincerely yours,

ROBERT N. GIAIMO.

SSA RESPONSE

The addressees for these particular mailings are on a list which includes a large number of organizations, many of whom receive multiple copies of publications of various sizes. We use envelopes that can accommodate multiple copies because the envelopes are addressed by a machine which handles only one size at a time. It is less expensive to use some oversize envelopes than it would be to manually sort through the mailing list to select an appropriate envelope for each addressee.

JUSTIFICATION OF THE BUDGET ESTIMATES

SOCIAL SECURITY ADMINISTRATION

Payments to Social Security Trust Funds

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Payments to Social Security Trust [and Other] Funds

For payment to the Federal Old-Age and Survivors Insurance, the Federal Disability Insurance, the Federal Hospital Insurance, and the Federal Supplementary Medical Insurance Trust Funds, as provided under sections 217(g), 228(g), 229(b), and 1844 of the Social Security Act, and sections 103(c) and 111(d) of the Social Security Amendments of 1965, [$4,112,747,000] *$6,713,902,000* [and to the Federal Buildings Fund an additional amount not to exceed $10,616,000 for payment of the Standard Level User Charge pursuant to section 210(j) of the Federal Property and Administrative Services Act of 1949]. 1/

(Department of Health, Education, and Welfare Appropriation Act, 1976.)

Explanation of Language Changes

1/ The activity "Payment to the Federal Buildings Fund" has been removed from this year's appropriation and the appropriation title has been amended accordingly by striking out "and Other." "Payment to the Federal Buildings Fund" was to be the mechanism whereby social security trust fund programs and the Supplemental Security Income (SSI) program would pay the General Services Administration (GSA) that portion of the standard level users charge, a charge imposed by GSA for space and services provided to SSA, which was in excess of the actual cost of such space and services. The Congress, in reviewing SSA's 1976 appropriation request decided that social security trust fund programs should not, through any mechanism, pay more than actual cost of space and services. It removed all funds targeted for the Federal Buildings Fund from this appropriation except for those dealing with the SSI program, which is a Federal rather than a trust fund program.

In order to keep all SSI costs together, these funds are requested in the Salaries and Expenses appropriation with reimbursement to the trust funds through the SSI appropriation's administrative cost activity for this and all other SSI costs. We have done this beginning in fiscal year 1977.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Payments to Social Security Trust Funds

Amounts Available for Obligation

	1976	1977
Appropriation.....	$4,123,363,000	$6,713,902,000
Comparative transfer to:		
"Limitation on Salaries and Expenses:"		
Purpose: To consolidate in one account all obligations for the Supplemental Security Income Program..	-2,127,000	---
Sub-total, budget authority.....	4,121,236,000	6,713,902,000
Unobligated balance lapsing.....	8,489,000	---
Total obligations.....	$4,112,747,000	$6,713,902,000

Summary of Changes

1976 estimated obligations	$4,112,747,000
1977 estimated obligations	6,713,902,000
Net change	+$2,601,155,000

Increases	1976 Base	Change from Base
A. Built-in		
1. Federal payments for supplementary medical insurance	$2,908,000,000 1/	+$1,818,000,000
a. Increase in the population covered by SMI (at prior year's matching rate)		(+123,000,000)
b. Increases in the Federal matching rates for the aged in the SMI program		(+1,646,000,000)
c. Increases in the Federal matching rates for the disabled in the SMI program		(+49,000,000)
2. Hospital insurance for the uninsured	575,000,000 1/	+31,000,000
3. Military service credits	295,000,000	+327,000,000
4. Transition period cost for hospital insurance for the uninsured	-0-	+150,000,000
5. Adjustments related to prior years costs	56,802,000	+313,403,000 2/
Total increases		+$2,639,403,000
Decreases		
A. Built-in		
1. Special payments for certain uninsured persons	$277,945,000	-$38,248,000
Total decreases		-$38,248,000
Total net change		+$2,601,155,000

1/ These numbers represent the amounts approved by Congress for 1976, as well as adjustments of +$9,000,000 for Federal payments for supplementary medical insurance and +$29,000,000 for hospital insurance for the uninsured. These adjustments were made to reflect current estimates of program expenditures.

2/ This number represents the change (1977 over 1976) in adjustments related to prior years costs as described below.

Adjustments in 1976 Base	Adjustments Estimated in 1977 Request	Change
$56,802,000	$370,205,000	+$313,403,000

Obligations by Activity

Page Ref.		1976 Estimate	1977 Estimate	Increase or Decrease
10	Federal payments for supplementary medical insurance...	$2,939,000,000	$5,053,000,000	+$2,114,000,000
14	Hospital insurance for the uninsured.....	610,430,000	803,000,000	+192,570,000
17	Military service credits.....	295,000,000	622,000,000	+327,000,000
19	Special payments for certain uninsured persons.....	268,317,000	235,902,000	-32,415,000
	Total obligations.	$4,112,747,000	$6,713,902,000	+$2,601,155,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Grants, subsidies, and contributions...	$2,939,000,000	$5,053,000,000	+$2,114,000,000
Insurance claims and indemnities.....	1,173,747,000	1,660,902,000	+487,155,000
Total obligations by object.....	$4,112,747,000	$6,713,902,000	+$2,601,155,000

Authorizing Legislation

	1977	
	Amount Authorized	Appropriation Requested
Payments to Social Security Trust Funds (sections 1844, 217(g), 229(b), and 228(g) of the Social Security Act, as amended, and sections 103(c) and 111(d) of the Social Security Amendments of 1965)..	Indefinite	$6,713,902,000

Payments to Social Security Trust Funds

Year	Budget Estimate To Congress	House Allowance	Senate Allowance	Appropriation
1967	$1,029,050,000	$1,029,050,000	$1,029,050,000	$1,029,050,000
1968	1,384,659,000	1,384,659,000	1,384,659,000	1,384,659,000
1969	1,690,772,000	1,690,772,000	1,690,772,000	1,690,772,000
1970	2,014,564,000	2,014,564,000	2,014,564,000	2,014,564,000
1971	2,599,886,000	2,599,886,000	2,599,886,000	2,599,886,000
1972	2,465,297,000	2,465,297,000	2,465,297,000	2,465,297,000
1973	2,389,075,000	2,389,075,000	2,389,075,000	2,389,075,000
1974	3,110,181,000	3,110,181,000	3,110,181,000	3,110,181,000
1975	3,345,323,000	3,345,323,000	3,345,323,000	3,345,323,000
1976	4,112,747,000	4,112,747,000	4,112,747,000	4,112,747,000
1977	6,713,902,000			

Justification

Payments to Social Security Trust Funds

	1976 Estimate	1977 Estimate	Increase or Decrease
Total obligations.....	$4,112,747,000	$6,713,902,000	+$2,601,155,000

General Statement

This appropriation request covers four Federal fund payments to the social security trust funds. Three of the four payments, totaling $1,660,902,000 are to put the trust funds in the same financial position they would have been had they not borne the cost of benefits chargeable to Federal funds. The fourth payment, which totals $5,053,000,000, effectuates Federal fund matching of premiums paid by or for aged and disabled individuals enrolled in the voluntary supplementary medical insurance program. Each year's appropriation request provides for adjustments between amounts previously appropriated and actual experience with the program or revised estimates of program costs. The adjustments are discussed in the following explanations by activity.

Activity 1 - Federal Payments for Supplementary Medical Insurance

	1976 Estimate	1977 Estimate	Increase or Decrease
Grants, subsidies, and contributions.....	$2,939,000,000	$5,053,000,000	+$2,114,000,000

Background

The Social Security Act provides a voluntary medical insurance plan for which almost all persons aged 65 and over are eligible. Also eligible are those under age 65 who have been entitled for at least 24 months to social security or railroad retirement benefits because they are disabled, or who have been receiving treatment for chronic renal disease for 3 months.

Medical insurance benefits and administrative expenses are financed from monthly premiums paid by enrollees in the voluntary supplementary medical insurance program and from matching Federal contributions. The premium rate is promulgated each December by the Secretary of Health, Education, and Welfare for the year beginning the following July 1. The amount of the monthly premium is based on an actuarial determination of the amount required to finance the incurred costs of the program for that year.

Despite rising medical costs, the premium rate could not be increased on July 1, 1975, because of a technical error in the law. However, P.L. 94-182, enacted December 31, 1975, has now corrected this error, and thus permitted the Secretary to promulgate a premium increase effective July 1, 1976. The law provides that the premium rate may be increased only in the event of a general monthly cash benefit increase under social security, and that the premium effective for July of a particular year will rise by no more than the percentage by which cash benefits were increased in June of the preceeding year. Therefore, the monthly enrollee premium beginning July 1, 1976, will be $7.20, an increase of 8 percent (to reflect the June 1975 automatic cost-of-living benefit increase) over the current premium of $6.70. The monthly premium is projected to rise to $7.70 in July 1977 based on an estimated automatic cost-of-living benefit increase of 6.7 percent in June 1976. The Federal matching rate is determined so that total premium collections plus total Federal matching payments will cover total projected program costs. Although the premium rate is the same for the aged and disabled, the Federal payments per capita for the disabled are higher than those for the aged in order to cover the higher medical costs per capita which the disabled incur.

Explanation of Fiscal Year 1977 Estimate

Projected SMI program costs assume a 13 percent increase in physicians' fees recognized by the program in FY 1977 compared with 1976 and an estimated increase of about 3 percent in the utilization of physicians' services per capita. Other assumptions include increases in the cost, quality, and utilization of other services covered by the program (such as outpatient hospital and home health services).

The estimate of $5,053,000,000 is composed of:

1. 1977 requirements	$4,726,000,000
2. Adjustment for underfinancing of 1975 requirements (including interest)	35,000,000
3. Adjustment for underfinancing of 1976 requirements (including interest)	10,000,000
4. Adjustment for underfinancing of transition quarter costs (including interest)	283,000,000
5. Interest adjustment for timing and amounts of past Federal matching payments	-1,000,000
Total, 1977 request	$5,053,000,000

1977 Requirements

The estimate of $4,726,000,000 for 1977 requirements is composed of:

1. Federal matching of premiums of aged enrollees	$3,875,000,000
2. Federal matching of premiums of disabled enrollees	851,000,000
Total, 1977 requirements	$4,726,000,000

A conceptual description and explanatory table follow:

The difference between the monthly cost per enrollee and the monthly premium rate paid by each enrollee represents the amount which must be matched per enrollee from Federal funds. For example, during the period July 1, 1976 - June 30, 1977, it is projected that the cost per aged enrollee will be $21.40 per month. Since the enrollee will be paying a monthly premium of $7.20 during that period, the difference, or $14.20 per month, must be paid from Federal funds to finance the program. This latter amount is the Federal matching rate for that period for aged enrollees. To estimate the total amount of Federal payments required during a period one can multiply the average number of enrollees times the Federal matching rate times the number of months in that period. This calcualtion must be done separately for aged and for disabled enrollees. In addition, because the Federal matching rates must be promulgated by the Secretary for 12-month periods from July to June, while the new fiscal year covers October to September, the calculation involves two different premium and Federal matching rates during each fiscal year for aged and for disabled enrollees. The following summarizes the key elements of this calculation for FY 1977:

	Aged	Disabled
1. Estimated monthly cost per enrollee		
July 1976 - June 1977	$21.40	$38.00
July 1977 - June 1978	$22.80	$44.00
2. Monthly premium rate		
July 1976 - June 1977	$7.20	$7.20
July 1977 - June 1978	$7.70	$7.70
3. Federal matching rate (estimated cost per enrollee less premium rate)		
July 1976 - June 1977	$14.20	$30.80
July 1977 - June 1978	$15.10	$36.30
4. Average number of enrollees		
October 1976 - June 1977	22,331,000	2,194,000
July 1977 - September 1977	22,533,000	2,231,000

5. Federal matching amount (average number of enrollees x Federal matching rate x months in period)		
October 1976 - June 1977	$2,854,000,000	$608,000,000
July 1977 - September 1977	$1,021,000,000	$243,000,000
Total 1977 requirements	$3,875,000,000	$851,000,000

We would like to emphasize that the preceeding explanation is conceptual and is a simplified version of the actuarial analyses required by law.

Adjustment for Underfinancing of 1975 Requirements

The adjustment for underfinancing of 1975 Federal matching payments is $35,000,000. The components of the adjustment are:

Actual 1975 Federal matching requirements	$2,394,000,000
Amounts previously appropriated or requested for 1975 program:	
In 1975 appropriation	2,327,000,000
In 1976 appropriation	37,000,000
Total, 1975 matching payments previously appropriated	2,364,000,000
Difference (amount underfinanced)	30,000,000
Interest on underfinancing	5,000,000
Total adjustment for underfinancing of 1975 program	$35,000,000

The primary reason for this underfinancing is a higher than previously estimated 1975 enrollee population (23,308,000 vs. 23,236,000).

Adjustment for Underfinancing of 1976 Requirements

The adjustment for underfinancing of 1976 Federal matching payments is $10,000,000. The components of the adjustment are:

Actual 1976 Federal matching requirements	$2,908,000,000
Amount requested in 1976 appropriation	2,899,000,000
Difference (amount underfinanced)	9,000,000
Interest on underfinancing	1,000,000
Total adjustment for underfinancing of 1976 program	$10,000,000

The primary reason for this underfinancing is a higher than previously estimated 1976 enrollee population (23,890,000 vs. 23,794,000).

Adjustment for Underfinancing of Transition Quarter Requirements

The adjustment for underfinancing of transition quarter costs is $283,000,000. The components of the adjustment are:

Current estimate of transition quarter Federal matching requirements	$1,149,000,000
Amount requested in 1976 appropriation	878,000,000
Difference (amount underfinanced)	271,000,000
Interest on amount underfinanced	12,000,000
Total adjustment for underfinancing of transition quarter program	$283,000,000

The current estimate of $1,149,000,000 for the transition quarter is $271,000,000 higher than the amount provided for in the 1976 appropriation. The 1976 appropriation request for the transition quarter was based on an estimate of what the Federal matching rates during July 1976 - September 1976 would be. The actual matching rates for July 1976 - September 1976 have now been determined. These reates, $14.20 for the aged and $30.80 for the disabled, are respectively $4.50 higher and $4.70 lower than the rates used for the 1976 appropriation estimates. The primary reason for the increase in the rate for the aged is higher than estimated utilization of physicians services and outpatient hospital services. The decrease in the rate for the disabled is attributable to lower than estimated cost per enrollee.

Interest Adjustment for Timing and Amounts of Past Federal Matching Payments

Federal matching payments are deposited in the SMI trust fund daily based on estimates of the amounts due. To the extent that the Federal deposits precede or lag behind the actual deposits of premium payments, the trust fund can gain or lose interest on its invested balances.

This past year, an historical analysis of the timing and amounts of SMI Federal matching payments and premium collections was made. The analysis indicates that on balance, the trust fund has gained a small amount of interest which it would not have earned if the timing and amounts of all Federal deposits had been exactly correct. This calls for an interest adjustment of -$1,000,000.

Activity 2 - Hospital Insurance for the Uninsured

	1976 Estimate	1977 Estimate	Increase or Decrease
Insurance claims and indemnities.....	$610,430,000	$803,000,000	+$192,570,000

Background

The Social Security Act provides a hospital insurance plan to pay, for most individuals age 65 and over, the costs of hospital and related post-hospital services, subject to certain deductibles and coinsurance requirements. Coverage extends to all persons age 65 and over entitled to social security or railroad retirement benefits, and to practically all other aged persons even though not entitled to benefits under those systems. At the beginning of Medicare, Congress provided hospital insurance coverage to people who were already age 65 or over and who were not insured under the social security or railroad retirement programs, on the theory that most of these people had an insufficient opportunity to obtain program coverage. The hospital insurance benefits and administrative costs for persons on the social security or railroad retirement rolls are financed from a separate payroll tax on employees, employers, and self-employed persons. Costs of providing benefits to certain aged individuals not entitled to cash benefits under the social security or railroad retirement programs are financed with Federal funds.

For uninsured persons attaining age 65 before 1968, no wage credit under social security is required for this federally funded coverage. For men attaining age 65 after 1967 and before 1975 (before 1974 for women), wage credits on a sliding scale are required for federally funded entitlement. For men attaining age 65 after 1974 (after 1973 for women) the requirements for entitlement to hospital insurance benefits are identical to the requirements for social security or railroad retirement benefits. Thus, a gradually decreasing number of uninsured persons are eligible for hospital insurance benefits financed from general revenues. Uninsured aged individuals who cannot meet these wage credit requirements still can obtain hospital insurance protection, but must pay monthly premiums covering the approximate cost of their coverage ($45 in 1977).

Explanation of Fiscal Year 1977 Estimate

The estimate of $803,000,000 is composed of:

1.	1977 requirements.....	$606,000,000
2.	Adjustment for underfinancing of 1975 and 1976 costs (including interest).....	47,000,000
3.	Transition period cost (including interest).....	150,000,000
	Total, 1977 request.....	$803,000,000

1977 Requirements

The estimate of $606,000,000 is composed of:

1. Benefit payments	$595,000,000
2. Administrative costs	11,000,000
Total	$606,000,000

Benefit Payments

Program costs will increase because of an expected increase in the cost and utilization of covered services. The cost of covered services is estimated to rise at an annualized rate of 14.5 percent in 1977. The utilization of covered services for the uninsured group increases at a faster rate than utilization by all hospital insurance beneficiaries because the average age of this group is increasing, and its members can be expected to require more services per capita.

Partially offsetting this increase is the expected decrease in the number of uninsured individuals on the hospital insurance benefit rolls to an average of 906,000 during 1977 from an average of 1,047,000 in fiscal year 1976. The net effect of these factors is a benefit level estimated at $595,000,000, an increase of $32,000,000 from the currently estimated 1976 benefit level.

Administrative Costs

Detail supporting the estimate of administrative costs for the hospital insurance program for both the insured and uninsured groups is contained in SSA's Salaries and Expenses appropriation request. Allocation of administrative costs to the uninsured group is based mainly on the ratio of benefit payments for the uninsured group to total hospital insurance benefit payments for the aged. Estimated administrative costs in 1977 are $11,000,000.

Adjustments for Underfinancing of 1975 and 1976 Costs

Costs estimated for 1975 and 1976 for the uninsured have been adjusted upward to reflect the overall increases in hospital insurance benefit payments actually experienced through 1975. These increases were caused mainly by sharp rises in cost per patient day and utilization of hospital services by Medicare enrollees.

The principal elements making up the adjustment of +$47,000,000 follow:

Derivation of Adjustments for 1975 and 1976 Costs

	Benefit Payments	Administrative Costs	Total
1976 Program			
Total estimated requirements...	$563,000,000	$12,000,000	$575,000,000
Total previously appropriated..	536,000,000	10,000,000	546,000,000
Difference.....	+27,000,000	+2,000,000	+29,000,000
Interest on adjustment.....	+3,000,000	-0-	+3,000,000
Subtotal, 1976 adjustment.....	+$30,000,000	+$2,000,000	+$32,000,000
1975 Program			
Total estimated requirements...	$532,000,000	$12,000,000	$544,000,000
Total previously appropriated..	520,000,000	11,000,000	531,000,000
Difference.....	+12,000,000	+1,000,000	+13,000,000
Interest on adjustment.....	+2,000,000	-0-	+2,000,000
Subtotal, 1975 adjustment.....	+$14,000,000	+$1,000,000	+$15,000,000
Total adjustments for 1975 and 1976.....	+$44,000,000	+$3,000,000	+$47,000,000

Transition Period Costs

The estimate of $150,000,000 is composed of:

1.	Benefit payments	$141,000,000
2.	Administrative costs	2,000,000
3.	Interest	7,000,000
	Total	$150,000,000

This represents reimbursement to the hospital insurance trust fund for estimated costs to be incurred on behalf of uninsured individuals during the July-September 1976 transition period, including interest through the assumed date of reimbursement (December 31, 1976). This reimbursement was not requested as part of the transition quarter appropriation which accompanied the 1976 President's budget in order to simplify the transition request at that time.

Activity 3 - Military Service Credits

	1976 Estimate	1977 Estimate	Increase or Decrease
Insurance claims and indemnities.....	$295,000,000	$622,000,000	+$327,000,000

Background

The 1946 Social Security Amendments provided for payment of benefits to survivors of certain World War II veterans based upon noncontributory wage credits of $160 for each month of the veteran's active military service. Subsequent amendments extended the period for which noncontributory wage credits were granted through December 1956. For that period, the Social Security Act did not require contributions to the trust funds based on the wages of individuals in the military service. The Servicemen's and Veterans' Survivors Benefits Act of 1956 further amended the Social Security Act to provide for contributions based on military service wages beginning January 1957.

To finance the additional costs insurred in paying benefits which are based on periods of military service for which no contributions were made, the Social Security Act provides for reimbursement to the Old-Age and Survivors Insurance, the Disability Insurance, and the Hospital Insurance Trust Funds from the general fund of the Treasury. Under section 217(g) of the Social Security Amendments of 1965, a 50-year period for reimbursement was established. The Secretary of Health, Education, and Welfare was instructed to determine by September 1965 (and each fifth September afterwards, ending September 2010) the amount of reimbursement in equal annual installments necessary to place the trust funds in the same position on June 30, 2015, that they would have been if noncontributory military service credits had not been provided. After June 30, 2015, annual appropriations for current costs are authorized.

The Social Security Amendments of 1967 added section 229(b) of the Social Security Act, which provides that for military service performed after December 1967, the pay of a person in the uniformed services would be deemed to be up to $300 more than his basic pay in each calendar quarter, in order to cover the value of wages-in-kind, such as food, shelter, and medical services. The additional cost of paying social security benefits resulting from these noncontributory credits also will be reimbursed from the general fund of the Treasury. The Social Security Amendments of 1972 further amended the law to provide noncontributory wage credits of $300 per quarter for military service performed after 1956. Under the law, the Secretary of Health, Education, and Welfare is instructed to determine annually the amount of these additional costs.

Estimated Annual Payment

The amount requested for this appropriation includes the following:

1. $587,000,000 for reimbursement to the trust funds for noncontributory military service credits under section 217(g) of the Social Security Act. This is the annual amount determined by the Secretary of Health, Education, and Welfare in 1975 for the 5-year period beginning with 1977. This amount is $354,000,000 higher than the annual amount provided for in the determination made 5 years ago, primarily because the 1975 determination takes into account all benefit changes which Congress enacted since the last determination in 1970. In particular, although the law did not provide for automatic cost-of-living increases when the last determination was made, it does now. Therefore, the 1975 determination includes the additional costs resulting from assumed future automatic cost-of-living increases.

2. $35,000,000 for reimbursement to the trust funds for payments based on noncontributory credits for military service performed after December 1956 under section 229(b) of the Social Security Act, as amended by the Social Security Amendments of 1967 and 1972. The $35,000,000 request represents costs through fiscal year 1976 (plus interest), adjusted to take account of prior reimbursement.

The total payment of $622,000,000 will be distributed by trust fund as follows:

OASI trust fund.....	$378,000,000
DI trust fund.....	103,000,000
HI trust fund.....	141,000,000
Total.....	$622,000,000

Activity 4 - Special Payments for Certain Uninsured Persons

	1976 Estimate	1977 Estimate	Increase or Decrease
Insurance claims and indemnities.....	$268,317,000	$235,902,000	-$32,415,000

Background

Benefits were authorized in a 1966 amendment to the Social Security Act (The Prouty Amendment) to afford some protection for certain persons who retired before the enactment of social security legislation or before their occupations were covered by social security. To be eligible under the Prouty amendment, an individual must have attained age 72 before 1968, or meet certain minimal insured status requirements if he attained age 72 in 1968 or later. The benefit was first paid in fiscal year 1967, and amounted to $35 a month for an individual plus $17.50 for an eligible wife. Since then, there have been several increases in the benefit amounts. The most recent increase, effective for June 1975, raised benefit levels to $69.60 for an individual and $34.80 for an eligible wife. This was the first increase under the automatic cost-of-living benefit increase provision of Public Law 92-233. This provision provides for automatic benefit increases triggered by increases in the Consumer Price Index. For individuals receiving a governmental pension, payments under a federally-aided public assistance program or payments under the Supplemental Security Income Program, (which replaced federally-aided public assistance for the aged effective January 1, 1974), Prouty benefits have been reduced or withheld, as required by law. The number of persons receiving benefits under the Prouty amendment reached a peak of 723,000 in December 1967, and since then has been decreasing gradually as the size of the aged population meeting the eligibility requirements decreases. As of June 30, 1975, there were 240,000 persons receiving benefits under this program as compared to 323,000 on June 30, 1974.

Explanation of Payment

Section 228(g) of the Social Security Act, as amended, authorizes appropriation of Federal funds for the amount which is necessary to place the Federal Old-Age and Survivors Insurance Trust Fund in the same position as it would have been if the special monthly benefits paid from the trust fund during the second preceeding fiscal year and all prior years to persons with fewer than three quarters of coverage had not been made. However, the special payments made to persons with three or more quarters of coverage are to be funded from the trust fund and not from general revenues. This first authorized general fund appropriation was for the year ending June 30, 1969, for payments made in the year ending June 30, 1967. Similar appropriations are authorized for each year thereafter.

The 1977 request is for payment of $235,902,000 to the Federal Old-Age and Survivors Insurance Trust Fund for program costs incurred in fiscal year 1975, less some adjustments to prior years' costs. Program costs include benefit payments actually made, related administrative expenses for establishing entitlement to such benefits and maintaining the beneficiary roll, and interest lost to the trust fund.

Explanation of Fiscal Year 1977 Request

The estimate of $235,902,000 is composed of:

1.	Reimbursement for 1975 program costs:	
	a. Benefit payments	$211,362,000
	b. Administrative costs	2,670,000
	c. Interest lost to the trust fund	25,665,000
	Subtotal 1975 program	$239,697,000
2.	Adjustments in reimbursement for 1967-1974 program costs:	
	a. Benefit payments	$ -2,710,000
	b. Administrative costs	-30,000
	c. Interest lost to the trust fund	-1,055,000
	Subtotal adjustments for 1967-1974 programs	-$3,795,000
	Total	$235,902,000

The adjustments for the 1967-1974 programs are principally related to program costs which were previously charged to Federal funds, but which should have been borne instead by the trust fund. This occurred when benefits were paid to persons who met the age requirement and who had fewer than three quarters of coverage, but who later acquired at least three quarters of coverage or became eligible for a regular social security benefit. Adjustments are necessary for the benefit payments, related administrative costs, and interest charged to Federal funds before these changes could be reflected in the benefit accounting records.

SOCIAL SECURITY ADMINISTRATION

Payments to Social Security Trust Funds

Program Purpose and Accomplishments

	1976 Estimate	1977 Authorization	1977 Budget Estimate
1. Federal payments for supplementary medical insurance (Section 1844 of the Social Security Act)	$2,939,000,000	Indefinite	$5,053,000,000
2. Hospital insurance for the uninsured (Section 103(c) and 111(d) of the Social Security Amendments of 1965).	610,430,000	Indefinite	803,000,000
3. Military service credits (Section 217(g) and 229(b) of the Social Security Act)..	295,000,000	Indefinite	622,000,000
4. Special payments for certain uninsured persons (Section 228(g) of the Social Security Act)	268,317,000	Indefinite	235,902,000
Total	$4,112,747,000		$6,713,902,000

Purpose: Three of the four activities represent payments to reimburse the trust funds for the cost (including administrative costs and interest) of benefits chargeable to Federal funds. The fourth effectuates matching from Federal funds of premiums paid by or for aged and disabled individuals enrolled in the voluntary supplementary medical insurance (SMI) program. In all four situations, the amount of payments to be made derives from the exercise by individuals of their rights under the law, and is not subject to administrative control.

Explanation: The amount of funds required for Federal matching of premiums paid by or for aged or disabled persons in the SMI program is dependent on the number of persons enrolled in the program, the premium rates promulgated by the Secretary of Health, Education, and Welfare which will be applicable in the year for which funds are appropriated, and the estimated cost of the program. The Federal payments, combined with premiums paid by or for the enrollees, and interest earned by the Supplementary Medical Insurance Trust Fund, must be sufficient to finance the estimated incurred cost of benefits and aministration for the period covered. The Federal payment for the disabled is greater, per capita, than that for the aged. Although the per capita cost of medical care for the disabled is greater than that for the aged, the law provides that the disabled shall pay the same standard monthly premium as the aged.

Appropriation estimates for payments to the trust funds for the cost of hospital insurance for the uninsured, noncontributory military service credits and special payments for certain uninsured persons aged 72 and over are based on benefits paid or to be paid to individuals protected by these provisions of law and the related administrative and interest costs.

Accomplishments in 1976: During fiscal year 1976, the average number of enrollees in the Supplementary Medical Insurance Program is estimated at 23,890,000 (21,889,000 aged and 2,001,000 disabled). Of these, 13,240,000 are expected to receive reimbursed medical services (11,700,000 aged and 1,540,000 disabled). It is estimated that $4,687,000,000 in SMI benefits will be paid in 1976 ($4,034,000,000 for the aged and $653,000,000 for the disabled). It is estimated that $4,687,000,000 in SMI benefits will be paid in 1976 ($4,034,000,000 for the aged and $653,000,000 for the disabled). An average of 1,047,000 uninsured persons will be eligible for hospital insurance benefits during 1976 and benefits for this group are estimated at $563,000,000.

The payments for hospital insurance for the uninsured, military service credits, and for special payments for certain uninsured persons are for the purpose of placing the trust funds in the same position they would have been had they not borne the cost of benefits chargeable to Federal funds.

Objectives for 1977: The average number of enrollees in the supplementary medical insurance program is expected to grow to 24,586,000 (22,382,000 aged and 2,204,000 disabled). Of these, 14,240,000 are expected to receive reimbursed services (12,500,000 aged and 1,740,000 disabled). It is estimated that $5,905,000,000 in SMI benefits will be paid in 1977 ($5,003,000,000 for aged and $902,000,000 for the disabled). An average of 906,000 uninsured persons will be eligible for hospital insurance benefits during 1977 and benefits for this group are estimated $595,000,000.

The payments for hospital insurance for the uninsured, military service credits, and for special payments for certain uninsured persons are for the purpose of placing the trust funds in the same position they would have been had they not borne the cost of benefits chargeable to Federal funds.

Transition Quarter Analysis

	Obligations by Activity	
	1976 Estimate	Transition Quarter
1. Federal payments for supplementary medical insurance.....	$2,939,000,000	$878,000,000
2. Hospital insurance for the uninsured.....	610,430,000	-0-
3. Military Service Credits.....	295,000,000	-0-
4. Special payments for certain uninsured persons.....	268,317,000	-0-
Total.....	$4,112,747,000	$878,000,000

Explanation

The appropriation for 1976 covers four Federal fund payments to the social security trust funds. Three of the four payments are to put the trust funds in the same position they would have been had they not borne the costs of benefits chargeable to Federal funds. In order to simplify transition quarter funding, reimbursement for these three payments was not part of the transition quarter request. This attempt to administratively simplify the appropriation for the transition quarter will not adversely affect program financing. The payments being delayed are not large, and the trust funds will be made whole by including interest adjustments where appropriate. On the other hand, the fourth payment to the social security trust funds effectuates daily Federal fund matching of premiums paid by or for aged and disabled individuals covered under the voluntary supplementary medical insurance program. These payments, together with premiums paid by or for aged or disabled individuals are necessary and must be made currently to finance the supplementary medical insurance program.

WEDNESDAY, MARCH 17, 1976.

SPECIAL BENEFITS FOR DISABLED COAL MINERS

WITNESSES

JAMES B. CARDWELL, COMMISSIONER
ROBERT P. BYNUM, ASSOCIATE COMMISSIONER, OFFICE OF PROGRAM OPERATIONS
FRANCIS D. DeGEORGE, ASSOCIATE COMMISSIONER, OFFICE OF MANAGEMENT AND ADMINISTRATION
ROBERT L. TRACHTENBERG, DIRECTOR, BUREAU OF HEARINGS AND APPEALS
FRED SCHUTZMAN, DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
PHILIP A. O'BRIEN, ACTING BUDGET OFFICER, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
WILFORD FORBUSH, DEPUTY ASSISTANT SECRETARY, BUDGET

Mr. FLOOD. Continuing with the Social Security Administration, special benefits for disabled coal miners, the presentation will again be made by James B. Cardwell, the Commissioner. I think we have met everybody; haven't we?

Mr. CARDWELL. It is exactly the same cast of characters. Their names already appear in the record. I guess I should call your attention, there is one new person present, Mr. William Forbush, substituting for Mr. Miller.

Mr. FLOOD. He has been here before, too?

Mr. CARDWELL. Yes. He has.

Mr. FLOOD. You have a prepared statement. What do you want to do about that?

Mr. CARDWELL. Well, sir, I would follow the same format as we followed earlier. That would be for me to summarize as briefly as I can the statement and then proceed to exchange questions and answers. With your permission, I will do just that, and insert the full statement in the record.

Mr. FLOOD. That is satisfactory.

[The statement follows:]

Our next appropriation request totals $913,897,000 and is for "Special benefits for disabled coal miners." This request is financed from the general revenues and covers both black lung benefit payments ($906 million) and administrative costs ($7,897,000). The request excludes costs for work done for the Department of Labor on a reimbursable basis. These funds are in the budget request of that Department.

PROGRAM AUTHORIZATION

The black lung program was authorized by title IV of the Federal Coal Mine Health and Safety Act, enacted December 30, 1969, and amended by the Black Lung Benefits Act of 1972. Title IV provides for the payment of monthly cash benefits to coal miners who are totally disabled because of pneumoconiosis, commonly referred to as black lung dieases, and to widows of miners who were either entitled to these benefits or whose deaths were due to this disease. Benefit payments to miners and surviving widows are increased because of dependents—a spouse or child. Benefits are also payable to surviving children of miners and in certain circumstances to totally dependent surviving parents, brothers, and sisters.

RESPONSIBILITY FOR ADMINISTRATION

The Social Security Administration was responsible for the taking, processing and payment of claims for miners' benefits filed from December 30, 1969, through June 30, 1973. Since June 30, 1973, SSA has continued to take miners' claims, but forwarded them to the Department of Labor for adjudication and payment. The Social Security Administration still has jurisdiction for some new claims from survivors of miners who were on the SSA roll at the time of death; and SSA will continue to pay benefits and to maintain the beneficiary roll for the lifetime of all persons who filed with SSA during its jurisdiction.

The beneficiaries on the roll are expected to decline gradually in years to come. The size of the benficiary roll and amount of manpower required to maintain it will depend primarily on the death rate for miners and their widows, and the remarriage of widows. At the end of fiscal year 1977, there are expected to be 470,000 miners, widows, and dependents who will be receiving monthly benefits which are paid by the Social Security Administration from this appropriation. This is a decline of 23,000 from the number expected to be in the roll at the end of the current fiscal year.

WORK TO BE DONE

All of these claims have been processed through the point of the initial eligibility determination and about 500,000 miners and their dependents are currently receiving payments. However, many applicants who were found ineligible for benefits have exercised their right to appeal. Once an application for black lung benefits has been denied, the applicant may request that the denial be reconsidered. If his reconsideration results in an affirmation of the original denial, the applicant may request a hearing before an administrative law judge, and if the denial is sustained, he may request a review before the Appeals Council. If the original denial is sustained throughout this appellate process, the applicant may request review in the civil courts. Handling these hearings and appeals is the bulk of the work that remains before SSA in 1976.

In fiscal year 1976, SSA now plans to process over 25,000 hearings with the result that all pending hearings will be completed. Also in 1976 we expect to process about 21,000 appeals leaving about 4,700 to be processed in the transition quarter.

Having eliminated these backlogs, SSA's primary role in fiscal year 1977 will be maintaining the records and making the monthly benefit payments to individuals who filed claims while the program was under SSA's jurisdiction.

FISCAL YEAR 1976 REPROGRAMING

To accomplish this large workload in 1976—principally for 20,000 more hearings and appeals than were budgeted for this year—it is necessary to increase administrative costs by 700 man-years and $15.5 million over the 1976 President's budget. The increased manpower and money needs result from both the added workload and revised estimates of production rates for hearings and appeals based on actual 1975 experience. However, this increase is absorbed within the appropriated amounts because there is a $26 million reduction in benefit payments. This reduction was due to the fact that the basic black lung benefit was actually increased by 5 percent rather than the 9 percent that had been included in the appropriation estimate. The basic black lung benefit is equal to 50 percent of the amount a disabled Federal employee in step one of grade GS–2 receives.

1977 BUDGET ESTIMATE

Benefit payments are expected to decrease from $961 million in 1976 to $906 million in 1977. This net reduction can be attributed to a $32 million decrease for the reduction in the number of beneficiaries, $60 million due to the reduction in the number of claims with retroactive payments, an increase of $9 million for the annualization in 1977 of the October 1975 benefit increase, and a $28 million increase related to the projected 3-percent increase in benefits, effective October 1976.

Administrative expenses are expected to decline from $28,271,000 in 1976 to $7,897,000 in 1977. This decrease results from the expected completion of all black lung hearings and almost all the appeals work during fiscal year 1976 and the transition quarter.

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SUMMARY STATEMENT

Mr. CARDWELL. The special benefits for disabled coal miners appropriation is in the amount of $913,897,000. This request is financed from general revenues and covers both so-called black lung benefit payments, $906 million and administrative costs related to that program, $7,897,000. The request excludes cost for work done for the Department of Labor on a reimbursable basis. These funds are in the budget request of that department.

RESPONSIBILITY FOR ADMINISTRATION

The Social Security Administration was originally responsible for taking, processing, and payment of claims for miners' benefits filed from December 30, 1969, through June 30, 1973. Since June 30, 1973, SSA has continued to take miners' claims, but forwards them to the Department of Labor for adjudication and payment.

The Social Security Administration still has jurisdiction for some new claims from survivors of miners who were on the SSA rolls at the time of death; and SSA will continue to pay benefits and to maintain the beneficiary rolls for the lifetime of all persons who filed with our agency during its jurisdiction over the program.

The beneficiaries on the rolls are expected to decline gradually in years to come. The size of the beneficiary roll and the amount of manpower required to maintain it will depend primarily on the death rate for miners and their widows and the remarriage of widows. At the end of fiscal year 1977, there are expected to be 470,000 miners, widows, and dependents who will be receiving monthly benefits paid by the Social Security Administration from this appropriation. This is a decline of 23,000 from the number expected to be on the rolls at the end of fiscal year 1976.

FISCAL YEAR 1976 REPROGRAMING

During 1976, SSA plans to process over 25,000 hearings, with the result that all pending hearings for black lung should be completed during the year. Also in 1976, we expect to process about 21,000 appeals, leaving a balance of about 4,700 to be processed during the transition quarter. Having eliminated these backlogs, SSA's primary role in fiscal year 1977 will be to maintain the records and to make the monthly benefit payments to individuals who filed claims while the program was under our jurisdiction.

To accomplish this large workload in 1976, principally for 20,000 more hearings and appeals than were budgeted for this year—it is necessary to increase administrative costs by 700 man-years and $15.5 million over the 1976 President's budget request. The increased manpower and money needs result from both the added workload and revised estimates of production rates for hearings and appeals based on 1975 actual experience.

However, this increase is absorbed within the appropriated dollar amounts that are already available because there is a $26 million reduction in benefit payments. This reduction was due to the fact that the basic black lung benefit was actually increased by 5 percent effective October 1975 rather than the 9 percent that was assumed at the time the budget was filed with this committee last year.

The basic black lung benefit is equal to 50 percent of the amount a disabled Federal employee in step 1 of grade GS–2 receives. You will recall, Mr. Chairman, that the Congress went along with the President's proposals last year in the final analysis and constrained the rate of Federal pay increase for GS–2's by 5 percent rather than the earlier assumption of 9 percent.

BUDGET ESTIMATE, 1977

Benefit payments are expected to decrease from $961 million in 1976 to $906 million in 1977. This net reduction can be attributed to a $32 million decrease for the reduction in the number of beneficiaries, $60 million due to the reduction in number of claims with retroactive payments, an increase for the annualization in 1977 of the October 1975 benefit increase of 5 percent I just referred to, and the $28 million increase related to the projected 3-percent increase in benefits that we estimate to be effective this coming October.

Administrative expenses are expected to decline from $28,271,000 in 1976 to $7,897,000 in 1977. This decrease results from the expected completition of all black lung hearings and, as I pointed out earlier, almost all of the appeals work.

That would end my summary of the statement, Mr. Chairman.

BLACK LUNG REFORM ACT OF 1976

Mr. FLOOD. You and I have talked about this before. Are there any legislative changes being proposed for the black lung program for 1977?

Mr. CARDWELL. Yes, sir.

Mr. FLOOD. Insofar as HEW is concerned?

Mr. CARDWELL. There is one bill now pending before the Congress, which would have an impact on HEW in 1977, although the most significant impact of that legislation by far would be on the Department of Labor. The main impact on our agency would involve, as we see it, the handling of the hearing and appeal process. The bill as passed by the House, has been deliberately designed as we read it to assign to the Department of Labor, rather than the Social Security Administration the bulk of the work. Under the legislation as originally drafted SSA would have been expected to reevaluate, reconsider some 180,000 claims previously denied by our agency, along with a significant amount of other new work.

Mr. FLOOD. I guess you are aware the Congress has a few changes under consideration?

Mr. CARDWELL. Yes, sir.

Mr. FLOOD. I don't know to what extent you want to comment about the Black Lung Benefits Reform Act.

Mr. CARDWELL. Well, I can speak for HEW. I can't speak for the Department of Labor or for the administration in general.

We think this is a poorly timed piece of legislation insofar as its impact on our agency is concerned. We pointed out to the substantive committees having jurisdiction during their consideration of the bill that we had just about completed 5 years' worth of work on the original program, and that we saw ourselves bringing the work to a conclusion. During the same period we have been facing serious workload

assignments also added by the Congress. As this committee well knows, our operation is at this moment under very severe strain. Our advice to those committees—which is the same advice I would give to the Congress generally—is that this does not seem the proper time to assign an additional task of this nature to the Social Security Administration. It is in recognition of that input on our part, I think, that the bill as passed by the House puts the vast bulk of the work on the Department of Labor. I don't want to imply that the main assignment has been given to us. It has not. It is being given to the Department of Labor. Nevertheless, even though the Department of Labor and not SSA would handle review of the 180,000 prior denials that I referred to earlier, a new appellate workload would flow from those cases and would be SSA's responsibility.

BLACK LUNG BENEFIT INCREASE

Mr. FLOOD. The budget is based on a projected benefit increase, as you know, of 3 percent. That is effective October 1976. We are talking about a rate increase. Is that rate being assumed for all Federal employees?

Mr. CARDWELL. No, sir. I think the overall rate is assumed at 5 percent, but since the assumption is based on concept of comparability rates that would vary by grade, this estimate assumes a 3-percent increase for grade 2; the grade under the act that sets the benefit levels for a given year.

Mr. FLOOD. What is the benefit increase projected for SSI, supplemental security income?

Mr. CARDWELL. It is based on the cost of living and my recollection it is 7.6 percent.

Mr. BYNUM. 6.7.

Mr. CARDWELL. I transposed the figures, 6.7. It has a different index. It is based on the increase in the cost of living.

Mr. FLOOD. Why are those basic rates different? Is that basic law?

Mr. CARDWELL. The basic law prescribes two different methods for determining benefit increases. In the case of the black lung authority, and this is a unique arrangement as far as I know, the benefit level is prescribed by law as 50 percent of the minimum monthly benefit under the Federal employees compensation system for a totally disabled employee in step 1, GS–2.

BLACK LUNG BENEFICIARIES

Mr. FLOOD. This budget estimate is based on 470,000 beneficiaries; is that right?

Mr. CARDWELL. That's correct.

Mr. FLOOD. How many are on the benefit rolls now?

Mr. CARDWELL. There's slightly more than 500,000—I think 505,000, to be exact.

Mr. FLOOD. Your roll should continue to decline from now on?

Mr. CARDWELL. Yes. As we pointed out, as the miners now on the rolls die, due to natural death rates. and their dependents grow older and die, our rolls would steadily decline.

HEARING AND APPEALS WORK

Mr. FLOOD. Let's talk about the hearing and appeals workload. Are you assuming that that backlog will be eliminated by September 30, 1976?

Mr. CARDWELL. Yes, sir. Not the appeals but the hearings. There are two different processes. I would ask Mr. Trachtenberg to speak to that, if you will.

Mr. TRACHTENBERG. The hearings workload will be completed by the end of this fiscal year.

The appeals workload would take us through the transition period. There will be a trickle of cases left, but basically by the end of the transition quarter we will be out of the hearings and appeals workload and then we will be out of the black lung area.

Mr. FLOOD. By September 30, 1976?

Mr. TRACHTENBERG. Yes.

Mr. FLOOD. How many appeals do you expect to receive this year?

Mr. CARDWELL. Our receipts during 1976 are estimated at 21,500. So far we have received 9,600. That is appeals.

Mr. FLOOD. And how many appeals do you expect to receive next year?

Mr. CARDWELL. Next year we assume for all intents and purposes we would receive none. There might be some residual carryover of, say, under 100.

Mr. FLOOD. How many appeals are pending now?

Mr. CARDWELL. Cases pending as of January 31, 1976, were 4,684.

Mr. FLOOD. I mean how many claims are up for reconsideration?

Mr. CARDWELL. I do not have a figure on reconsiderations. I don't believe there would be any.

Mr. TRACHTENBERG. There are still several hundred requests for reconsideration pending.

Mr. CARDWELL. Here, again, all the data we have just described are appeals. We have comparable data, of course, for the hearings process as well.

Mr. FLOOD. You can see the reason that we are asking about this appeals caseload is that we think your estimates are a little bit optimistic. For example, you expect to process 21,000 appeals this year. That is this year. That is far, far more than you ever handled in 1 year. How does that look as of today? Do you think you will be able to process all of those appeals?

Mr. CARDWELL. We have processed about half of that number to date, we assume we can process the remaining 11,000 by June 30, 1976.

Mr. FLOOD. You do?

Mr. CARDWELL. I would point out, Mr. Chairman, that if you look at the record for the last 6 months of work processed by the Bureau of Hearings Appeals, there has been a steady increase in productivity. It is because of that recent experience that we are reasonably optimistic. Here, again, Mr. Trachtenberg is in charge of that operation. He can speak for himself.

Mr. TRACHTENBERG. We will be out of the workload by the time that is estimated in the budget.

Mr. FLOOD. You recall last year, again, we asked you about the staffing estimate.

Mr. CARDWELL. Yes, sir.

FISCAL YEAR 1976 REPROGRAMING

Mr. FLOOD. You cut back in last year's budget. Now you want approval for a reprograming because you say you need 436 more positions. That causes us to lose a little bit of confidence in these budget figures. This 1977 budget proposes a pretty big cutback there in your staffing. So we ask you again, do you think now that you have enough staff down there budgeted to do the job that is going to be required in 1977?

Mr. CARDWELL. Let's go back and review the bidding a little bit for last year. The whole layout of the program is, as we have already established in our discussion today, one of a steadily declining workload and a process that must come to a conclusion because claims intake will eventually cease. In fact, we are now clearly in a declining position. We laid out the budget, assuming a very optimistic level of productivity but one we knew we could achieve

Mr. FLOOD. Is anybody downtown forcing you to take these reductions?

Mr. CARDWELL. No, sir. During that period, we have rearranged our approach to the hearings and appeals process, and we have generally added staff across the board to the Bureau of Hearings and Appeals. We have faced a very serious backlog in that area, and this reprograming in effect reflects our increased attention to the hearings and appeals process.

As I have already pointed out, we are not asking Congress to add any additional money. I would again like to ask Mr. Trachtenberg to add anything to that if he wishes to. I think we have every reason to believe that the staffing we have in the Bureau of Hearings and Appeals is adequate to finish the job as we have scheduled it. He has in effect a blank check in this area as far as I am concerned. All he has to say is what he needs, and we will do our best to get it for him.

Mr. TRACHTENBERG. The staffing is adequate, Mr. Chairman.

LEGAL STAFFING

Mr. FLOOD. Your positions for litigation work done by the General Counsel don't show very much of a reduction. You go from 81 there to 73 permanent positions. Why do you still need all of these lawyers?

Mr. CARDWELL. What happens is that as we bring the appeals process to a conclusion, and we close out the cases. Under the law, an applicant who has been denied through the appeals process, still has a right to appeal to the court. As we bring our workload down, the General Counsel's workload starts to go up as those cases reach the court. The peak of that workload, we think, will have passed by this year, but even so, we think the General Counsel's staff will have to continue in place probably into 1978. I can't speak much beyond that, but it is quite clear that the General Counsel's support of the cases going to court will be needed even though we have completed the hearings and appeals process.

WORK FOR THE DEPARTMENT OF LABOR

Mr. FLOOD. We are still uneasy about the administrative arrangement between your agency and the Department of Labor. There still seems to be a communications problem between the field offices. Complaints are made time and time again about long delays in processing claims and all this paperwork.

Are you satisfied with this arrangement or should that be changed?

Mr. CARDWELL. I think it would be unfair to the Department of Labor if I were to say I was satisfied with the present arrangement insofar as our own response to them is concerned. On the other hand, I think that looking at the interest of the Government as a whole, having the social security offices take the initial claims does seem to be the best choice, since your other choice would be for the Department of Labor to establish some significant number of intake points of their own.

Admittedly, the number of States involved is limited. It doesn't involve the whole country, but faced with that choice I think the better part of valor is to have our agency continue to take the claims.

The Department of Labor, in all fairness to them, is not satisfied with the way in which we carry out the second stage of what is really a two-stage process. The first stage of that process is the literal taking of the claim by claims representatives working for the Social Security Administration in a local office. The second part is preparing the case for adjudicative review by asking for evidence from the claimant, compiling that material, and then turning it over to the Department of Labor for adjudication.

The Department of Labor is not satisfied, as I understand it, that we are doing the job just the way they would like to have it done, and we are now engaged in some discussions with them as to how we might improve that part of the process. For example, whether we would do less of the second stage and they would do more is under discussion.

The real, basic issue, though, and it is one that this new bill faces, is whether the Social Security Administration is the proper intake point for the initial claim, or whether the Department of Labor should have their own intake point. The House version of the bill would have the Department of Labor create its own intake capacity. I don't know where the Department of Labor stands on that.

BLACK LUNG LEGISLATION

Mr. FLOOD. What do you think about it?

Mr. CARDWELL. I can't speak for the Department of Labor. I just look at the economics of the matter and believe that the present arrangement overall is probably the best one. It is obvious that it is less than fully desirable from the Department of Labor's standpoint. If you put yourself in their place, they have the final responsibility for adjudication. They see themselves as being held accountable for whether the case is handled properly or not. Yet they do not have full control over the initial part of this overall process. We have control over that. When you have two agencies, one being held accountable and the other in the support position, this sort of thing happens.

Mr. FLOOD. Don't you think the Labor people would be satisfied if you just receive the applications?

Mr. CARDWELL. That may be what we will come to. That is under consideration between ourselves and Labor, and I think the choice will be left up to Labor. We see ourselves as their agent, and we see them as having the primary interest and the primary responsibility in how the process works.

Mr. FLOOD. Mr. Shriver?

Mr. SHRIVER. Thank you, Mr. Chairman. This new legislation that the chairman was asking you about, Mr. Cardwell, is that the recently considered black lung benefits bill?

Mr. CARDWELL. Yes. It would liberalize the rights of miners.

Mr. SRRIVER. You said it is a poorly timed piece of legislation as it relates to your agency.

Mr. CARDWELL. Yes; it is.

Mr. SHRIVER. Why?

Mr. CARDWELL. I think it is quite clear that our agency is under maximum pressure to bring under control other workloads that have been assigned recently, and that those workloads are not yet clearly under control. If we have an additional workload during this period, we obviously will prolong and extend the struggle that the agency is going through. If we want to reach maximum efficiency, it is my advice to Congress not to make any additional assignments, at least for a while.

Mr. SHRIVER. Perhaps this question should be asked of Mr. Trachtenberg.

I know in my own State we have for some time had long delays on regular appeals to Social Security. What is the general situation now over the country relative to catching up to the backlog?

Mr. TRACHTENBERG. I think it is much more favorable than I would have though it would be a year ago. Back in April of 1975, we had over 113,000 cases backlogged in the system. It is now down to slightly over 92,000 cases. The backlog seems to be decreasing at a rate of over 2,500 cases per month. That is largely due to the fact that the black lung cases are going out and no new black lung cases are coming in. The Congress recently passed Public Law 94–202, which will permit me to use the black lung ALJ's and SSI hearing examiners to hear all categories of cases, social security, and so forth. I think this will have a tremendous effect on the backlog, and it will start going down even quicker. I look by the end of this calendar year to be somewhere in the area of 70,000 cases backlogged, which is a very respectable number.

Mr. SHRIVER. I received some information that you were considering not having any hearing office in Wichita, Kans.

Mr. TRACHTENBERG. Not to my knowledge.

Mr. SHRIVER. Mr. Cardwell, in addition to this request for nearly a billion dollars and the funds spent by the Departmentof Labor, are the coal companies and the States involved doing anything themselves for these beneficiaries?

Mr. CARDWELL. I cannot speak to the question of what they might or might not be doing at this moment. The current law, as well as the legislation that the House considered and passed would, of course, look to the coal companies over the long term to assume responsibility for pneumoconiosis and its risks for the future.

BLACK LUNG BENEFIT AMOUNTS

Mr. SHRIVER. The basic benefit is $196.80 a month. What is the average being paid, including payment for dependents?

Mr. CARDWELL. The average benefit this year for a miner is about $278, and for a widow, about $206.

Mr. SHRIVER. Is there a maximum benefit?

Mr. CARDWELL. The maximum benefit is set by the formula which goes as follows: the basic benefit can be augmented by 50 percent for one dependent, 75 percent for two dependents and 100 percent for three or more dependents, so a person with the basic benefit and three or more dependents would receive the maximum.

FRANKING PRIVILEGES

Mr. SHRIVER. You discussed the requested language change concerning denial of the franking privilege for agencies under contract with you. Tell us about that.

Mr. CARDWELL. I would like to have Mr. DeGeorge speak to that.

Mr. DEGEORGE. We asked that the State disability determination services, Mr. Congressman, be given franking privileges in order to return forms, and so forth, to beneficiaries. The postal service's basic position in discussions with us is that the franking authority is not something that the present law would merit.

Mr. SHRIVER. It isn't a particularly serious problem?

Mr. DEGEORGE. No, sir. I don't think it was anything philosophical. It was a question that basically they didn't feel the franking privileges could be passed on to the State agencies.

Mr. CARDWELL. In considering this, we would remind the committee that the State agency is carrying on a Federal function as an agent or license holder of the Federal Government and they are doing the Government's work. Thus, the use of the franking privilege would seem to be appropriate. The matter before the committee, of course, is that the postal service advises that we cannot extend this privilege under existing law and thus our request to delete.

Mr. SHRIVER. I think that answers my questions.

Mr. FLOOD. Mr. Natcher?

SOCIAL SECURITY TRUST FUNDS

Mr. NATCHER. Mr. Cardwell, this afternoon as I understand we will take up salaries and expenses.

Mr. FLOOD. That's right.

Mr. NATCHER. At that time I will ask you a number of questions concerning the social security trust funds.

You know, each year when our hearings are printed, we have people that write us letters. They want to know if we actually have a social security trust fund. Is there any money in the social security trust fund? I have had that question asked me, Mr. Cardwell, long before you became the Administrator and when you were the budget officer for HEW.

The reason why I mention this, I am not going to ask you to answer these questions now, but I did want to call this to your attention because between now and then you are going to think this matter over and

you are going to have real good answers, Mr. Cardwell. Let me read you an item or two from one of our papers.

We have been told that Social Security tax collections are held in trust; that the trustees invest the money profitably and we now have about $44 billion in the trust funds, including interest earned over the years. The truth is, that in reality, there are no trust funds. Over the years the money collected by social security taxes was spent, mostly to pay social security benefits and expenses of administering the program, partly for other Federal Government operations. The Internal Revenue Service collects social security taxes and deposits them in the general fund of the Treasury. As the bureaucrats face it, these contributions are immediately and automatically appropriated to the social security trust funds.

What actually happens, Mr. Cardwell, according to the thinking of this one gentleman and a whole lot of people in this country is that some entries are made in the accounting records of the Treasury Department, credits are entered in three social security trust accounts, old age and survivors insurance, disability insurance and hospital insurance. No money is physically transferred. The cash remains in the general fund of the Treasury.

We go further, Mr. Cardwell:

The managing trustee of these trusts is the Secretary of the Treasury. The trustees are the Commissioner of the social security system, Secretary of Labor, Secretary of Health, Education and Welfare. Each year, as social security benefit commissions are paid out, the payments are charged to the trust accounts. Over the years, the trustees have invested the amounts not paid out as benefits and administration expenses. The Social Security Act says the trust funds can be invested only in U.S. Government obligations; so the managing trustees select the Federal notes and bonds that the trust funds are to be invested in. This is done by appropriate entries in the Treasury's books of account. No notes, bonds or certificates actually are issued, but the effect is the same as it would be if they were issued. It is all done by bookkeeping.

Mr. Cardwell, I am going to ask you some of those questions this afternoon and knowing you as well as I do, I know you are going to be able to answer all of them without any difficulty. You will remember back during the days, Mr. Cardwell, when Albert Thomas was chairman of the Independent Offices Subcommittee. We added in his bill about $6 billion. President Eisenhower was in at that time. He vetoed the bill by virtue of the fact that we put that money in the bill to apply to the social security trust fund.

I may have my amount wrong, but you will remember back in those days when the President said, no, if the Treasury of the United States is sound, the social security system is sound, and we will not appropriate any money and place it in the social security trust funds.

That bothers a lot of people in this country, Mr. Cardwell, as you and I well know, so this afternoon, Mr. Chairman, with your permission, I am going to ask some of those questions.

Thank you, Mr. Chairman.

Mr. CARDWELL. Thank you, Mr. Natcher.

Mr. FLOOD. Mr. Early?

Mr. EARLY. No questions.

Mr. FLOOD. Mr. Michel?

BLACK LUNG WIDOWS BENEFITS

Mr. MICHEL. I note that you recently adopted regulation which allow black lung widows who remarry to receive black lung benefits if the

second marriage ends. What is the justification for extending benefit eligibility in such a fashion?

Mr. CARDWELL. Under the regulations previously in effect, widows who remarried were, with few exceptions, effectively precluded from ever again getting black lung benefits.

When we saw that this was happening in a number of cases, we took a long hard look to see whether basis existed for amending our regulations. In doing so we noted that widows under the social security title II program had no comparable problem. We also noted that while the black lung law clearly requires stopping benefits when a widow remarries, there is no requirement in the law which, in effect, says that her entitlement to black lung benefits also ends.

This reexamination of the situation led us to conclude that Congress intended to treat black lung widows the same way widows are treated for benefit purposes under title II of the Social Security Act—that is, they may requalify for payment at the end of any remarriage. Consequently, we amended the regulations to conform the treatment of widows under the black lung program with the policy in the social security title II program for the payment of benefits to widows.

Mr. MICHEL. What will the increased cost be for such an extension?

Mr. CARDWELL. Thus far less than 100 widows have been found eligible as a result of the new regulation, and we do not think a substantial number of widows will be affected. Based on the average widow's benefit in 1976 of $203 a month, the current cost of the new regulation is less than $250,000 per year.

Mr. MICHEL. Isn't it likely that such a widow could receive two Government pensions, particularly if her second husband dies (black lung benefits and social security benefits)? If so, is that really fair?

Mr. CARDWELL. I think that you have to look at the Black Lung Act and recognize that the law provides benefits to miners and their dependents in addition to social security benefits. Since the law provides for separate payments I don't think that should be grounds for not resuming payments to a widow whose second marriage ends. The new regulations do nothing more than put the rights of widows under black lung on a par with widows who receive payments under the social security program.

REDUCTION OF BENEFICIARIES

Mr. MICHEL. Your statement indicates that beneficiaries on the rolls are expected to decline gradually in the years to come. How long a period are we talking about before there are no more people on the rolls?

Mr. CARDWELL. That is a difficult question to answer. However, a rough estimate is that that 170,000 miners receiving benefits at the end of 1975 will be reduced by about one-half within 10 years. In roughly 30 years, there will probably be fewer than 5,000 of them; and in another 5 years, probably fewer than 1,000.

In the case of widows and other survivors of deceased miners, who were receiving black lung benefits at the end of 1975, the situation is more complicated. While the miners are virtually a closed group, there will be additional widows coming on the rolls over the years in those cases where the wife of a miner beneficiary outlives her husband. We may, therefore, have widows on the rolls for a longer period of time. Again, as a very rough estimate, the number of widows and other sur-

vivors on the rolls, currently about 145,000, may be fewer than 5,000 after about 35 years.

At the end of 1975, there were also about 130,000 wives and 60,000 children represented in benefits payable to miners, widows, and other survivors of deceased miners. The number of wives should decline in the number of miner beneficiaries. As I indicated previously, many will begin receiving widow's benefits upon the death of the miner. The number of children should decline at a somewhat faster rate because most benefits payable on account of children end before the child reaches age 22.

BUDGET REDUCTION

Mr. MICHEL. The decline in your budget is $55 million from 1976 to 1977. Is this likely to be the general rate of reduction in future years?

Mr. CARDWELL. No; it is not. In fact, benefit outlays are expected to increase somewhat after 1977.

I would like to emphasize that the decline in estimated benefit payments in fiscal year 1977 is not due to the factor that we have been discussing; that is, the declining number of beneficiaries. Outlays drop in 1977 compared with 1976 because about $70 million in retroactive benefit payments is included in the 1976 estimate. These payments are being awarded in cases where the miner filed a claim during the period from January 1970 through June 1973, or through December 1973 in the case of a widow, and are retroactive to the date the claim was filed. The long delay from the time of filing to the time of award results from the process that begins with the initial determination of disability and end, in many of the cases being awarded this year, after the time-consuming steps of the appeals process. The estimate of 1977 outlays does not include a similar allowance for retroactive payments because the number of new awards in that year is expected to be very small.

The reduction of $55 million from fiscal year 1976 to fiscal year 1977 is smaller than the $70 million included in fiscal year 1976 for retroactive payments because the effect of the declining number of beneficiaries is more than offset by the effect of benefit increases, which are triggered automatically by comparability increases in Federal salaries. Benefit outlays are expected to rise for a few years after 1977, until the effect of the declining number of beneficiaries becomes large enough to offset future benefit increases.

INELIGIBLE CLAIMANTS

Mr. MICHEL. What percentage of the applicants for benefits were found ineligible for benefits in the initial eligibility determination, and what was the total number?

Mr. CARDWELL. During the life of the black lung program, about 203,000 or 36 percent of initial claims were denied.

Mr. MICHEL. Of these, what percentage exercised their right to appeal?

Mr. CARDWELL. Of those applicants who were initially denied about 41 percent filed for one or more additional reviews.

Mr. MICHEL. Of those appealing, in what percentage of the cases was the decision reversed and the benefits awarded?

Mr. CARDWELL. Ultimately, about 33 percent of the initial decisions which were appealed were reversed, and benefits awarded upon appeal. In addition, there were some lawsuits filed in the Federal courts, and in a small number of these cases benefits also were awarded.

HEARINGS AND APPEALS BACKLOG

Mr. MICHEL. Your statement indicates that the backlog of appeals and hearings will be completed prior to fiscal year 1977. Are you pretty certain that this will actually be the case?

Mr. CARDWELL. Assuming no new legislation that would throw new workloads and responsibilities at us, I think we will be able to do it. In fact, we expect to wind up the hearing backlog by the end of April or so this year. Then, by the end of the transition quarter, we expect to have most of the appeals completed. Our guess now is that several hundred appeals will carry over into the early months of fiscal year 1977.

Mr. MICHEL. What happens to the personnel handling the hearings and appeals case once this process is completed?

Mr. CARDWELL. We will still need the people, but they will be shifted to working off the hugh backlogs still there for the title II and the SSI programs. We have recently been given the legislative authority to use all of our administrative law judges and hearings examiners in the processing of title II work, where we will still have a backlog of over 67,000 cases at the end of fiscal year 1976. In addition, we will have a backlog of over 18,000 SSI cases at the end of fiscal year 1976. So our Bureau of Hearings and Appeals will still have plenty of work for all of its staff in 1977.

Mr. FLOOD. Mr. Conte?

ADDITIONAL POSITIONS

Mr. CONTE. Has the additional 436 permanent positions mentioned on page 37 of the justification had an appreciable impact on the time and/or error factors in claim processing in fiscal year 1976?

Mr. CARDWELL. The additional 436 permanent positions definitely have had a real impact on our ability to get on top of the hearing and appeals workloads. They will help us achieve our goal of eliminating the hearing backlog completely by the end of fiscal year 1976 and of processing almost all of the appeals backlog by the end of the transtion quarter. I should point out that practically all new black lung claims filed in 1976 and 1977 are the responsibility of the Department of Labor. Our work is in the hearings and appeals area in 1976 and primarily in paying benefits and maintaining the beneficiary rolls in 1977. We do take claims on behalf of the Department of Labor, but they reimburse us for this service. The costs for these claims are not funded by this appropriation but are included in the appropriation to Labor.

HEARINGS BACKLOG

Mr. CONTE. What is the cause for the projected 8,614 pending requests for hearings at the end of the year?

Mr. CARDWELL. The increase of 8,614 in hearings pending at the end of fiscal year 1975 compared to the previous estimate was the result of two factors. First, we received about 4,250 more new requests for hearing than we had estimated. Also, we were too optimistic in our estimate of how many hearings we could process in 1975. Although we completed about 28,500 cases, that was still about 4,350 less than we hoped to do.

INCREASED BENEFIT PAYMENTS

Mr. CONTE. On what economic assumptions is the increase in benefit payment based?

Mr. CARDWELL. The increase in black lung benefits is not tied directly to economic assumptions or cost of living. These payments are based on Federal pay rates for step 1 of grade GS–2. Therefore, black lung benefits increase in direct proportion to the increase in the GS–2 pay scales. In October 1975, this increase was 5 percent. This budget projects a further increase of 3 percent in October 1976. If the actual pay raise for GS–2 is greater than that estimate, we may have to request a supplemental appropriation for 1977.

BENEFICIARY ROLL UPDATE

Mr. CONTE. How up to date are you able to keep the beneficiary rolls?

Mr. CARDWELL. Our beneficiary rolls are kept right up to date. The changes which take place such as change of address, death, or marriage are processed as quickly as possible after we are notified by the beneficiary, because the beneficiary roll is used to generate the monthly payment.

AVERAGE BENEFIT PAYMENT

Mr. CONTE. What is the average benefit per recipient?

Mr. CARDWELL. Mr. Conte, I do not think a figure of average benefit per recipient is a very meaningful figure. If you take the average number of beneficiaries of the program in 1976—almost 500,000 and divide that figure into the benefit payment estimate of $961 million, you get an average of $160 per person per month. If you do the same thing for 1977, $906 million divided by 480,000 beneficiaries, you get an average of $157 per person per month.

I think the more useful figures are what is paid to the different types of black lung recipients. Currently, an eligible miner or widow receives $196.80 per month. If he or she has one dependent, an additional 50 percent or $98.40 is paid. For two dependents, an additional 75 percent or $147.60 is paid. For three or more dependents, an additional $196.80 is paid to the miner or widow. The maximum payable to a family group is $393.60 per month under current rates.

SURVIVOR ENTITLEMENT

Mr. CONTE. How did the change of policy of not requiring applications from survivors whose dependency had previously been established work out last year?

Mr. CARDWELL. It worked out extremely well. Before the change was made it was necessary to get applications from the survivors, which

sometimes took weeks to process before issuing the benefit checks. Now, we are able to automatically convert eligible dependents to survivor status, and benefits are processed within a matter of days after we are notified of the miner's death.

APPELLATE DECISIONS

Mr. CONTE. What percentage of appeals do miners who were previously denied benefits win at the appellate level?

Mr. CARDWELL. In the hearings and appeals process within SSA—that is, where an administrative law judge hears the case—approximately 20 percent of the decisions made to date were in favor of the miners.

At the Federal court level, final decisions have favored the black lung claimant in 5 percent of the cases.

Mr. FLOOD. Thank you, gentlemen. We will go on to our next account.

JUSTIFICATION OF THE BUDGET ESTIMATES

Appropriation Estimate

Special Benefits for Disabled Coal Miners

For carrying out title IV of the Federal Coal Mine Health and Safety Act of 1969, *as amended,* 1/ including the payment of travel expenses either on an actual cost or commuted basis, to an individual for travel incident to medical examination, and to parties, their representatives and all reasonably necessary witnesses for travel within the United States, Puerto Rico, and the Virgin Islands, to reconsideration interviews and to proceedings before administrative law judges, [$999,778,000] $913,897,000: *Provided,* That [such amounts as may be agreed upon by the Department of Health, Education, and Welfare and the Postal Service shall be used for payment, in such manner as said parties may jointly determine, of postage for the transmission of official mail matter by States in connection with the administration of said Act.] 2/ *after July 31 such amounts for benefit payments as may be necessary may be charged to the subsequent year appropriation.*

[Benefit payments after April 30: For making, after April 30 of the current fiscal year, payments to entitled beneficiaries under title IV of the Federal Coal Mine Health and Safety Act of 1969, for the last two months of the current fiscal year, such sums as may be necessary, the obligations and expenditures therefor to be charged to the appropriation for the succeeding fiscal year.] 3/

Whenever the Commissioner of Social Security finds it will promote the achievement of the provisions of title IV of the Federal Coal Mine Health and Safety Act of 1969, *as amended,* 1/ qualified persons may be appointed to conduct hearings thereunder without meeting the requirements for administrative law judges appointed under 5 U.S.C. 3105, but such appointments shall terminate not later than December 31, 1976: Provided, That no person shall hold a hearing in any case with which he has been concerned previously in the administration of such title.

[For "Special benefits for disabled coal miners" for the period July 1, 1976, through September 30, 1976, $234,600,000, including the payment of travel expenses either on an actual cost or commuted basis, to an individual for travel incident to medical examinations, and to parties, their representatives and all reasonably necessary witnesses for travel within the United States, Puerto Rico, and the Virgin Islands, to reconsideration interviews and to proceedings before administrative law judges.]

Explanation of Language Changes

1/ Change made to clarify the language.

2/ The Social Security Administration has not been able to make use of this language. Implementation of the language was contingent upon an agreement between the Department of Health, Education, and Welfare and the United States Postal Service that State Agencies under contract with the Social Security Administration could use franked envelopes. The United States Postal Service has not agreed to this arrangement.

3/ Change made to reflect the change in the fiscal year and to clarify the language.

Language Analysis

Language Provision	Explanation
Provided, That such amounts as are required shall be available to pay travel expenses either on an actual cost or commuted basis, to an individual for travel incident to medical examinations, and to parties, their representatives and all reasonably necessary witnesses for travel within the United States, Puerto Rico, and the Virgin Islands to reconsideration interviews and to proceedings before administrative law judges under title II, XVI, and XVIII of the Social Security Act:	Authorizing legislation did not specify whether or not travel incident to medical examinations and for claimants, their representatives, and witnesses to attend reconsideration interviews and hearings was a necessary administrative expense. This provision which permits the payment of these travel expenses, reduces financial hardship to claimants.
Provided, That after July 31 such amounts for benefit payments as may be necessary may be charged to the subsequent year appropriation.	This provision provides that benefit payments under title IV of the Act for the last two months of a fiscal year can, if necessary, be made from funds of the next fiscal year. This language provides the authority needed to finance unanticipated and uncontrollable benefit costs from subsequent appropriations and insures that no black lung beneficiary will fail to receive a benefit payment because of a shortage of funds.
"...qualified persons may be appointed to conduct hearings...but such appointments shall terminate not later than December 31, 1976: Provided, That no persons shall hold a hearing in any case with which he has been concerned previously in the administration of such title."	This provision makes it easier for the Social Security Administration to employ the requisite number of administrative law judges to handle appeals from claimants. It continues the Social Security Administration's authority to waive certain requirements related to the Administrative Procedures Act (APA) and to make temporary appointments, not to exceed December 31, 1976, of persons who are determined to be qualified by education and experience to perform the functions of administrative law judges. With this authority appointments can be given to GS-14 administrative law judges (ALJs). GS-15 ALJs, who meet APA requirements must be licensed and authorized to practice as an attorney for seven years; they must also establish seven years of experience in at least one of several specific categories. To qualify at the GS-14 level the applicant need establish only six years of practice as an attorney and six years experience in a specific category.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Special Benefits for Disabled Coal Miners

Amounts Available for Obligation[1/]

	1976	1977
Appropriation	$999,778,000	$913,897,000
Unobligated balance, end of year	-3,845,000	---
Obligations incurred in prior year but chargeable to this year's appropriation [2/]	-6,662,000	---
Total obligations	$989,271,000	$913,897,000

1/ Excludes work done under a reimbursable agreement with the Department of Labor which will require 38 positions, 47 man-years and $731,000 in 1976 and 31 positions, 38 man-years and $680,000 in 1977. Funding for this work is included in the Department of Labor's budget.

2/ The Special Benefits for Disabled Coal Miners Appropriation provides for making payments for the last two months of the year, such sums as may be necessary, to be charged to the appropriation for the succeeding year. Under this authority it was necessary to fund $6,662,000 of the June benefit (paid July 3, 1975) from the Fiscal Year 1976 appropriation.

Summary of Changes

1976 Estimated obligations	$989,271,000
1977 Estimated obligations	913,897,000
Net change	-$75,374,000

	1976 Base		Change from Base	
	Man-years	Amount	Man-years	Amount
Increases:				
A. Built-in:				
1. Increase in level of benefits	--	$961,000,000	--	+$37,000,000
a. Annualization of October 1975 benefit increase				+9,000,000
b. Projected 3 percent benefit increase effective October 1976				+28,000,000
Total, increases				+$37,000,000
Decreases:				
A. Built-in:				
1. As a result of completing the processing of the appellate workloads in FY 1976 there is a reduction in one-time retroactive benefit payments for months prior to the beginning of the fiscal year				-60,000,000
2. Reduction in the number of beneficiaries (primarily because of death)				-32,000,000
B. Program:				
1. Reduction in administrative costs due to completion of almost all the remaining appellate processes in FY 1976	1,386	$28,271,000	-997	-$20,374,000
Total, decreases				-$112,374,000
Total, net change				-$75,374,000

Obligations by Activity[1/]

Page Ref.		1976 Estimate	1977 Estimate	Increase or Decrease
38	Benefit payments:			
	Amount	$961,000,000	$906,000,000	-$55,000,000
40	Administration:			
	Amount	28,271,000	7,897,000	-20,374,000
	Positions	952	315	-637
	Standard Level User Charge:			
	Amount	(1,310,000)	(141,000)	(-1,169,000)
	Total Obligations	$989,271,000	$913,897,000	-$75,374,000
	Positions	952	315	-637

1/ Excludes reimbursable work carried out by this account.

Obligations by Object[1/]

	1976 Estimate	1977 Estimate	Increase or Decrease
Total number of permanent positions.....	952	315	-637
Full-time equivalent of all other positions.	366	22	-344
Average Paid employment[2/].....	1,386	389	-997
Personnel Compensation:			
Permanent Positions.....	$13,681,000	$5,133,000	-$8,548,000
Positions other than permanent.....	5,482,000	107,000	-5,375,000
Other personnel compensation.....	1,604,000	654,000	-950,000
Subtotal, personnel compensation.....	20,767,000	5,894,000	-14,873,000
Personnel benefits.....	1,814,000	512,000	-1,302,000
Travel and transportation of persons.....	757,000	56,000	-701,000
Transportation of things.....	67,000	16,000	-51,000
Rent, communication and utilities.....	2,866,000	800,000	-2,066,000
Printing and reproduction.....	165,000	25,000	-140,000
Other services.....	1,365,000	413,000	-952,000
Supplies and Materials.....	409,000	150,000	-259,000
Equipment.....	61,000	31,000	-30,000
Insurance claims and indemnities.....	961,000,000	906,000,000	-55,000,000
Total obligations by object.....	$989,271,000	$913,897,000	-$75,374,000

1/ Excludes reimbursable activities carried out by this account

2/ Excludes overtime equivalent as follows: 110 40 -70

Authorizing Legislation

	Amount Authorized	1977 Budget Request
Federal Coal Mine Health and Safety Act of 1969:		
Title IV.....	Indefinite	$913,897,000

Special Benefits for Disabled Coal Miners

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1970	---	---	$10,000,000	$10,000,000 1/
1971	---	---	---	--- 2/
1972	$933,945,000	$933,945,000	933,945,000	933,945,000 3/
1973	1,526,500,000	1,526,500,000	1,526,500,000	1,526,500,000
1974	1,013,925,000	1,013,925,000	1,013,925,000	1,013,925,000
1975	957,740,000	957,740,000	957,740,000	957,740,000
1976	999,778,000	999,778,000	999,778,000	999,778,000
1977	913,897,000			

1/ In 1970, $10,000,000 was appropriated in the Federal Coal Mine Health and Safety Act of 1969 to begin implementation of the program. Of this amount, $7,250,000 was allocated to the Social Security Administration for title IV purposes and $2,750,000 was allocated to the Environmental Control Administration. In addition, the 1970 DHEW Appropriation Act contained language which authorized additional obligations and expenditures of funds for benefit payments and administrative expenses for title IV of the Federal Coal Mine Health and Safety Act of 1969, and provided that such charges be made to subsequent appropriations.

2/ The 1971 DHEW Appropriation Act contained language which authorized the obligation and expenditure of funds for benefit payments and administrative expenses for title IV of the Federal Coal Mine Health and Safety Act of 1969, and provided that such charges be made to subsequent appropriations.

3/ Includes funds to cover obligations incurred in 1970 and 1971.

Justification

Special Benefits for Disabled Coal Miners

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Total.....	952	$989,271,000	315	$913,897,000	-637	-$75,374,000

General Statement

The Federal Coal Mine Health and Safety Act of 1969, enacted on December 30, 1969, established nationwide health and safety standards for the coal mining industry. In addition, title IV provided for the payment of cash benefits to coal miners who are disabled due to coal worker's pneumoconiosis (black lung) and to their widows and certain other dependents. Black Lung is defined as a chronic dust disease of the lung resulting from working in the Nation's coal mines. The Black Lung Benefits Act of 1972 (P.L. 92-303) broadened and liberalized the original legislation.

Jurisdiction

Under the amended Act, the Social Security Administration is responsible for the processing and payment of claims for miners' benefits filed from December 30, 1969 through June 30, 1973. During the period July 1, 1973 through December 31, 1973, termed the transition period, SSA continued to take miners' claims but forwarded them to the Department of Labor for adjudication and payment. This arrangement will continue into the future, but as of January 1, 1974, SSA became an agent for Labor on a reimbursable basis. The jurisdictional transition is different for survivors' claims. SSA is responsible for the processing and payment of all survivors' claims filed through December 31, 1973. After that, nearly all survivors' claims are the responsibility of Labor, with one exception--the death of a miner or widow already on the beneficiary roll maintained by SSA. In this case, SSA maintains jurisdiction of a survivor's claim filed within 6 months. However, beginning early in fiscal year 1975, survivors whose dependency has previously been established are automatically entitled without having to file an application. The Social Security Administration is also acting as an agent for the survivors' claims that fall within Labor's jurisdiction after December 31, 1973. SSA's district offices take the claims and then mail them directly to Labor for all further processing including adjudication, the appellate process, and benefit payment. Costs incurred by the Social Security Administration in taking claims for the Department of Labor are reimbursed by Labor and are included in Labor's appropriation.

The Social Security Administration will continue to pay benefits and maintain the beneficiary roll for the lifetime of all persons who have filed during its jurisdiction.

Reprograming

	1976 Estimate		1976 Revised		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Benefit Payments..	-	$987,000,000	-	$961,000,000	-	-$26,000,000
Administration....	516	12,778,000	952	28,271,000	+436	+15,493,000
Total Obligations...	516	$999,778,000	952	$989,271,000	+436	-$10,507,000

The President's budget which was sent to the Congress in January 1975 projected a 9 percent Federal pay raise effective October 1975 which would have increased benefit payments by $58,000,000 in 1976. The Federal pay raise effective October 1975 was 5 percent and this is the principal reason for the reduction of $26,000,000 in benefit payments.

Partially offsetting the decrease in benefit payments is an increase of $15,493,000 in administrative costs. This increase in money, and an additional 708 man-years and 436 permanent positions is requested primarily to process an increased volume of hearings and appeals. The table below summarizes the changes to the hearing and appeals workload estimates that occurred in 1975 and revised estimates for these workloads in 1976.

Requests for Hearings

	FY 1975 Estimate	FY 1975 Actual	Increase or Decrease
Receipts	15,260	19,516	+4,256
Processed	32,850	28,492	-4,358
Pending end of year	15,701	24,315	+8,614

	FY 1976 Estimate	FY 1976 Revised	Increase or Decrease
Receipts	--	1,000	+1,000
Processed	15,701	25,315	+9,614
Pending end of year	--	0	--

Appeals

	FY 1975 Estimate	FY 1975 Actual	Increase or Decrease
Receipts	14,050	16,126	+2,076
Processed	13,520	14,377	+857
Pending end of year	2,942	4,163	+1,221

	FY 1976 Estimate	FY 1976 Revised	Increase or Decrease
Receipts	8,041	21,500	+13,459
Processed	10,822	21,000	+10,178
Pending end of year	161	4,663	+4,502

Activity 1 - Benefit Payments

	1976 Estimate	1977 Estimate	Increase or Decrease
Benefit Payments...	$961,000,000	$906,000,000	-$55,000,000

The basic benefit rate is 50 percent of the minimum monthly benefit under the Federal Employees Compensation System for a totally disabled employee in step 1, grade GS-2. The disabled miner or the eligible widow receives the basic benefit--currently $196.80. If the disabled miner or widow has dependents, the benefit increases with the number of dependents--an additional 50 percent for one dependent, 75 percent for two dependents, and 100 percent for 3 or more dependents. Benefits are also payable to orphans and in certain circumstances to dependent parents, brothers or sisters.

The current estimates of $961,000,000 for 1976 and $906,000,000 for 1977 yield a decrease of $55,000,000 which is a result of the following factors:

1. Annualization of the October 1975 benefit increase.....	+$9,000,000
2. Projected 3 percent benefit increase effective October 1976.....	+28,000,000
3. Reduction in the number of claims with retroactive payments.....	-60,000,000
4. Reduction in the number of beneficiaries.....	-32,000,000
Net Decrease.....	-$55,000,000

The increase in benefit payments reflects the economic assumptions on which the budget is based. This includes a projected increase effective October 1976 in the salaries of Federal employees, which, under present law, is adjusted periodically to insure comparability between the wages of employees working in the public and private sectors of the economy. A 3 percent increase is projected for Federal employees at step 1, GS-2.

The beneficiaries on the roll are expected to decline in years to come. The size of the roll and manpower required to maintain it will depend primarily on the death rate for miners and their widows, and the remarriage of widows. The estimates of the number of persons receiving benefits at the end of fiscal years 1976 and 1977 are as follows:

Beneficiaries	FY 1976	FY 1977
Miners.....	161,000	149,000
Widows.....	146,000	151,000
Other Dependents.....	186,000	170,000
Total.....	493,000	470,000

Benefit payment obligations for fiscal years 1970 through 1975, and estimates for 1976, the transitional quarter, and 1977 are as follows:

Fiscal Year	Obligations for Benefit Payments (in millions)
1970	$ 10
1971	$320
1972	$408
1973	$938
1974	$975
1975	$940
1976 estimate	$961
Transitional quarter estimate	$224
1977 estimate	$906

Activity 2 - Administration[1/]

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Perm. Pos.	Amount	Perm. Pos.	Amount	Perm. Pos.	Amount
Administration	952	$28,271,000	315	$7,897,000	-637	-$20,374,000

Administrative Tasks

The Social Security Administration's responsibility for black lung claims under its jurisdiction in fiscal year 1977 are: (1) completing the last of the appellate actions on miners' claims filed when the program was under SSA's jurisdiction, and (2) making changes to the continuing beneficiary roll to assure proper and correct payment of benefits.

Workload and Beneficiary Data

	FY 1976 Estimate	FY 1977 Estimate
Major Workloads Processed		
Hearings	25,315	---
Appeals	21,000	300
Maintenance of the Rolls		
Number of beneficiaries at the end of the year	493,000	470,000

Manpower and Position Requirements

The manpower will be derived as follows:

	Man-Years		
	Fiscal Year 1976	Fiscal Year 1977	Change
Permanent full-time	910	327	-583
Temporary	366	22	-344
Overtime	110	40	-70
Total	1,386	389	-997

1/ Includes reimbursable activities carried out by this account.

The following table shows positions requested for the black lung program:

	Positions		
	Fiscal Year 1976	Fiscal Year 1977	Change
Permanent full-time.....	952	315	-637
All other.....	15	10	-5
Total.....	967	325	-642

The manpower and positions used in fiscal year 1976 will complete all the black lung hearings, work off almost all of the appeals work, make changes in the benefit amounts as necessary and assure the correct benefit is paid. In fiscal year 1977 the major activity will be maintaining and changing the beneficiary roll as required. Maintaining the roll involves assuring proper and correct payment of benefits, reflecting new additions to the roll, deletions which result from the death or remarriage of widows, the posting of new addresses, and responding to beneficiary inquiries.

The requests for manpower and positions includes 78 man-years and 81 permanent positions in 1976 and 74 man-years and 73 permanent positions in 1977 for litigation work performed by the Office of the General Counsel for the Social Security Administration.

SOCIAL SECURITY ADMINISTRATION

Special Benefits for Disabled Coal Miners

Program Purpose and Accomplishments

Activity: Special Benefits for Disabled Coal Miners (Federal Coal Mine Health and Safety Act of 1969, Title IV as amended)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
952	$999,778,000	Indefinite	315	$913,897,000

Purpose: Funds are used: (1) to provide monthly benefits to coal miners who are totally disabled due to pneumoconiosis, to the widows of miners whose deaths were due to this disease, to dependents, to orphaned children of miners, and to certain dependent parents, brothers and sisters of miners; and (2) to administer title IV of the Federal Coal Mine Health and Safety Act of 1969, as amended.

Explanation: The Social Security Administration is responsible for the processing and payment of claims for miners' benefits through June 30, 1973 and for survivors' claims through December 31, 1973. SSA now takes applications for the Department of Labor on a reimbursable basis.

The Social Security Administration will continue to pay benefits and maintain the beneficiary roll for the lifetime of all persons who filed during its jurisdiction.

Accomplishments in 1976: The Social Security Administration's projected accomplishments for the black lung program in 1976 are to:

1. Pay accurately and timely $961,000,000 in benefits. Doing this requires that the beneficiary roll be kept up-to-date by reflecting new additions to the rolls, deletions which result from death or the remarriage of widows, the posting of new addresses, and responding to beneficiary inquiries.

2. Process about 25,300 hearings, reducing the backlog to zero; and process almost 21,000 appeals, reducing this backlog to about 4,600 cases.

Objectives in 1977: The Social Security Administration's primary objectives for the black lung program are twofold:

1. To pay accurately and timely $906,000,000 in benefits and to make changes in the beneficiary roll to assure proper and correct payment of benefits. To do this will require that the beneficiary roll be kept up-to-date by reflecting new additions to the roll, deletions which result from the death or remarriage of widows, the posting of new addresses, and responding to beneficiary inquiries.

2. To bring to a conclusion all cases in the appellate process. It is estimated that there will be about 4,300 appeals to be processed in transitional quarter and 300 appeals in 1977.

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Estimate	Transition Quarter
1. Benefit Payments	$961,000,000	$224,000,000
2. Administration	28,271,000	4,614,000
Subtotal obligations	989,271,000	228,614,000
3. Obligations incurred in prior year 1/	+6,662,000	
4. Unobligated balance lapsing	+3,845,000	5,986,000
Total, Budget Authority	$999,778,000	$234,600,000

Explanation

The Special Benefits for Disabled Coal Miners program administered by the Social Security Administration and funded by this appropriation is expected to continue at approximately the same level as attained at the end of fiscal year 1976. Under present law, no program expansions or new program initiatives are anticipated during the transition period. Benefit payments are projected at slightly below the fiscal year 1976 level because of a reduction in the number of beneficiaries on the roll and a reduction in the number of claims with retroactive payments. Estimates of administrative obligations are based on rates in effect at the end of fiscal year 1976, projected for 3 months.

1/ The Special Benefits for Disabled Coal Miners Appropriation provides for making payments for the last two months of the year, such sums as may be necessary to be charged to the appropriation for the succeeding year. Under this authority it was necessary to fund $6.6 million for benefit payments obligated in 1975 out of the 1976 appropriation.

WEDNESDAY, MARCH 17, 1976.

SUPPLEMENTAL SECURITY INCOME PROGRAM

WITNESSES

JAMES B. CARDWELL, COMMISSIONER
ROBERT P. BYNUM, ASSOCIATE COMMISSIONER, OFFICE OF PROGRAM OPERATIONS
FRANCIS DeGEORGE, ASSOCIATE COMMISSIONER, OFFICE OF MANAGEMENT AND ADMINISTRATION
FRED SCHUTZMAN, DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
PHILIP A. O'BRIEN, ACTING BUDGET OFFICER, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER

Mr. FLOOD. We will go to the Social Security Administration, supplemental security income program. The presentation will continue with James B. Cardwell, Commissioner. You have a prepared statement. How do you want to handle that?

Mr. CARDWELL. Again, with your permission, I would ask it be filed for the record and I will try to summarize it briefly.

Mr. FLOOD. Suppose we do that.

[The statement follows:]

Our next appropriation request of $5,910,122,000 is from the general revenues of the Treasury and finances the supplemental security income program. The Social Security Amendments of 1972 established this federally administered program of cash payments for aged, blind, and disabled people with very low income and limited resources. It replaced the State- and local-administered grant programs of aid to these groups. The first SSI payments were made in January 1974; thus, the Federal program has been in place less than 2½ years.

This request of $5,910,122,000 for fiscal year 1977 includes: $5.2 billion for Federal benefit payments to aged, blind, and disabled beneficiaries; $55 million for Federal contributions toward State supplementary payments under the hold harmless provision of the law; $52.8 million for vocational rehabilitation services provided by State agencies to blind and disabled recipients; $500.4 million for repayment to the social security trust funds for the cost of administering the program; and $57 million for reimbursing the State for incorrect State supplementary payments made by the Federal Government. These funds are included in a new activity in this account entitled "Federal fiscal liability."

FEDERAL BENEFIT PAYMENTS

Based on actual program experience to date, we estimate that the number of SSI beneficiaries receiving Federal payments will increase from 4.2 million at the end of 1976 to over 4.6 million at the end of 1977. The current estimate of 4.2 million beneficiaries at the end of fiscal year 1976 is lower than the original estimate for the same period. In the 1976 President's budget our estimate was 4.5 million beneficiaries by the end of fiscal year 1976.

Under present law the program assures minimum monthly income of $157.70 for an individual and $236.60 for a couple. Under the automatic cost-of-living provision of the law, the budget projects increases in benefit payments of 6.7 percent in July 1976 and 5.9 percent in July 1977.

The actual amount of the SSI monthly payment to an individual depends on other income that the recipient might have during a given period. People may have limited resources and still be eligible for SSI benefits. Basically, the value of resources owned cannot be more than $1,500 for an individual and $2,250 for a couple. If the value of one's home does not exceed $25,000 ($35,000 in Alaska and Hawaii); the value of an automobile does not exceed $1,200; the value of all

life insurance policies do not exceed $1,500; and other resources do not exceed $1,500 for an individual and $2,250 for a couple, aged or disabled persons are eligible for SSI benefits, less any countable income.

The budget request of $5.2 billion for Federal benefit payments is an increase of $700 million over the 1976 estimate. This increase is the result of three factors: a higher number of eligible recipients, higher base payment levels under the CPI and recipient eligibility for an estimated higher level of average monthly payments. As previously mentioned, the number of recipients of SSI Federal benefit payments is expected to increase by about 400,000 by the end of 1977.

In 1976 the average payment is budgeted at $98.90 for an individual and $107.45 for a couple. Including the 1977 automatic cost-of-living increase, these averages are budgeted to increase in 1977 to $103.45 and $112.40 respectively. The increase in average payments would be even higher were it not for several factors which partially offset the effect of the CPI increase. These are:

The effects of the redetermination process which corrects erroneous SSI payments.

The decline in the number of recipients who were converted from State rolls. Experience shows that these recipients receive a higher average payment than newly enrolled recipients.

The negative effect of the automatic social security benefit increase. Since SSI payments go down as social security payments go up for recipients entitled to both the automatic social security benefit increase reduces SSI average payments.

HOLD HARMLESS PAYMENTS FOR STATE SUPPLEMENTATION

In addition to Federal SSI payments, most States provide further income supplements to their needy aged, blind, or disabled. One of these supplements—referred to as mandatory State supplementation—guarantees that no individual who was converted from a State or local assistance roll will receive less income under the Federal program than he received for December 1973. Also, individual States may choose to make additional payments which are above the Federal level. We call these optional State supplements.

The law provides that if a State elects to have the Federal Government administer one or both of these supplementary programs for it, then the Federal Government pays the cost of administering the programs. States reimburse the Federal Government only for the amount of supplementation payments made on their behalf. At present we administer supplementary payments for 28 States and the District of Columbia.

In addition to paying administrative expenses for these States, the Federal Government protects States from paying any more than they did in calendar year 1972 for aged, blind, and disabled recipients, despite the higher number of beneficiaries brought on the rolls by more liberal Federal eligibility standards. We refer to this financial protection as hold harmless.

The amount of our budget to cover these Federal "hold harmless" contributions in 1977 is $55 million. This is $65 million less than the amount budgeted for 1976 because of projected cost-of-living increases in the basic Federal SSI payment (6.7 percent increase in July 1976: 5.9 percent in July 1977). Cost-of-living increases in Federal benefit payments mean that eventually basic SSI benefits will replace State supplementation funds subject by law to hold harmless protection. By fiscal year 1977, the budget assumes that California, Nevada, and New York will no longer be entitled to hold harmless protection.

VOCATIONAL REHABILITATION SERVICES

The law provides that no blind or disabled person may be eligible for benefits if he or she refuses without good cause to accept vocational rehabilitation services furnished by State agencies under contract with the Federal Government. The objective here is to return as many blind and disabled recipients as possible to productive, self-supporting work. These services are funded by the SI appropriation. In addition, eligibility for disabled individuals who are drug addicts or alcoholics is contingent upon their undergoing appropriate treatment at an approved facility. The 1977 appropriation request for this activity totals $52,770,000, a decrease of $4,902,000 from 1976. For the most part, SSA transfers these funds to the Rehabilitation Services Administration which allocates them to the States.

The primary basis for the reduction is estimated costs of vocational rehabilitation services is a draft report by the GAO indicating that some individuals

receiving vocational rehabilitation services paid for under the title II disability insurance program did not meet the specified selection criteria. Since the selection criteria are the same in the SSI program, the budget request assumes that State agency case reviews during fiscal year 1976 will uncover individuals who are not entitled to receive vocational rehabilitation services funded by the SSI appropriation. Eliminating these incorrect charges will result in less vocational rehabilitation costs to the SSI program.

PAYMENTS TO THE TRUST FUNDS FOR ADMINISTRATIVE COSTS

The Social Security Act authorizes money to be advanced from the social security trust funds to pay the administrative costs of the supplemental security income program through the salaries and expenses account in order to consolidate program administration in one account. This advance is repaid on a current basis from the SSI appropriation. The appropriation request for this activity for 1977 is $500,352,000, an increase of $4,565,000 over 1976.

SSI FEDERAL FISCAL LIABILITY

As I indicated earlier, States may elect to have the Federal government administer their supplemental payment programs. From the inception of SSI, it was realized that incorrect payments would be made in the administration of State supplemental payments. The law, as interpreted, authorizes the Social Security Administration to reimburse the States for any such incorrect payments.

Arrangements for such reimbursement are spelled out in agreements between SSA and the 28 States and the District of Columbia. Consistent with these agreements, we are requesting funds to cover this "Federal fiscal liability." This will represent the first funding of such settlements. We expect that settlements with States for errors made in fiscal years 1974 and 1975 will be made in fiscal year 1976 at a cost of $60 million. In fiscal year 1977, an estimated $57 million will be required to cover settlements made necessary by overpayments and payments to ineligibles during fiscal year 1976.

These budget estimates are rough projections. Some of the data used for the projections were limited and inconclusive. The proposed settlements will be based either on audits by the HEW Audit Agency or on the results of quality assurance analysis conducted by SSA, consistent with the same quality assurance approach mandated by HEW for State administration of AFDC.

In the past, several States withheld partial reimbursement from SSA because of their allegations of Federal payment errors and concern that the Federal Government would shirk its financial obligations in reimbursing them for errors made in paying State supplemental benefits. In achieving negotiated FFL settlements, SSA will consider amounts of reimbursement which these States have already withheld.

SSI BUDGET ESTIMATES

Mr. CARDWELL. This appropriation request is in the amount of $5,910,122,000. It is from the general revenues of the Treasury and finances the supplemental security income program. This program was established in 1972 and became effective in January 1974. As you will recall, beginning January 1, 1974, the Social Security Administration took over from the State approximately 3 million cases which had previously been administered by State welfare agencies as part of the Federal-State public assistance program. Beginning on January 1, 1974, for the first time our agency became responsible for a means tested program applicable to persons over age 65 who are needy and to disabled persons regardless of age who are also needy.

The request includes $5.2 billion for Federal payments to aged, blind, and disabled beneficiaries, and $55 million for Federal contributions toward State supplementary payments. The original act authorized the Federal payment to States in order to hold them harmless for any increases over what they paid out for this program in 1972. That accounts for the $55 million.

An amount of $52.8 million is requested for vocational rehabilitation services, also authorized by the law, and provided by State agencies to SSI recipients; an amount of $500.4 million is for repayment to the social security trust funds for the cost of administering the program; and $57 million for reimbursing the States for incorrect State supplementary payments made by the Federal Government. In other words, wherever we have made overpayments or payments to ineligibles on behalf of the States, using the State funds, we are required to recompensate them for such overages.

These funds are included in the new activity entitled "Fiscal Federal Liability" and this is the first time it shows up in our budget request.

FEDERAL BENEFIT PAYMENTS

The budget request of $5.2 billion for Federal benefit payments is an increase of $700 million over the 1976 estimate.

This increase is a result of three factors: a higher number of eligible recipients, higher base payment levels under the CPI index, and recipient eligibility for an estimated higher level of average monthly payments.

The number of recipients of SSI benefit payments is expected to increase by about 400,000 by the end of 1977. I would note today, as I did yesterday, that we have steadily and continuously overestimated the number of beneficiaries that would claim benefit rights under this program.

It is my judgment and that judgment was supported by the recent outside study group, that studied all aspects of the SSI program. This tendency to overestimate really started before the program became law.

Originally, the Social Security Administration was asked to identify to Congress the universe of eligibles in the total national population. They made an estimate of about 7 million people; and based on the experience with the medicare program in 1969, it was estimated that about 6 million of that 7 million would, by the end of the first operating year, lay claim to their benefit rights, and that number has never been reached.

Today the caseload stands at a little over 4.3 million. Many people in the Congress, and many advocates of the poor and the aged, believe that the original estimate of 7 million potential was accurate, and that the reason the number has not been reached is that we have not been vigorous enough in our public information efforts.

I do not think that to be the case. I think we have conscientiously attempted to reach all of the people who might be eligible. We do not have solid information as to how many people who might be eligible, for their own reasons, are not claiming eligibility, but I would remind the committee that the tendency has been, from the beginning of the program, to overstate the caseload.

The SSI study group examined this question and came to the conclusion that that original estimate might well have been overstated, and that we have an expectation here that may never be realized.

In 1976, the average payment is budgeted at $98.90 a month for an individual and $107.45 for a couple. Including the 1977 automatic cost-of-living increase, these averages are budgeted in 1977 at $103.45 and $112.40, respectively. The increase in average payments would be

even higher were it not for several factors which we believe will offset the effect of the cost-of-living increase.

One factor is the redetermination process that should correct erroneous SSI payments. We are in the midst of reviewing every case. The law as implemented through regulations assumes that every case would be reviewed at least once a year. Next, there is a decline in the number of recipients who were converted from State rolls.

These individuals die and experience shows that these recipients receive a higher average payment than newly enrolled recipients.

The automatic social security benefit increases also has a negative effect. Although it may never have been intended by law, since SSI payments go down as social security payments go up for recipients entitled to both it has the net effect of reducing SSI benefit amounts.

In addition to Federal SSI payments, most States provide a further income supplement to needy aged, blind, or disabled. One of these supplements—referred to as mandatory, guarantees, that no individual who was converted from a State or local roll will receive less under the Federal program than he received in December 1973 before we took over.

Also, individual States may choose to make additional payments which are above the Federal level. Several of the larger States did so choose. These are called optional State supplements. The law provides that if a State elects to have the Federal Government administer one or both of these supplementary programs for it, then the Federal Government pays the cost of administering the programs; States reimburse the Federal Government only for the amount of supplementation payments made on their behalf.

At the present we administer supplementary payments for 28 States and the District of Columbia. Originally we administered for 32 States and the District of Columbia. Four have since dropped out.

ADMINISTRATIVE COSTS

I call this particular feature of the program to your attention because the Ways and Means Committee has raised the issue of whether we have properly and adequately accounted for the administrative costs for at least the early administration of SSI. This appropriation, in effect, including the requirement to finance State administration supplements reimburses the social security trust funds for its appropriate share of our overall administrative cost. The reason for this is that we have a staff that is not broken down or departmentalized by program. Instead, our workers, by and large, particularly those in the field, will take claims on any of the programs we administer.

When the new SSI program came along we used the same basic staff. Congress authorized larger numbers to carry on the program, but it is a homogenous staff, and we try to keep workload records for later allocations of costs between health insurance, disability insurance, retirement survivers insurance, the so-called trust fund activities, black lung services, services of other agencies, and now services to SSI.

This appropriation would reimburse the trust funds for a share of the total cost of those services.

In the oversight hearing on the SSI program, we indicated that at the peak of the SSI workload—that is, during the first 6 months of 1974—in many of our field offices, we all rushed to one side of the ship. The SSI onslaught hit us, and everybody stopped what he was doing and worked on SSI. That is a generalization. In fact, we estimated that in our larger offices as much as 70 percent of our staff at any one point in time might have been working on SSI. Yet SSI, in terms of dollar measurements or other benefit measurements, represents probably only about 5 percent of the total benefits paid out. So oversight raised the issue.

If that were the case, how do we know that the trust funds have not been cheated? I hope to present to them and to you, and I think this committee should have a fundamental interest in this question, the basis for our workload and time analysis upon which we base our allocations of cost to each program.

It is quite clear to us that that analysis could not track with exact precision the unusual circumstances of those first 6 to 9 months, but it is still probably the only basis that the Congress or ourselves have available for estimating such costs.

That would conclude my summary on SSI, Mr. Chairman.

SSI STUDY GROUP

Mr. FLOOD. You mentioned in your statement a few minutes ago this SSI study group. Do you want to touch briefly on the group, the purpose for it and so forth?

Mr. CARDWELL. Yes, sir. Former Secretary Weinberger and I decided, I guess it has been a little over a year ago, given the extraordinary difficulty we were experiencing, and even I guess if we hadn't been experiencing extreme difficulty, that it would be appropriate to have an outside group critique and criticize our early operations so that we might move on into the future with that advice behind us.

We asked a small group of people, all from outside of Social Security and with the exception of one, outside of the HEW and the executive branch, to come together and review our first 1½ years of activity, to criticize it, and to make recommendations for changes and improvements. The group had a mixture of background and expertise. There were two persons drawn from the public assistance program as administered by the States. We thought that input was important, because, after all, we had taken the program over from the States, and the program has characteristics that literally follow the public assistance characteristics.

We also recognize that, as with all of our activities, this central system is highly dependent on the computer and on the use of advanced technology. So we sought an expert in that field to service it. The Assistant Secretary, Comptroller for HEW, my successor, was asked to participate. We put on a staff adviser, and the group had the services of a consultant on human resources programs.

That group looked at the program from top to bottom as best a small group could in the time they were assigned. They rendered some 90 recommendations, changes, and improvements.

Mr. FLOOD. What steps will be taken to carry out some of the recommendations?

Mr. CARDWELL. We have added them up and find that on some 47 of the 90, we had already come to at least a similar conclusion and have some action already in progress.

We will submit to this committee and to the substantive committees of interest an implementation plan for the report.

I would mention, however, that a number of their recommendations are very far reaching in their criticism of the basic law. One of the toughest choices that we in the executive branch will have to make, and one of the toughest choices the Congress will have to make, is whether to entertain those particular recommendations.

As a general proposition, they have concluded, as we did, that the program may well be too complex to ever fulfill the original idea that justified central administration, but that is something we will all have to struggle with.

Mr. FLOOD. Over the past 9 months or so, there has been a continuing series of reports concerning overpayments. You recall last September you sent us a letter saying many of these reports you felt presented a distorted picture. Tell us briefly something about this situation of overpayments as you see it now.

ERROR RATES

Mr. CARDWELL. We sent an updated report to this committee and other committees of Congress just this last January. To summarize, that report showed that the so-called SSI error rates were not improving significantly when measured against the first 6 months, which we reported to the committee last year. In fact, the error rate turned out to be essentially the same, about 24.4 percent.

Mr. FLOOD. Suppose you do this. Put a copy of that January report in the record.

[The information follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
Baltimore, Md., January 19, 1976.

Hon. AL ULLMAN,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. ULLMAN: In April, we advised the House Ways and Means Committee and the Senate Finance Committee about preliminary supplemental security income (SSI) quality assurance (QA) findings for the period July–December 1974, the second 6 months of operations under SSI. Under a contractual arrangement with those States for whom we administer State supplements, the results for that period provide a performance base for measuring the Federal Government's fiscal liability to those States due to inaccurate payments of State funds. The data presented last April were based on preliminary samples of cases for the base period. Those preliminary samples have been completed. and the purpose of this letter is to present the final results for that period as well as the final results of the QA reviews for the subsequent 6-month period, January through June 1975. The results are as follows:

[In percent]

	Preliminary base period data, July–December 1974	Final data, base period, July–December 1974	January–June 1975
Overpayments	12.9	13.3	11.0
Payments to ineligibles	5.0	6.1	7.7
Subtotal	17.9	19.4	18.7
Underpayments	6.3	5.4	5.7
Total	24.2	24.8	24.4

The above shows that while overpayments were reduced during the second period, payments to ineligibles and underpayments increased.

We should note that the second period also shows a higher incidence of errors among new federally administered cases than the prior period, offset by a reduction in the rate of incorrect payments among cases taken over from the States. The net result of these pluses and minuses was a marginal decrease in the overall rate of payment inaccuracy.

As previously indicated to the committee during testimony and other exchanges concerning SSI payment accuracy, we believe that a number of actions that have been taken will eventually result in improved payment efficiency, as measured by the QA system. As the above data indicate, those measures had not produced any significant improvement during the first 6 months of the 1975 calendar year. However, with about one-half of the sample complete, sampling for the subsequent 6-month period (July–December 1975) suggests that significant improvement will be shown when the final QA results are tabulated for the period.

One of the reasons we are expecting improvements to show in the July to December period is because our new system for automated interface between the social security record and the SSI record became operational during that period. According to the QA results for the first 18 months of operations, this was one of the most significant sources of overpayments and payments to ineligibles.

We will, of course, furnish these later results as soon as the review is complete, expected by mid-April 1976.

HOW THE QA SYSTEM WORKS

Perhaps it would be useful to describe the QA system and give some idea about the range of its coverage. As the Congress is aware, the system is a mirror image of the arrangement developed several years ago for application to the Federal/State public assistance program.

The QA system was designed for two purposes:

1. To provide base data for determining any fiscal liability to the States for SSA-caused errors during the administration of State supplements.

2. To measure, in as much depth as possible, the performance of the program against the literal requirements of the statute.

It should be emphasized that the QA system attempts to identify and measure overpayments and underpayments, some of which, particularly in the posteligibility category, are beyond the agency's control. In this regard, the QA system was established around the assumption that the most efficient administration of the program would produce a payment accuracy level of no better than 92 percent of the cases. This produced the 8-percent tolerance level which, if met, would exonerate SSA from any fiscal liability to the States. This, of course, is the same level set for State administration of AFDC.

To determine the level of payment performance, the QA system calls for a review of approximately 27,000 cases every 6 months. Each case is reviewed for two separate levels of accuracy: (1) total payment to the recipient; and (2) the State's share of such total payment. The first level identifies SSA accuracy and performance, and the case is considered to be without error if the recipient received the proper amount. The rates given on the first page of this letter are based on the total payment level—(1), above. For purposes of determining the Federal fiscal liability to a State, however, the State share must also be totally correct for the case to be considered error free. Following is an example of how this works.

The recipient is due $200, $100 from SSA and $100 from the State. He receives a check for $200, but the SSA portion was $75 while the State portion was $125.

For overall SSI accuracy purposes, this case is correct; however, for Federal fiscal liability purposes, it is in error. This type of case does not occur frequently. It is used, however, to illustrate the two different rates, SSI and Federal fiscal liability, that are provided by the QA system.

Under our arrangement with the States, the base period—the second 6 months of the program—represents a starting point from which SSA performance will be measured against the 8-percent tolerance. During the base period, SSA is liable only for errors identified on a case-by-case bases. Liability for the first 6 months of operations is to be determined by separate audits subject to negotiations with the States.

Under the QA system, Federal fiscal liability begins to run in the third 6-month period of operations, with three equal 6-month step-down periods until the final 8-percent tolerance level is reached. By that time, beginning with the January to June 1976 period, the permanent tolerance level of 8 percent will prevail, and the Federal fiscal liability will accrue for any errors over and above that rate.

DOLLAR VALUE OF PAYMENTS

There are three different measurements of dollar overpayments used by SSA, and we want to first explain what they are:

1. Quality Assurance Extrapolation Amounts

This figure is established based on sample data projected to the dollars in the universe of all SSI cases. "Errors" are determined through both a lengthy and comprehensive interview with the individual at his home, as well as total verification (to the extent possible) of negative allegations. From the sample findings, the dollars in error in individual cases within the sample are divided by the total dollars in the total sample to create a payment error rate. This payment error rate is multiplied by the total SSI expenditures during the 6-month sample period to estimate total dollars in error.

In many ways, the QA extrapolation highlights the difference between a perfect payment program and what occurs during actual administration. It does not apply a tolerance such as the AFDS 8-percent rate. Estimated dollars in error are related directly to their causes so that corrective action may be taken. In short, the magnitude of specific types of errors are tabulated so that the largest problems are identified and worked on in priority order.

2. Federal Fiscal Liability (FFL) Overpayment Amounts

This figure represents the dollars SSA owes the States under the terms of our contracts with the States. As already noted, a separate measurement is made of errors in the payment of State supplements. Within the sample, dollars in error are extrapolated to the universe of State supplement dollars paid out by SSA, and a predetermined tolerance is applied to that figure. FFL overpayments, therefore, are the projected State dollars paid out in error reduced by the tolerance.

3. Automated System Overpayment Tally

This figure represents a running record of dollar errors identified during day-to-day case processing by SSA. Such amounts are recorded and controlled by the automated payment system, and our district office personnel undertake recovery action in accordance with established criteria.

SUMMARY OF DOLLAR VALUE OF OVERPAYMENTS

Following are the dollar value of overpayments for the QA system compared to the estimated fiscal liability to the States under the QA system:

[In millions of dollars]

	January–June 1974	July–December 1974	January–June 1975
1. QA extrapolation, applicable each period		304	275
2. QA FFL overpayments			[1] 15

[1] Estimate.

As of December 31, 1975, the automated tally carries a cumulative amount of $547 million. This shows cumulative errors recorded for the full 2-year period from January 1974 through December 1975, of which $419 million remains unsettled and/or uncollected. As previously reported to the Congress, recovery of this amount is expected to be limited, based on AFDC experience.

IMPROVEMENTS AND CURRENT PROBLEMS

Two significant corrective actions taken since these QA results, but not reflected in the results, include:

1. Automated systems were put in operation on June 1, 1975, which will correct regular social security benefits on to the SSI records. Analysis indicates that this action should reduce the number of errors resulting from incorrect social security benefits being used in the SSI benefit computation. It should be noted that this factor was a major cause of error when the aged, blind, and disabled program was administered by the States.

2. Steps have been taken to improve the redetermination process through more training of personnel and improved interviewing.

The major problems that still exist which we must correct are:

1. We know that federally taken cases—many of which were taken during the early months of the program—are showing a higher than expected error rate due in part to unreported changes. We have begun to redetermine these cases and are attempting to step up that process, especially with regard to claims taken at the beginning of the program. We know that early start-up problems are involved in the erroneous payments appearing in these cases.

2. There is a significant amount of error in unreported income and resource changes. We need to make beneficiaries more aware of their responsibilities, and, if possible, we need to see people more often than once a year, at least in high risk areas. We are taking steps to try to do this.

3. Non-SSA pension income continues to be a major payment deficiency. Work on an automated exchange with other agencies, primarily the VA, needs to move ahead as quickly as possible. I would note, however, that this is likely to still require a good deal of further time and effort, perhaps many more months.

We believe that progress toward improved payment accuracy has been made and will continue to be made. We will continue to keep you informed.

A similar letter has been sent to the Honorable Russell Long, to the Committees on Appropriations, and others in Congress.

Enclosed is information on a State-by-State basis and other details about the QA results.

sincerely yours,

JAMES B. CARDWELL,
Commissioner of Social Security.

Enclosures.

For purposes of tables I–A and I–B, a case error is recorded only if that portion of the SSI payment attributable to the State supplement is incorrect. These rates will be used in determining Federal Fiscal Liability (FFL).

Only converted recipients (those on the State welfare rolls in December 1973) are eligible for mandatory State supplemental payments while all recipients (new as well as converted) are eligible for optional State supplemental payments.

Relatively few converted recipients resident in a State which pays an optional payment qualify for a mandatory payment because of the high level of the optional payment. Mandatory payments are complex to determine and thus such cases are much more error prone than the optional payment case. It is for these reasons that the table has been separated into an "A" and "B" table in order to differentiate between the two types of supplements. In addition, the number of recipients eligible for mandatory payments has been declining steadily and at an accelerated rate due to at least three factors: Termination of SSI eligibility (primarily because of death); rise in the SSI benefit level because of the cost-of-living increases; and increases in the optional payment level.

Mandatory payment errors as a factor of overall FFL payment accuracy should play a decreasing part in future reporting periods, thus resulting in improved payment accuracy.

TABLE I.-A.—FFL CASE ERROR RATES FOR STATES WITH FEDERAL ADMINISTRATION OF OPTIONAL AND MANDATORY SUPPLEMENTS

[In percent]

	Overpayments of $5 or more		Payments to ineligibles	
	July 1974 to December 1974	January 1975 to June 1975	July 1974 to December 1974	January 1975 to June 1975
California	8.5	10.8	6.9	6.9
Delaware	4.4	10.5	12.2	9.0
District of Columbia	14.4	22.1	4.1	8.4
Hawaii	3.7	4.2	4.9	4.6
Iowa	9.1	3.8	5.6	5.4
Maine	4.7	5.1	5.7	7.3
Massachusetts	20.0	18.4	6.7	9.7
Michigan	4.8	3.8	5.0	6.8
Nevada	6.3	2.4	4.4	8.2
New Jersey	10.7	12.8	8.0	8.7
New York	9.1	10.2	6.8	8.4
Pennsylvania	3.0	2.3	8.4	10.2
Rhode Island	6.6	7.7	6.4	7.7
Vermont	14.6	9.2	8.5	6.9
Washington	5.4	5.2	4.8	7.1
Wisconsin	6.5	9.6	6.8	6.0

TABLE I.-B.—FFL CASE ERROR RATES FOR STATES WITH FEDERAL ADMINISTRATION OF MANDATORY SUPPLEMENTS ONLY

[In percent]

	Overpayments of $5 or more		Payments to ineligibles	
	July 1974 to December 1974	Januarv 1975 to June 1975	July 1974 to December 1974	January 1975 to June 1975
Arkansas	14.8	12.9	6.6	6.4
Florida	14.6	34.6	10.6	15.4
Georgia	8.5	9.2	9.3	15.8
Indiana	5.2	15.7	7.2	15.7
Kansas	16.5	10.1	8.8	7.9
Louisiana	6.9	5.0	2.0	3.5
Maryland	10.9	15.6	9.2	7.8
Minnesota	7.9	5.8	7.2	5.8
Mississippi	3.6	3.5	6.7	7.1
Ohio	12.4	10.3	3.5	5.6
South Carolina	20.0	14.7	10.0	10.3
South Dakota	9.3	16.2	5.2	10.1
Tennessee	17.3	27.3	6.8	22.7

TABLE II.—DISTRIBUTION OF ERROR FEDERAL AND CONVERTED CASES

	July–December 1974			January–June 1975		
	Federal	Converted	Total	Federal	Converted	Tota l
Overpayments	10.8	14.1	13.3	8.8	12.1	11.0
Payments to ineligibles	9.1	5.2	6.1	12.6	5.3	7.7
Subtotal	19.9	19.3	19.4	21.4	17.4	18.7
Underpayments	8.9	4.4	5.4	8.9	4.1	5.7
Total	28.8	23.7	24.8	30.3	21.5	24.4

Note: Overpayments and underpayments under $5 are not included.

TABLE III.—INCORRECT PAYMENT LOCATIONS

[In percent]

	July–December 1974	January–June 1975
Traceable to conversion problems	40	27
Posteligibility	20	28
Initial application	13	15
All other	27	30
Total	100	100

Mr. CARDWELL. We are now waiting for the results for the 6-month period ending December 31, and so far, the early returns show that we will show an improvement for the first time.

I would point out that the error rates that have been reported so far are essentially the same rates that the States experienced when they administered the program.

Mr. FLOOD. What are you doing specifically about the overpayment problem?

Mr. CARDWELL. There are a number of actions that we are taking to try to cut down overpayments, payments to ineligibles and underpayments. They are laid out in summary in the statement that we will file for the record. I will be glad to review some of them with you at the moment, if you like.

To get to the point as quickly as possible, what we have done is set a target to run the error rate down from 24.4 percent as it existed in July of 1975 down to about 19 percent for this next July. Our ultimate target is to get the rate down to about 15 percent.

That includes all kinds of so-called errors. It would include errors of omission and lack of reporting on the part of the individual beneficiary. We hold ourselves accountable for those errors under our reporting system. Yet, very often, and in probably the vast majority of cases, that particular matter is beyond our control. We also include in our statistics, underpayments as well as overpayments.

Many people will believe that the Social Security Administration should be able to achieve the same payment efficiency levels for SSI that it experienced through the years for regular social security, and we have been making a special point to emphasize that that is an expectation that we ourselves could never fulfill. This is a different program, with different processes.

Mr. FLOOD. You referred to the quality assurance system.

Mr. CARDWELL. Yes, sir.

Mr. FLOOD. Based upon the quality assurance system how much in overpayments have been made?

Mr. CARDWELL. The system as reported to you in January shows that for the last measurement period, which was the period that ended June 30, 1975, the overall case error rate was running 24.4 percent. Overpayments and payments to ineligibles were 18.7 percent; underpayments were 5.7 percent.

Mr. FLOOD. What does the HEW audit system show?

Mr. CARDWELL. HEW audits were conducted for a different purpose. They were conducted to examine, on behalf of 31 States for whom we administered State supplements at that time, the extent to which errors might have occurred in the first 6 months of the program,

under our contractual agreements with the States. We originally provided for no Federal fiscal liability for any error committed during that period, except for individual, specifically identified cases recognizing it was to be a transition period. About a year ago the States came to us and said they thought that was inherently unfair to them and we said, "Well, our quality assurance system was set up to test our performance beginning in the second 6 months, because that was the original agreement." But we would cooperate with them and ask the HEW audit agency to do an arms-length audit of the first 6 months' activity, and that we would use as a basis for negotiating settlement with them for excessive errors, extraordinarily high rates of errors for that first 6 months.

Those audits have just now been completed and we are just in the midst of developing a dialog with those 31 States.

Mr. FLOOD. When can we expect the most recent data?

Mr. CARDWELL. We will be reporting to the Congress in April the results of the 6-month period ending December 1975. I hope that that will show some improvement.

Mr. FLOOD. How does that compare to the State figures, when they ran the whole program?

Mr. CARDWELL. Just about the same.

Mr. FLOOD. How does it compare with any other social security programs?

Mr. CARDWELL. It is about three times what it is in the other social security programs.

If you compare SSI with the overall AFDC program, it is significantly lower.

Mr. FLOOD. What is the lowest error rate that you feel could be achieved in the SSI program?

Mr. CARDWELL. Taking the law as we find it, and with no major legislative change to simplify the program and to eliminate its variables, and this has to be an approximation—we think that that rate, overall rate, including all kinds of so-called errors, would be about 15 percent. We wouldn't reach that until the end of 1977.

POTENTIAL ELIGIBLE POPULATION

Mr. FLOOD. How many individuals are currently eligible in the program?

Mr. CARDWELL. We have in payment status now something in excess of 4.3 million people including those people who only get a federally administered State supplementation payment. As I said earlier, we cannot identify with any certainty how many people in the total population are really eligible.

Mr. FLOOD. How many participants, then are estimated for 1977?

Mr. CARDWELL. We would see the number as going from the present 4.3 to about 5 million.

Mr. FLOOD. Why aren't all of the eligibles participating?

Mr. CARDWELL. Well, it may be that a very high degree of them are. As I say, I think we are working against an estimate that was made about 4 years ago that was basically wrong. I think it was an overstatement of the population. The analysis of the population characteristics that make up this universe has to be very rough. We know a good

bit about people by age. We know a little less about them, but still a good bit by income. We can compare an age and get a fairly accurate picture. Then when you start to run in disability, which we know very little about relative to income and when you start running in resources, who owns a home, by age, who owns a car, by age, who has money in the bank, by age, who has an insurance policy, by age, all of which can determine eligibility, then the estimates start to get very fuzzy, and I think that the people who did the original estimate, they made the best guess they could. And I think they made a very high guess.

Mr. FLOOD. The original estimate though indicated about one-fourth of the participants would consist of the blind and the disabled. Now, the current figures show that this group comprises about 50 percent——

Mr. CARDWELL. That's right. That seems to be a permanent characteristic of the program. That holds steady.

Mr. FLOOD. Is there any reason for that particular one?

Mr. CARDWELL. There, again, I think it is the fact that in making the original estimate we didn't know as much as we thought about people in the total population among the lower age groups who might be eligible for this program. We used the experience of the States and of our regular title II program—and that experience is not holding true.

As you point out, what is happening is that roughly half of the persons who turn out to be eligible are eligible for reasons of being diasbled.

VOCATIONAL REHABILITATION

Mr. FLOOD. One aspect of the program is to return the blind and disabled to work by providing vocational rehabilitation services. The results have been pretty disappointing. Is there a problem? Can you do any thing about it?

Mr. CARDWELL. The GAO thinks there is a problem, not just SSI, but in the entire arrangement between the Social Security Administration and the State rehabilitation agencies. GAO thinks we could do something more about it then we have done. Let me describe to you how the arrangement works.

The Social Security Administration has really turned over to the States the responsibility for determining who might best be served by rehabilitation services, and we pay over to the States the cost of those services.

GAO recently examined this question for all disabled persons eligible for regular social security and came to the conclusion that when you looked at the States as a whole, they were tending to take the easy cases and bypassing the cases where the program itself could receive the most by way of cost/benefit result, and they said that it seemed to them that the Social Security Administration should assume a larger role and should take greater responsibility for determing who goes on and who doesn't go on. The same situation may exist in the SSI program.

We are examining that question now.

REDETERMINATIONS

Mr. FLOOD. Redeterminations must be made at least once a year. That certainly poses quite a workload for your office.

Mr. CARDWELL. Indeed it does.

Mr. FLOOD. Last year we asked you about this. You indicated there wouldn't be a problem. What about the size of the workload?

Mr. CARDWELL. I didn't know I indicated that there would not be a problem. I might have suggested, compared with all other things it might not be a problem. It is a very significant aspect of the work of the SSI program, the idea you would go back and reconstruct every case literally at least once a year.

HEW has tentatively imposed the same general requirements on States for public assistance and in some cases with greater frequency.

Mr. FLOOD. What is the size of the workload?

Mr. CARDWELL. It will run in 1977 about 4.7 million cases. We have just finished 2.7 million cases out of the original conversion. The remaining 300,000 originally converted to the SSI rolls are no longer receiving payments mainly because of death or excess income.

Mr. FLOLD. Can you do a redetermination on a timely basis?

Mr. CARDWELL. I think we can. What we are aiming for is to take the caseload and to identify any low risks. We have got some statistics on this now, and we would actually plan to have redeterminations more frequently than once a year on the high-risk cases.

The other question is the depth of redetermination, how extensive should the review be; is it enough to have a review by just looking at the paper file or must the redetermination also consist of a visit and face-to-face interview with the claimant?

If there is to be a face-to-face interview, is it satisfactory to hold it in the office, or should you go to his home and see his surroundings? Should you actually go out in the community to see if he has a bank account or should you take his word for it?

Here again, we think that with experience we can develop some formulas that will determine the depth and breadth of the redetermination according to the risk, and that has to be an evolutionary arrangement. That is our end objective.

Mr. FLOOD. Do you feel that the estimated savings of $345 million in 1977, due to redetermination, is fairly accurate?

Mr. CARDWELL. Well, when you look at it as a share of the total, it does not seem to be out of the range of reasonable expectation. It is a rough estimate. It is not based on extensive experience. It really represents a target that we have set for ourselves. It seems to us that we should deliberately attempt to offset the program costs through the redetermination process. That was the objective of the process.

Mr. FLOOD. How much has been saved so far from redeterminations?

Mr. CARDWELL. In 1975 $35 million. Actually, the effect of the 1975 redetermination was $35 million for 1975, $145 million for 1976. We estimated another $145 million for 1977. Once you take a person off the rolls or lower his benefit, that has a permanent effect.

In 1976 we estimated $45 million, extending into 1977, an amount of $150 million. In 1977, initial redeterminations for that year along with other error reducing efforts should produce another $50 million. Add the effects up for 1977 and you get $345 million. I think it is probably a low estimate of what should be expected.

FEDERAL FISCAL LIABILITY

Mr. FLOOD. You are proposing to reprogram $60 million for this Federal fiscal liability.

Mr. CARDWELL. Yes, sir.

Mr. FLOOD. What about that?

Mr. CARDWELL. Well, this is one of the most troublesome aspects of administering the program. In a way it is kind of a mirror reflection back to HEW of the HEW experience with the States on public assistance.

The Federal Government has for many years been insisting that the States be held accountable for their overpayments and payments to ineligibles, and there has been much ado made through the years that HEW, as the administering department, should find some way of holding the States fiscally liable for such overpayments.

When SSI came into being, the 31 States who opted for Federal administration said, "We have got you. We are going to do to you what you have been trying to do to us." And the Social Security Administration literally did sign contracts with those States, holding itself fiscally liable for overpayments over a certain tolerance rate. In this budget, that liability would begin to show up for the first time.

It is estimated at $15 million for the period of January 1, 1974, through June 1974. We believe that would be the end result of our negotiations with the States, based on the HEW audits. For the period July 1, 1974, through December 1974, we estimate that our liability will be about $20 million; and for the third 6-month period of the operations, that would be $25 million.

The sum of those three periods is $60 million. You could ask, why is it divided into the three periods: The first 6 months was not under quality assurance system. We have agreed that we would assume liability if it can be established through an audit.

Mr. FLOOD. Your estimate of the fiscal liability you say is rough. How rough is it?

Mr. CARDWELL. Well, it is based on the QA system error rates. There is a formula in the contracts which says that once the quality assurance rate is established, it defines how that error rate is to be converted to dollars. We actually have the error rates now for two of those three periods, so we think that it is a fairly firm estimate.

The States will tell you that the liability is much higher, and there are two contentions that they have made and we think they will continue to make.

It is a bargaining process, if you will. They start out stating the figure as high as possible, and I guess we start out stating it as low as possible.

ADMINISTRATIVE COSTS

Mr. FLOOD. What is the proportion of the administrative cost to the total program cost?

Mr. CARDWELL. For the SSI program, administrative costs are approximately 7.6 percent of benefit payments including federally administered State supplementary payments. I would be glad to show you the analysis and put it in the record.

Mr. FLOOD. All right.

[The information follows:]

SSI administrative cost compared to benefit payments

	1977 estimate
Federal benefits	$5, 245, 000, 000
Federally administered State supplementation	1, 295, 000, 000
Federal hold-harmless contributions	55, 000, 000
State supplementation	1, 240, 000, 000
Total federally administered payments	6, 540, 000, 000
SSI administrative costs	500, 352, 000
Percent of administrative costs to benefit payments	7. 6

States are only required to pay the Federal Government the costs of State supplementary payments exclusive of Federal hold harmless contributions who the Federal Government administers State supplementary payments. The Federal Government bears all administrative costs incurred in administering State supplementation. Therefore, we have included federally administered State supplementary payments as well as Federal payments to show the relationship between administrative costs and benefit payments.

APPROPRIATION ESTIMATE

Mr. FLOOD. Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. Cardwell, this must be one of the fastest growing Federal programs, at least in dollar terms. It started out with $77 million in 1973. The account grew to $2.2 billion the next year, and then to $4.9 billion, $5.5 billion; and now the request is $5.9 billion. Do you expect this to level off sometime?

Mr. CARDWELL. I personally think the caseload will level off somewhere in the neighborhood of 5 million people. That is a guess. But the dollar cost is going to steadily increase as the cost of living increases, because this program has an automatic index or escalator built into it. If you look at the record for the period that you describe, you will find that there were about three things that drove up the cost. The most significant single feature of that cost increase was the fact that the Federal program, the terms and conditions prescribed in the Federal law, automatically raises the level of benefits over those that prevailed under the old Federal State arrangement. In effect, the program's cost has almost doubled, and the Federal Government assumed about 90 percent of that increase.

So that is the most significant factor.

The next most significant factor would be the increase in the number of beneficiaries. The Federal law is more liberal in who could be eligible, and we have increased by over 50 percent already the number of people eligible.

The third factor would be the cost-of-living index. That has only shown up so far once, but it is predicted to show up every year for the next 3 to 5 years.

I would point out, they were going to say that we have a mixture of cost figures here, administrative costs being compared to benefits costs, and perhaps in the record we should try to get that straightened out.

[The information follows:]

[Dollars in thousands]

	1973	1974	1975[1]	1976[2]	1977 request
SSI appropriations:					
Federal benefit payments		$1,644,498	$4,080,000	$4,760,000	$5,245,000
Federal hold harmless payments		159,000	255,000	205,000	55,000
Vocational rehabilitation services		39,674	48,853	54,888	52,770
Administrative costs	77,207	368,464	473,249	498,635	500,352
Federal fiscal liability					57,000
Total	77,207	2,211,636	4,857,102	5,518,523	5,910,122
Reimbursable State supplementation: State supplements		658,700	1,225,000	1,169,600	1,240,000

[1] Including supplemental appropriation.
[2] 1976 revised estimate:

Federal benefit payments	$4,545,000
Federal hold harmless payments	120,000
Vocational rehabilitation services	57,672
Administrative costs	495,660
Federal fiscal liability	60,000
Total	5,278,459
Reimbursable State supplementation	1,275,000

VOCATIONAL REHABILITATION

Mr. SHRIVER. Would you explain further why you anticipate a $4.9 million decrease for vocational rehabilitation services?

Mr. CARDWELL. We are trying to reflect the conclusion that the General Accounting Office reached, that we were giving over to the States more money than they were effectively applying to the hard-core cases that could produce the most cost benefit for this program. And we are assuming that we will be able to work out some arrangement so that they can sharpen the focus of their rehabilitation efforts. And that should reduce the cost. They may eventually climb back up if the States do indeed learn how to better focus their rehabilitation services.

I for one think that the improvement that we can make over time is probably going to be marginal. GAO felt it could be significant.

RESOURCES

Mr. SHRIVER. You note a beneficiary's home cannot be worth more than $25,000 if that person is to remain eligible, along with other net worth criteria. Do you now have, or do you foresee a problem with this?

Mr. CARDWELL. There are two problems I foresee. First is that we are going to have to periodically reassess those criteria as the cost of living goes up and as the value of property and chattels change. Perhaps a more significant problem that we will face is the result of a recent decision by the District of Columbia Federal Court dealing with public assistance in which they found that the use by the District of Columbia of a market value measure for determining the value of real property and chattels to be inconsistent with the basic intent of the Social Security Act.

I don't know where that case will eventually come out, but if it comes out in a way that results in that being a final conclusion, of course, we would have to go back then and rethink all of these criteria, because they are all based on market value—not equity.

We debated that when the program began. It was our view that Congress was interested in the effect of market value because they were interested in not just how much equity a person had in an automobile, for example, but the appearance of that automobile in the face of the general public.

For example, using the old welfare Cadillac case, which I am sure has been overstated through the years, but in any event, it is literally possible to own, for at least a short period of time, a piece of property that has great value with very little equity in it. It is doubtful, however, that a person on public assistance or SSI could sustain ownership of an expensive home with minimum equity, and that in itself would probably be an adequate test.

We use market value, frankly, to balance both the appearance and the question of ownership, but the court may well be saying to us that, "No, no, you have got to use equity." If that happens we will have to change all of these criteria.

DRUG ADDICTS AND ALCOHOLICS

Mr. SHRIVER. In your justifications, on page 65 you discuss monitoring the treatment of drug addicts and alcoholics. What is that program?

Mr. CARDWELL. The law as written requires that disabled individuals who are put on the rolls and are an addict or an alcoholic must subject himself for rehabilitative treatment, and that if he fails to do so, and fails to maintain such treatment, he is to be dropped from the rolls. And thus, that imposes a significant monitoring burden on the Social Security Administration and/or the agencies that we would ask to do that on our behalf.

On page 65 we estimate the number of persons who would be subject to that provision.

Mr. SHRIVER. I note there is quite an increase in the cost of this.

Mr. CARDWELL. Yes. The unit cost would remain the same. The number of disabled persons coming onto the program who are also addicts or alcoholics is expected to increase. That accounts for the dollar increase.

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. FLOOD. Mr. Natcher.

FEDERALLY ADMINISTERED STATE SUPPLEMENTATION

Mr. NATCHER. Mr. Cardwell, I have a copy here of the report that I believe was transmitted to you probably the latter part of January, and under the summary of the major recommendations that are made in this report, I find one pertaining to State supplements.

It is No. 1 now as far as certain recommendations are concerned, and I quote out of the report.

> Federal administrations should be retained only in States agreeing to a uniform supplemental payment level, and administration of assistance payments based on special needs should be returned to the States.

Do you agree with that recommendation, Mr. Cardwell?

Mr. CARDWELL. As a general proposition I do.

Mr. NATCHER. What does this mean? What, ultimately, will it mean if money is accepted and placed in operation?

Mr. CARDWELL. Well, let's take two States as examples, California and New York, The law gave the Secretary the opportunity and responsibility to determine whether, if, and to what extent he would administer on behalf of the States a variable, or number of variables. By variable I mean a varying test for eligibility.

New York, for example, asked us to administer one test for income in one part of the State, a different test for another part of the State. California has asked us to administer as an eligibility criterion the question of whether the person residing in the household of another, takes his meals in still a second place. That is what I mean by "variables."

The Secretary had the option under the law, still has it, to determine the extent to which he would or would not administer on behalf of the States variables.

What this committee has said is that we were too liberal and too optimistic ourselves in allowing some of the larger States to have so many variables, and that the variables themselves are inconsistent with the original intent of this law, which was to drive the program toward a more uniform basis for eligibility. And they are saying that the Secretary should go back and say, "Look, States, if you are going to insist on this many variables, be our guest. Administer them yourselves. We will be glad to administer a lesser number." In fact, what they are saying, is that the Federal Government should administer only a uniform supplement. I don't know whether I would go that far.

Mr. NATCHER. Mr. Cardwell, another recommendation that you make here, under the State supplements, and this is the third one, and I quote,

> The requirement that States provide a supplement to maintain the income that a recipient under former assistance programs had or would have had in December 1973, and the penalty of withholding medicaid funds if States do not provide a supplement should be eliminated.

Do you agree with that, Mr. Cardwell?

Mr. CARDWELL. Yes, sir.

Mr. NATCHER. Tell me why.

Mr. CARDWELL. This is another complexity in the law. In their judgment and in mine too, it serves in the final analysis very little useful purpose for either the States or the Federal Government. It will eventually, I think, be overtaken by events as the benefit levels of the program tend to rise.

The theory of the provision was that the States should be forced and mandated to maintain certain payment levels, and the stick behind that carrot, the carrot being the Federal base grant was that if those States that were already making payments above the level failed to continue it, we would hold medicaid matching as a penalty; and I think this group concluded, as I generally do, that that is just not well designed law, on two counts. One, that the Federal Government probably shouldn't be attempting to mandate the level for the States in the first place, and second, withholding another benefit right that the Federal Government itself identified originally seems to be a strange,

if not awkward way to enforce the first provision. So as a general proposition I think they are right.

As a practical matter, we think the point will cancel itself out over time as benefit levels rise, which we predict they will.

Mr. NATCHER. Thank you, Mr. Cardwell. Thank you, Mr. Chairman.

POTENTIAL ELIGIBLE POPULATION

Mr. FLOOD. Mr. Early?

Mr. EARLY. Mr. Cardwell, in your reply to the chairman, you said several things as far as overstatement and the number of cases and expectation that may never be realized. This program has been in effect a couple of years now. I would think we could be more specific with our numbers.

Mr. CARDWELL. Let's take the numbers having to do with the universe, that is the numbers of people in the population who might be eligible if they elected to exercise their eligibility right. Nothing in the 2 years since we have administered the program has changed that. We still have no better means from that experience of reaching out into the total population and identifying who is out there and who isn't out there. The very existence of that original estimate causes us, the administering agency, to generally be on the defensive.

Mr. EARLY. When we went into SSI, we estimated how many cases were being understated. The Federal Government told the States that these questions would be answered within a year. We don't seem to be getting any closer to it.

Mr. CARDWELL. By understated, you are talking about cases that were underpaid, overpaid?

Mr. EARLY. No; I am referring to eligibles.

Mr. CARDWELL. Numbers of eligibles?

Mr. EARLY. Did the Federal Government spend any money to educate the people who were eligible for SSI?

Mr. CARDWELL. Yes.

Mr. EARLY. How much?

Mr. CARDWELL. I can't give you a figure off the top of my head, but over the 2½-year period it has been in the millions of dollars. Let me just summarize some of the things that we did. We think the most significant thing we did during the period was to screen the entire social security roll for anybody over age 65, or on our disability rolls, whose social security benefit might be low enough that they would still be eligible for an SSI benefit. We attempted to contact those people. That was some 5 million people.

I think the second most significant thing we did, in the fall of 1974, was to work with the Administration on Aging, and with a group of volunteer agencies under the general management of the American Red Cross, to conduct a national campaign. Working through volunteer agencies we attempted to identify people in local communities who might be eligible and to urge them to file a claim. We are still attempting to enlarge and expand our outreach.

I think part of the problem is that that original estimate of the universe may well be wrong, and the study group said that.

Mr. EARLY. That was in 1972. I would think we would have conclusions by now. We are still talking very generally. We are still talking a 25 percent error rate which is totally unacceptable to me.

Mr. CARDWELL. You are confusing error rate——

Mr. EARLY. I am not trying to draw an analogy between the error rate and not being able to identify the eligibles. Those are different things. Back when you incorporated this program with the States, you assured the States that they would notice that the figures were probably very underestimated, but they would know within a year. We don't seem to be getting closer to it.

FEDERALLY ADMINISTERED STATE SUPPLEMENTATION

Mr. CARDWELL. The number of persons we are paying for on behalf of the States—that we can pinpoint right to the number. We have two kinds of relationships with the States. In the case of 28 States and the District of Columbia, we administer a basic benefit for a finite number of people. We know the number at any point in time. We can tell you the number of States and tell you the State.

Mr. EARLY. What States dropped out?

Mr. CARDWELL. Illinois was one; Minnesota, South Carolina, and Utah have also dropped out.

Mr. EARLY. How many States have gone over the hold-harmless provision originally incorporated in the program?

Mr. CARDWELL. Large States such as California and New York have. I could give you an analysis for the record.

[The information follows:]

States Which Have Exceeded Hold-Harmless
(in thousands of dollars)

	Total State Supplementation	Excess above 1/ Hold-Harmless (unprotected)	CY 1972 State 2/ Expenditures (Hold-Harmless)	Subtotal of State Expenditures	Federal 3/ Hold-Harmless Payments
California					
FY 74	317,131	110,806	191,561	302,367	14,764
FY 75	679,414	266,389	382,370	648,759	30,655
Hawaii					
FY 74	2,498	0	1,765	1,765	733
FY 75	5,249	0	3,530	3,530	1,719
Massachusetts					
FY 74	57,806	8,919	29,065	37,984	19,821
FY 75	158,456	58,076	58,129	116,205	42,251
Nevada					
FY 74	970	186	475	661	310
FY 75	1,989	403	950	1,353	637
New York					
FY 74	124,171	37,909	80,244	118,153	6,018
FY 75	266,001	90,072	167,973	258,045	7,957
Wisconsin					
FY 74	17,046	2,901	9,889	12,790	4,256
FY 75	46,953	0	19,778	19,778	27,175

1/ A State may choose to exceed its CY 1972 expenditures by the optional supplementation levels it sets.

2/ States must expend this amount in "protected" State supplementary payments in order to receive Federal hold-harmless contributions. Since the SSI program was in operation for only 6 months in FY 1974, CY 1972 State expenditures (hold-harmless levels) were divided by two for calculations in FY 1974. California and New York are exceptions in this case since billing for the two periods was based on two different hold-harmless levels. Different levels were used due to disputes between the Federal government and the States over the amount of CY 1972 State expenditures. Interim resolution of this dispute has been achieved.

3/ Only States which opt for Federal Administration of State SSI supplementation can, under law, benefit from "hold-harmless" protection. The State is protected from paying out of State funds any more than its calendar year 1972 assistance expenditures for the aged, blind, and disabled because of overall growth in the recipient population. This "hold-harmless" protection applies only to supplementation payments which do not on an average exceed a State's "adjustment payment level".

Mr. EARLY. I thought Massachusetts went over.

Mr. CARDWELL. Massachusetts may have or may be very close to it. Massachusetts is one of the most generous States in the entire field.

Mr. EARLY. Several of the commitments that we made by the Federal Government when they went into SSI aren't being fulfilled.

Mr. CARDWELL. I would like you to tell me which ones.

Mr. EARLY. I hope to identify some of them. You speak of a 25-percent error rate. That is in dollars. How much of the $5.278 billion?

Mr. CARDWELL. The 24.4 percent relates to the number of cases. In dollars it equates to about 10 percent of the $5 billion for combined Federal and federally administered State supplementary benefits paid during fiscal year 1975.

Mr. EARLY. That is $500 million.

APPROPRIATION ESTIMATE

Mr. CARDWELL. Yes.

Mr. EARLY. In 1976, you appropriated $5,518 million and you had an unobligated balance of $242 million.

Mr. CARDWELL. Yes.

Mr. EARLY. Would you explain that for us?

Mr. CARDWELL. When the 1976 estimates were made we estimated that at the beginning of fiscal year 1976, 4 million people would be receiving Federal benefits by the end of fiscal year 1976 they would increase to 4.5 million. Actually we started fiscal year 1976 with 3.7 million individuals receiving Federal benefits. Based on experience we thought recipients would increase to 4.2 million by the end of 1976. The lower number of recipients accounts for the decline in estimated 1976 Federal payments. Well, it looks as though our estimate of Federal benefits is off by about 5 percent.

ERROR RATES AND OVERPAYMENTS

Mr. EARLY. In your comments, you say that you don't think you can reduce the 25 percent error rate; or you are not too optimistic it is going to be anywhere near the OMB's suggested 15 percent.

Mr. CARDWELL. No. I say 15 percent is our target not OMB's and we would reach that estimate by the end of 1977; that to go below that, in our experience, I suggest that you would have to modify the law.

Mr. EARLY. I misunderstood you. You think you can attain 15 percent?

Mr. CARDWELL. Yes, sir. I would remind you that that would probably be about a third, maybe a little more than a third of the Massachusetts rate for public assistance, which is one of the highest.

Mr. EARLY. I take from your last comment that this might be one-third of the error rate of Massachusetts.

Mr. CARDWELL. For AFDC.

Mr. EARLY. For AFDC. That was a 52-percent error rate in overpayments and underpayments.

Mr. CARDWELL. I am saying 15 percent is significantly below that.

Mr. EARLY. It certainly is. You have to look at that error rate that has been reduced. There is no justification of an error rate of that size. That is an error rate of overpayment, underpayment, and total mismanagement.

Mr. CARDWELL. Ours is the same, overpayment, underpayment, payments to ineligibles, all three.

Mr. EARLY. Could you tell us how much of the error rate is overpayment?

Mr. CARDWELL. Yes. On the 24.4 percent, 11 percent of it is overpayments, 7.7 percent is payments to ineligibles. Those two categories add up to 18.7 percent.

Mr. EARLY. So the underpayment is 7 percent?

Mr. CARDWELL. No; underpayment is 5.7 percent.

Mr. EARLY. Could you tell us the dollar factor of the 18-percent overpayment? I take the ineligibles as overpayment because they are not entitled to it.

Mr. CARDWELL. Well, it is in the neighborhood of 10 percent of the Federal benefits and federally administered State supplementary payments.

Mr. EARLY. That would make the underpayment the same amount.

Mr. CARDWELL. No.

Mr. EARLY. I thought we identified $500 million.

Mr. CARDWELL. $500 million is an extrapolation of erroneous payments identified by the quality assurance case samples. These are total dollars in error—Federal and State.

Mr. EARLY. I thought the Department reported that its audited system overpayment tally was $547 million and that your quality appraisals system reported it was $579 million. Would you explain the difference or would you reconcile the difference? That discrepancy is great. Which is correct?

Mr. CARDWELL. That's correct; the $547 million figure is a correct figure.

Mr. EARLY. For 2 years?

Mr. CARDWELL. Yes.

Mr. EARLY. What about the $579 overpaid in 1 year?

Mr. CARDWELL. Let's see if we can get something straightened out as a basis for conversation. First, we are talking about a period of more than 1 year. Next, there are two sources of estimating the dollar value. One is the so-called computer tally, which reflects the actual differences that have literally occurred in the system that have been identified and recorded. They have actually taken place, and the system is tracking them. It is accumulating them all the time. That figure if we carried it into infinity would be so large it will just frighten anybody in the world. I am not sure it would be wise to carry it forward.

Mr. EARLY. As we carry it on, I would think it would be diminishing.

Mr. CARDWELL. No. What is diminishing is the $579 million. The QA system does not measure dollars; it measures cases. It identifies a number of cases in error. It is a carbon copy of the system that was applied by HEW in 1972, and it prescribes a formula for converting the number of cases to the number of dollars and that will produce a much higher figure, and what it suggests is that either the formula itself needs to be reconsidered, and it is not our formula, it is a formula that we adopted from the original one, or that the QA system is identifying, and this is to be expected, I think, as a general proposition, and as a measurement, more errors than are actually being detected during the day-to-day performance.

Mr. EARLY. That figure that you couldn't identify—$579 million—which I said was overpaid in a 1-year period, from the report which you sent us, page 5.

Mr. CARDWELL. I don't think it says a 1-year period.

Mr. EARLY. It says from July to December 1974, from January to June of 1975, which I take it is a 12-month, 1-year period. You had $304 million plus $275 million.

Mr. CARDWELL. That is taking the case error rates interpreted into dollars. It does not represent the actual dollars that would have been paid out.

Mr. EARLY. Would you run that by me again?

Mr. CARDWELL. It is complicated.

Mr. EARLY. That isn't a dollar rate?

Mr. CARDWELL. It is an estimated dollar value of all the errors that the QA system itself identified; but remember, during the normal course of daily transactions, all those cases are not actually occurring. The QA system tends to look at the whole program after the fact and say, if every provision of law were carried out literally, everybody reported the way he is supposed to, if every claim was calculated the way it was supposed to be calculated, this is what the error rate would be. It tends to overstate real life, and if you took that and extrapolated the dollar values, you would get a much higher figure than the actual error rate that we are identifying and correcting as we go about our daily business.

Mr. EARLY. Along with those that you are actually identifying, aren't you also missing some?

Mr. CARDWELL. Yes.

Mr. EARLY. That is a fairly conservative figure also.

Mr. CARDWELL. $547 million.

Mr. EARLY. You identified $547 million.

Mr. CARDWELL. This is where expectations come into play. It is unreasonable to expect the law to be executed so literally as to be absolutely error free. The unanswered question is, what is the reasonable tolerance? What would be acceptable performance? The QA system that was designed and imposed on the States back in 1972 assumed that tolerance level should add up to about 13 percent, and that though one would never have to or expect to account for the dollar value of that difference.

Mr. EARLY. It is hard to think of one out of every four cases being in error.

Mr. CARDWELL. It depends on how you define error. I think if we have made any mistakes in our public relations and congressional relations, it is by being too general in the use of that term. We count as an error, for example, the strange case that involves this particular law's definition of the payment period. The law says, the payment shall be calculated in advance per quarter, but the payment amount will be paid out to the individual in three installments monthly. We enroll you on the assumption that your income for that future 3-month period will entitle you to $100 a month. We pay you the first check of $100. You were acting in good faith and we were efficient in this hypothetical case.

In the second month your nephew gave you an odd job that gave you $50 worth of income and reduced your entitlement by $50, not for that

month, but for all 3 months and you are automatically overpaid for the first month. It wasn't your fault. It wasn't our fault. We count that as an overpayment. That is in these data.

We find that if we analyze the 24 percent, and we break down the errors they are the result of unreported facts that are later identified by our QA research and failures in administration; failures to take the claim properly or to ask the right questions and that is a significant share. I don't have the figure on the top of my head. I think what we have done is develop a classification system or taxonomy, if you will, that tends to mislead everybody as to what errors are and what errors aren't. I want to be careful in this colloquy. I don't want to leave the impression we are trying to alibi anything. The error rates, however you define them for SSI are too high. They are too high for us. They are too high for anyone who reasonably measures our performance.

Mr. EARLY. Mr. Cardwell, I would suspect that the error rate is considerably less on a conversion case than it is on a new case; is that true?

Mr. CARDWELL. The latest analysis shows that the error rate is higher for new cases than for conversion cases as they now exist. The conversion cases had a high error rate at first. We have already gone through all those cases once as a result of the redetermination process.

Mr. EARLY. I would think there would be very little room for error in the ongoing cases.

Mr. CARDWELL. No. It depends on the circumstances of the individual. For those who are not working and can't be expected to work, very little opportunity exists for error. But those who keep moving in and out of work——

Mr. EARLY. How many would there be in the SSI program?

Mr. BYNUM. Eight to ten percent of the incorrect payments identified in the QA sample have to do with wages.

Mr. EARLY. Just 8 to 10 percent?

Mr. BYNUM. The unreported events, these include not only working, they include changes in your living arrangements, a whole variety of changes. The latest that we have indicates that about 40 to 45 percent of the "errors" are events that take place after the initial claim is filed and before we get back to the individual to redetermine that case.

Mr. EARLY. My point is, once you have redetermined that case, which is going to be probably 90 percent of your entire case load——

Mr. BYNUM. We will do all of them each year.

Mr. EARLY [continuing]. There should be very little identification with an error.

Mr. BYNUM. That is absolutely true as of the day you redetermine the case, but you get back to it a year later, and there have been the same kinds of changes in living arrangements and other things taking place, and the trend line should be down. It is down.

Mr. EARLY. Not down very much, from 25 to 24½ percent.

Mr. BYNUM. In our redetermination process, we have gone back into all the cases we took over from Massachusetts and the other States and we have reduced the existing error rate in those cases quite substantially. We are just beginning. We are late but we are just beginning the redetermination of all the new Federal cases that we started taking as far back as July of 1973, and our findings on those

cases show that, as we redetermine them, we are finding about 19 to 21 percent change in those cases including overpayments, underpayment, ineligibles on the new Federal cases. We will have that group of cases purified as we go through that process this year. But events that take place after the redetermination date would tend to drive the trend line back up, unless the individual recognizes that changes have taken place and that they are significant enough to report to us. You will remember his average age is 77. If he is in the aged category, or otherwise he is a disabled individual and he may not have the ability to recognize what is to be reported.

Our QA system does not measure current events. It takes a sample of the people on our rolls, all kinds of people as of any given month, and looks at their situation. Some of those individuals have had their cases redetermined within the last 4 or 5 months, some within the last year. Not the new Federal cases, because we are just getting into that process at the present time.

Mr. EARLY. If they are not being redetermined, OK. The fact that it is not being redetermined doesn't make it probable to be identified as an error. It doesn't get identified as an error until you redetermine it. That is when you identify it as an error.

Mr. BYNUM. That is when we pick it up in terms of dollar amount and correction. In terms of our quality assurance process, this review of a sample of cases that we do on a continuing basis, where the 24-percent error that the Commissioner talked about takes place, these cases will be picked up. A sample of those cases will be picked up every month—a sample of all kinds of cases.

Mr. EARLY. Would that description make the quality assurance approach appear to be more realistic?

Mr. BYNUM. That description means the quality assurance process, if in itself carried out perfectly, and that is a little bit optimistic, but if it is carried out perfectly, it would indeed accurately reflect perfection or lack of perfection on the part of the Social Security Administration in carrying out every detail of the law.

Mr. CARDWELL. I think what you should try to do is divide the thing into two parts. The first part is the redetermination process. It detects errors and makes the corrections right there on the spot. They are reflected in the computer. That accounts for that $547 million figure being accumulated.

The redetermination process is made in the district office, and it really parallels very closely the original interview process.

Mr. EARLY. Why, when you redetermine, would that be identified as an error, if in the case of Mr. X, you redetermine that he is now eligible for an increase or a decrease because of that activity or that action?

Mr. CARDWELL. Well, insofar as counting errors and reporting them to the public and Congress, we don't use that count. The only thing we do there for counting purposes is to count the amount of money involved. We keep a record of it because we assume someone would want to know. We ourselves would want to know. The second track—or the second part—is the quality assurance review, which covers 6-month periods. It is done by taking a sample of the caseload, the whole caseload. You reach in and take out a sample. It attempts to measure the entire program's performance, and it is a much tougher test than the test that we apply through redetermination. Let me give you an

example. At the time of both the initial claim and the redetermination, we rely on the claimants to tell us whether or not he has money in a savings account. He may tell us yes or no. He may be right or wrong. He may be wrong knowingly; he may be wrong innocently. In the QA system, we don't take his word for it. In that sample, for people who come up in that sample, we go to banks in their neighborhood. We go to the credit bureau. We go visit him in his home to verify what he has told us. In other words, we are measuring the program's general performance, but we couldn't possibly and shouldn't expect ourselves in the routine of taking initial claims or making redeterminations to do that much work on a 4 or 5 million caseload. It would take more staff than anybody would ever authorize. It is that in-depth quality assurance review that is showing up the error rate.

Mr. EARLY. In that type of a check, what error have you identified or how much of a discrepancy? What percentage of the people you have investigated have overstated their assets?

Mr. CARDWELL. Breaking this down between income and savings accounts—I will give you separate figures for each of those—savings accounts, 13.3 percent; wages, 8 percent.

Mr. EARLY. Eight?

Mr. CARDWELL. No. Let me correct that one; wages are 4.1 percent.

Mr. EARLY. These are case percentages?

Mr. CARDWELL. Percentage of payment errors which were contained in the QA sample. On income, other income, 12.6 percent. Living arrangements themselves account for 14.5 percent of the errors. In other words, they have given us information about their living arrangements that are wrong and would cause them to have, if corrected, a lower benefit. Let's see, I gave you savings accounts.

Mr. BYNUM. 13.3.

Mr. EARLY. 13.3.

Mr. CARDWELL. I'm sorry. I gave you dollars. Let me go back. Let me go back on a case basis. Other income, 10 percent. Savings accounts, 7.2 percent. Earnings from wages, 4.4 percent. Living arrangements, 14 percent.

Mr. EARLY. This is the percentage of cases, not dollars?

Mr. CALDWELL. Percentage of cases. On social security amounts affecting the payment, 9.1 percent. You could say, well——

Mr. EARLY. That is a whole new question; when social security goes up, SSI goes down. You say there is 9.1 percent. What is the dollar number for that?

Mr. CARDWELL. 13.4.

Mr. EARLY. Million?

Mr. CARDWELL. No; percent of the total dollars.

Mr. EARLY. What does that come to in dollars?

Mr. CARDWELL. That would be, let's see, 13 percent of about $500 million that would be about $65 million.

Mr. EARLY. I am sure you are conforming with the law. I think it is really awful stupid for us to increase social security and take it away from the recipient on another end.

Mr. CARDWELL. I tend to agree with you.

Mr. EARLY. Is legislation pending to correct that?

Mr. CARDWELL. Legislation has been considered twice that would correct that, but neither time has it passed.

Mr. BYNUM. Most of the States take care of that in terms of State arrangements.

Mr. CARDWELL. Your State takes care of it. I think you have a pass-through.

Mr. EARLY. I don't think so.

Mr. CARDWELL. Mr. Bynum says they don't.

Mr. BYNUM. Because of some of the financial problems you have been having up there.

Mr. EARLY. In your comments, where you get down to the 15-percent error rate for which you are working but were skeptical on initially you said we would need legislation. Has any legislation been filed?

Mr. CARDWELL. We would need legislation I think to get below that. We are considering at this moment a package of legislative changes. A similar package was recommended by the study group. We are trying to put the two together. It is my purpose, if the others in authority in the executive branch will support me, to put before the Congress this session some proposals.

Mr. EARLY. I hope so. Commissioner, what was the error rate of the four States that withdrew SSI.

Mr. CARDWELL. I will have to furnish that for the record.

[The information follows:]

The table below illustrates SSI State supplementation (Federal fiscal liability) case error rates for States which have terminated Federal administration of their State supplements.

[In percent]

	Minnesota (terminated Oct. 1, 1975)		South Carolina (terminated July 1, 1975)	
	July–December 1974	January–June 1975	July–December 1974	January–June 1975
Overpayments	7.9	5.8	20.0	14.7
Payments to ineligibles	7.2	5.8	10.0	10.3
Underpayments	5.0	3.6	4.6	2.6
Total	20.1	15.2	34.6	27.6

Because of the small number of people receiving State supplementation in Utah, sampling is not cost effective. Therefore we have no State supplementation error rates for Utah. For purposes of determining Federal fiscal liability, Utah has agreed to accept a group average error rate. This group error rate is a combined State supplementation error rate for all States which have the same category of supplementation agreement as Utah (federally-administered mandatory supplementation only).

State supplementation error rate data for the State of Illinois is not available because the State terminated its agreement for Federal administration before the first quality assurance review was completed. SSA's first SSI quality assurance review began in July 1974 and Illinois terminated Federal administration effective October 1, 1974. The Illinois State supplementation quality assurance sample was incomplete and not statistically reliable.

Mr. EARLY. What was the error rate when we administered it? Would you see if you could find out what the error rate is since they have taken it back, as well.

Mr. CARDWELL. I will try to do that. My guess is they will not have information since they took it back but we could compare it with their performance before we took it over. You could make those two comparisons.

[The information follows:]

SSI State supplementation error rates for States which have terminated their agreements for Federal administration are not available for periods after termination. SSI quality assurance reviews are not conducted on State-administered supplementation cases. The table below illustrates case error rates for States which have terminated their agreements for Federal administration. The table compares error rates under the former State-administered program to the error rates for the last completed quality assurance sample under the federally administered SSI program (January–June 1975). The last analysis of program performance under the former State-administered aid to the aged, blind, and disabled program was made by the Social and Rehabilitation Service (SRS) for the July to December 1972 period.

[In percent]

State	Overpayments		Underpayments		Ineligibles		Total	
	SRS/ State	SSI	SRS/ State	SSI	SRS/ State	SSI	SRS/ State	SSI
Minnesota	21.0	5.8	4.8	3.6	6.2	5.8	32.0	15.2
South Carolina	11.3	14.7	6.3	2.6	4.0	10.3	21.6	27.6

Note: SSI State supplementation error rates for Utah and Illinois are not available.

Mr. BYNUM. A number of other States are, of course, administering their own supplements. They didn't contract with us to administer supplements and I would imagine they are having about the same kind of difficulties.

Mr. EARLY. Am I to assume that 19 States administer SSI themselves?

Mr. CARDWELL. Actually 22 States administer their own mandatory supplements, while 21 States administer their own optional supplements.

Mr. EARLY. Have we seen any studies?

Mr. CARDWELL. No. If a State doesn't have a supplement there is nothing for them to do. We send out a base payment. It is only those States that want to give out an additional amount and decide to administer it themselves.

Mr. BYNUM. The basic Federal program, of course, we do administer in all 51 jurisdictions. It is only where the State wants to supplement above the basic Federal amount that we get involved. The State may wish us to handle it or they may handle it on their own.

Mr. CARDWELL. On the error rate matter, since I introduced the Massachusetts experience and I don't want to reflect unfairly on Massachusetts or any of the States, I think that what you find when you look at this phenomena, both through the years and currently, you can find only correlations. The States, with the more complex programs, are the States that have attempted to fine tune the benefits to meet different circumstances affecting the individual, either for reasons of equity, generosity or accountability or what have you. Those States have higher error rates than those States that attempted to keep their public assistance programs fairly simple.

Mr. EARLY. I think that is because the Federal Government made the system too complicated.

Mr. CARDWELL. I agree.

Mr. EARLY. I am embarrassed to say Massachusetts has a 52-percent error rate. It is totally unacceptable. It is not fault of all of the State.

When the Federal Government tells us we won't be federally reimbursed if we cut our cost lower than it was the year before, but we have an error rate in here, it becomes a two-way street.

Mr. BYNUM. You and Sumner Hoisenton and I have shared concerns about that.

ADMINISTRATIVE COSTS

Mr. EARLY. We lost the administrator of our welfare system, a Mr. Minter, who did an outstanding job and he got nothing but criticism.

Commissioner, what is the administrative cost of SSI?

Mr. CARDWELL. It is running about $500 million.

Mr. EARLY. Running about 10 percent?

Mr. CARDWELL. Actually administrative costs are about 7.6 percent. In addition to the more than $5.2 billion Federal payments, we administer well in excess of $1 billion in State supplementary payments.

Mr. EARLY. Do you feel the error rate or any of your problems is because of a lack of personnel?

Mr. CARDWELL. Yes. I would have to say that the status of the program as it exists today is in part the result of an underestimate at the time the program was taken over of the number of Federal employees who would be required to do the job. I think that underestimate meanwhile has been corrected. I think that the best we can determine, we now have enough staff, but we are still in a catch-up mode.

This is one of those things, I don't think you can blame anybody particularly. We were all involved, executive branch, legislative branch, everybody. When the legislation was under consideration with Congress, its proponents, and I think they were being as forthright as they knew how to be. They made some assumptions. First, they assumed that the final law would be a block grant program. The second assumption was that if the flat grant program were administered essentially by the Federal Government, SSA using the same system that supports the SSA programs could do it with half the administrative costs that the States in the aggregate were then experiencing, and we actually started out trying to administer the program with about half as many people as the States themselves used, but the final law didn't turn out to be the flat grant program at all. It turned out, particularly for those States where we allowed the high number of variables, to be just a repeat of the public assistance program we were taking over, and we got ourselves caught in a real crossfire.

Mr. EARLY. I can appreciate that. You took it over in 1972——

Mr. BYNUM. 1974.

Mr. EARLY. Massachusetts went above the whole time for March 1, 1974. We were going over the hold harmless. I can appreciate how tough it was to identify in 1974. I would think, by 1975, 1976.

Mr. CARDWELL. I think we have corrected the staffing problem. I think we have just about corrected the interchange of information with the individual States, which they are dependent on. We have I think, reached a satisfactory but not ultimate level of elapsed time for processing. We have cut the time for processing in half, and I think we are going to begin to show, although it is going to be very slow at first, some improvement in the error rate. I am hoping that this April 15 report will show a couple of percentage points.

Mr. EARLY. In closing I would just like to say that statistics really aren't the important thing. They can be very misleading. It is just the dollar amount. I get concerned about the amount of the error rate. Thank you, Mr. Chairman.

Mr. CARDWELL. Thank you.

AFTERNOON SESSION

Mr. FLOOD. Mr. Michel?

ADMINISTRATIVE COSTS

Mr. MICHEL. Mr. Cardwell, on supplemental security income, I note that the administrative expenses are now accounting for about 10 percent of the program. Is there any prospect of this percentage declining in the years ahead?

Mr. CARDWELL. As I said this morning, it is about 7.6 percent when we throw in Federally administered State supplementation. I really don't have a definitive answer on its possible decline. There are some possibilities it could decline if the workload were to materialize that was originally estimated before the program was enacted into law; namely, that there would be 6 million beneficiaries, compared to the slightly over 4 million now on the rolls. Then the administrative costs-to-benefits ratio would decline because I think we could serve 6 million beneficiaries with probably the same administrative support.

It is quite clear from the experience so far—and I think this ought to be very much a part of the record of the program—that the administrative support costs are now and will always be significantly higher than was estimated before the program became law.

Mr. MICHEL. Why is that?

Mr. CARDWELL. It is the nature of the program.

Mr. MICHEL. Do you still take pride in the regular Social Security Administration having one of the lowest administrative costs per benefit paid?

Mr. CARDWELL. Yes. It is 2.1 percent of benefits paid.

Mr. MICHEL. So exclusive of SSI, would you still say that for the Social Security Administration?

Mr. CARDWELL. Yes. In fact, that ratio has been holding very steady for a while even in the case of a steadily declining growth in the caseload. We should be able to serve a larger number of persons without increasing the base staff proportionately.

I think the phenomenal thing about the regular social security ratio has been that the program itself has absorbed complexities through the years and expansions, and the ratio has still held about that 2-percent level.

FEDERALLY ADMINISTERED STATE SUPPLEMENTATION

Mr. MICHEL. Federal administration of SSI is only involving about 28 States, isn't it?

Mr. CARDWELL. We administer supplements on behalf of 28 States and the District of Columbia but the Federal base grant is made to residents of all 52 States.

The supplements which are optional to the State—some are mandatory under law—but those are administered by us at the State's own choice.

There were originally 32 States that chose Federal administration. Four States—one, your State, Illinois—have dropped out of Federal administration of their supplement. South Carolina, Minnesota, and Utah are the other States.

Mr. MICHEL. What does that mean? When a State, for example, Illinois, drops out, what is the reason?

Mr. CARDWELL. It has only nominal, indiscernible effect on our administrative costs. It would increase the costs, administrative costs, I would assume. I don't know by how much because under the Federal statute if a State elects Federal administration, the Federal Government bears 100 percent of that cost.

I don't know why Illinois elected to revert to their own direct administration. It may be they felt they could do it within the fabric of their own administrative staff.

Mr. MICHEL. It does run a little counter to what we have been observing in other programs when the Federal Government comes in willing to assume the entire burden. The States say why not, since a fewer number of State dollars would have to go into the program or administration.

Mr. CARDWELL. They may have on the other hand been dissatisfied with our performance. They backed out at the end of the first year, and I don't think that could have represented a long enough experience to give a really fair chance, but I personally do not know.

Mr. BYNUM. I think there were also some special features that may have had an influence on it.

Mr. MICHEL. Like what?

Mr. BYNUM. Living arrangement variables and those kinds of things.

Mr. CARDWELL. What happened, when the program started, we gave the States an option to elect up to five variables in their State supplements to recognize various living arrangements and three to recognize different costs of living within the States. By variable we mean an additional criterion for eligibility or for benefit payment amount. For example, a State could elect to have one benefit level for one part of the State and a higher one for a metropolitan district in the same State. That we call a variable.

We realized after we got into the program, that was one of the things that was causing us a problem because every one of those variables had a complexity, opportunity for error, mistake.

Mr. MICHEL. Does New York administer its own?

Mr. CARDWELL. No. We administer theirs. They have the full five variables plus a couple of geographical variations.

What happened, after we entered into those arrangements, the State came along and said they wanted to add variables. We said, no, we thought we had allowed too many.

In fact, the study just completed of the SSI program by a group of outside people recommends that we eliminate all of these and go back to a flat supplement.

That is one reason why the administrative expenses for the program are higher than originally anticipated. When the law was under

consideration in Congress it was a law that would simplify the grants for this group of people, and in fact envisioned a flat grant level for everybody across the country, but the law as finally enacted when modified by the State supplements where we allowed multiple variables, created for some of those States just a duplication of the original program with the same complexity and the same administrative costs.

Mr. MICHEL. In how many States does the Federal Government administer both the mandatory and the optional?

Mr. CARDWELL. SSA administers the mandatory supplements for 28 plus the District of Columbia, and it breaks down as follows: Of that number, 17 are optional.

Mr. MICHEL. Why don't we have those placed in the record.

[The information follows:]

The following is a list of those 17 States with Federal administration of both mandatory and optional supplementation payment programs:

California
Delaware
District of Columbia
Hawaii
Iowa
Maine
Massachusetts
Michigan
Montana
Nevada
New Jersey
New York
Pennsylvania
Rhode Island
Vermont
Washington
Wisconsin

Mr. MICHEL. So for these other 22 States could we just assume that they would rather run their own program?

Mr. CARDWELL. Or they don't have an optional supplement, which is true in most of the cases.

Mr. MICHEL. Would you list those in the record, then, that don't have a supplement.

[The information follows:]

The following is a list of those States which do not have an optional supplementary payment program. All these States have a mandatory supplementary payment program except Texas which is prohibited from making supplemental payments by State constitution.

Arkansas
Georgia
Indiana
Kansas
Louisiana
Mississippi
New Mexico
Tennessee
Texas
Utah
West Virginia
Wyoming

FINANCIAL DISPUTES WITH STATES

Mr. MICHEL. You are budgeting $57 million for reimbursing the States for incorrect supplementary payments made by the Federal Government. What is the total amount of claims submitted by the States and where do these claims stand?

Mr. CARDWELL. With your permission I would like to clarify this. This has become a very confusing statement because different figures are being reported in the press all the time. They can be reported quite accurately. It depends on how they are described.

There are three bases for difference between ourselves and a State over our liability to the State. One, and the most important I think, comes from the contractual arrangement between ourselves and those 28 States and the District of Columbia.

In our contractual arrangement we agree in advance to compensate them for overpayments made by us on their behalf above a certain threshold or tolerance level.

That has become what we call a Federal fiscal liability. There can be a difference between ourselves and the State on what that rate is, and I will try to describe who could be right and who could be wrong.

The second opportunity for a difference of opinion has to do with the so-called adjusted payment level. The law has a feature in it that says we will recognize for purposes of determining the amount of any Federal hold-harmless contributions, the average payment level in the State prior to the changeover. We left to the States the job of making an analysis of what their average payment level experience was.

In States where there is a hold-harmless amount involved it was to their advantage to state that level as high as possible.

We have come back and audited those estimates, and in many cases we are alleging that the State overstated its average payment level and that it owes the Federal Government some money, and not each State agrees that we are right.

Mr. MICHEL. Who arbitrates that dispute?

Mr. CARDWELL. The courts may end up arbitrating some of those. We think the way the law is written and the way the contract is written that the Federal Government has the final say. I am not so sure the courts would agree with that. I think the thing would have to be settled on its merits, and we might find a court being the only one that could do that.

There is, in the contract, opportunity for negotiated settlements, and it is our intent and our expectation that most such disputes will be eventually a negotiated settlement between the two parties, but where the amounts become very significant and where the issue becomes very drawn—and we think in one large State we are already headed for a very serious dispute—we could end up in court.

Mr. MICHEL. Are these overpayments one of the reasons why more States are not electing to have the Federal Government administer their programs?

Mr. CARDWELL. I don't know. While some States dropped out, other States came in during the same period.

I don't think so at this stage, but I can't be sure because the States themselves have the same overpayment experience. In fact, our overpayments experience is the same nationally for the first 18 months of operations as the States had before we took it over.

In a given State, they might have had a more favorable error rate, but there is a correlation between the error or payment efficiency and the degree of complexity in the program—States like New York and California, and to some extent Illinois—but Illinois is not as complex a State as New York or Massachusetts or California—there you will find error rates as high as ours or higher.

So I can't really see why the error rate itself would influence their choice, particularly when you consider the administrative savings to them.

Another thing they were dissatisfied with in the early period was the interchange between ourselves and the individual State on basic payment data on a timely basis.

The States have to administer medicaid, and in some States anybody who is found to be eligible by SSI becomes automatically eligible for medicaid. That puts them in need of immediate information about whom we enrolled and what the person's circumstances might be.

That flow of information was very awkward and on again, off again in the first months of the program. It has since smoothed out, and we think it is operating efficiently.

That was a matter of contention with all the States for a while. That could have been a factor. But I think by and large—and we will be glad to put in a statement about Illinois and try to make an explanation—my guess is that Mr. Bynum's explanation is the right one; they wanted to do something with the program for their own purposes that we didn't think we would agree to. I think that is probably it.

Mr. MICHEL. How much money can you put your finger on that the States are currently withholding from the Social Security Administration as protection to insure that they may be reimbursed?

Mr. CARDWELL. If you go through the reasons for dispute, first, if my figures are correct—we will verify them because they change all the time—on this adjusted payment level difference, at one point the States said we owed them $140 million, and we disputed that.

We have since settled, and right now that $140 million has been eliminated from the issue.

We still have a potential dispute with the State of California over adjusted payment level, and I can't tell you that amount at this time.

On the Federal fiscal liability for error rates themselves, the States hold that for 1974 and 1975, there is about $60 million, and against that amount we say for those two periods we are probably going to owe them about $60 million.

Total moneys withheld by the States are $29 million for 1974 and $34 million for 1975. In addition, they have withheld about $26 million for 1976 to date.

Mr. BYNUM. Really, it is only in two States, New York and California, that we have a problem of any dimension.

Mr. CARDWELL. In Illinois, the amount of money at issue is $390,000.

HOLD HARMLESS

Mr. MICHEL. According to your statement, basic SSI benefits will eventually replace the State supplemental hold-harmless funds. When would this occur?

Mr. CARDWELL. It will vary from State to State. I can't tell you when the last State would be out. We think there are going to be three States left in by 1977: Hawaii, Massachusetts, and Wisconsin.

The reason it will eventually work itself out is as the benefit goes up with the cost-of-living increases, it will overtake the hold-harmless level as prescribed originally in the law.

In 1976, for example, there were three other States which will have dropped out in that one year, California, Nevada, and New York. I can't tell you exactly when those other three will drop out but maybe as early as 1978.

POTENTIAL ELIGIBLE POPULATION

Mr. MICHEL. To what do you attribute the lower figure of actual participants than those that were estimated to be in the program?

Mr. CARDWELL. I think we have tried to answer that question more than any other question, and I guess we really don't have a good answer.

My personal belief is that the original estimate was overstated, perhaps significantly.

Here again the study group who looked at that question came to the same conclusion, that the original estimate of 6 million people being on the rolls by 1975 was always overstated.

Mr. MICHEL. Where were they getting their information?

Mr. CARDWELL. They got it from us, I am sorry to say. It was information created largely but not entirely by the Social Security Administration back around 1972.

Some of our statisticians and actuaries attempted to estimate the share of the total national population that might be eligible for old-age benefits, disability benefits regardless of age, and blind benefits regardless of age.

As we explained this morning, they used census data which has proved to be reliable in the past, and everybody assumes is still reliable on age and income by age, but when they went to consider—and there are some data about the number of persons disabled by age—resources, living circumstances, whether the person lived by himself or with another person, whether he owned a car, whether he had a bank account, whether he had insurance policies, all of which could determine eligibility, they weren't able to take those things into account.

They estimated—using their best judgment on those latter items—that there might be as many as 7 million people in the total population. They discounted that figure on the assumption there would always be some number of people who would not avail themselves of the opportunity either because they didn't understand the opportunity or deliberately decided not to participate in the program, and they used there the medicare experience going back to 1965.

After they applied their discount they ended up with a figure of 6.3 million people, but it is my belief that because no one can really estimate in the whole universe how those many variables can affect the population who would be eligible if just drawn on age and/or age and income, that we really don't have a good estimate and probably it will be a long time before we do have one.

SSI AVERAGE MONTHLY PAYMENT

Mr. MICHEL. According to your statement, the average monthly payment will increase by about $5 from 1976 to 1977. You indicated, however, that the increase would be even higher were it not for several other factors. What would the increase in fact have been without the offsetting factors?

Mr. CARDWELL. As I indicated in my opening statement, there are three factors—the redetermination activity; the increases in social security benefits; and the termination of some of the converted caseload—which limited the increase in average monthly Federal benefits to $5. Without these factors the average SSI payments would have increased from $98.90 for an individual and $107.45 for a couple in 1976 to about $107 and $116 respectively in 1977, an increase of about

$8. These higher average payments would have increased Federal costs by $450 million in fiscal year 1977.

Mr. MICHEL. Your statement makes reference to "recipient eligibility for an estimated higher level of average monthly benefits." Why is this the case, and what is involved here?

Mr. CARDWELL. This part of the statement refers to the same factors you discussed in your previous question—that is, SSI recipients are eligible for an estimated higher level of average monthly benefits in fiscal year 1977 because the base payment levels under the CPI index increase but are partially offset by the three factors mentioned in my response to your previous question—the redetermination activity; the increases in social security benefits; and the termination of some of the converted caseload. In other words the net effect of higher base payments under the CPI index and the three offsetting factors mentioned previously is the estimated higher level of average monthly benefits for eligible SSI recipients.

RESOURCE LIMITATION

Mr. MICHEL. Mr. Cardwell, is there any kind of cost-of-living clause applied to a recipient's assets, or does the value here remain constant with regard to the maximum one can have and still remain eligible?

Mr. CARDWELL. There isn't any cost-of-living adjustment applied to a recipient's assets or income. An individual may have resources of up to $1,500 and a couple up to $2,500 and still be eligible for supplemental security income.

In determining a person's resources certain items are excluded such as a home, household goods, personal effects, an automobile, and property essential for self-support. We also exclude the face value of a life insurance policy if it does not exceed $1,500.

The Secretary has discretion to establish specific limits on the value of the resources which can be excluded. For the purposes of the various exclusions, the Secretary established the following limits; a home would be excluded as long as its value does not exceed $25,000; household goods and personal effects not in excess of $1,500; an automobile not in excess of $1,200 and property essential to self-support as long as its equity does not exceed $6,000. Any resource not excludable under the resource exclusions is counted against the $1,500 resource limit or $2,250 for a couple and if this limit is exceeded, the individual is ineligible for SSI payments.

The various limits on the resource exclusions were established after careful study and review of existing data on the values of these resources. The limits were determined to be reasonable, sound and equitable at the point in which they were made. We are, however, studying these provisions concerning resources and resource limits in order to determine what changes seem needed.

VOCATIONAL REHABILITATION

Mr. MICHEL. The vocational rehabilitation program is designed to return as many disabled SSI recipients as possible to work. How many of these individuals have in fact been returned to work and what is the percentage of total disabled SSI recipients that this comprises?

Mr. CARDWELL. According to reports provided by the State vocational rehabilitation agencies through February 1976, they have returned 9,140 SSI recipients to competitive or self-employment. About 5,600 of these rehabilitants were receiving SSI payments only and about 3,540 were dually entitled to SSI and social security disability insurance benefits. These rehabilitants represent only those served with funds provided by SSA. Other recipients were, of course, rehabilitated under the regular grant basic support VR program. It is difficult to compare this number to total SSI recipients since it is a cumulative figure and the total number of disabled and blind SSI recipients grows from month to month—when we began the program in January 1974, we had about 1.35 million blind and disabled SSI recipients; as of February 1976, we have about 2.03 million on the rolls.

While the 5,600 figure may seem low, it must be remembered that rehabilitation is a time-consuming process—especially so for this disabled population, which has little or no previous employment history. As of February 1976, there were an estimated 30,000 SSI recipients receiving VR services financed by the SSI appropriation. As this caseload figure grows, we fully expect increases in reported rehabilitations.

We are storing the data on recipients reported rehabilitated and these data will later be matched with the central computer records of recipients whose payments have been terminated or reduced as a result of VR services. We have not been able to give as high a priority to the extraction and interpretation of these data as we would prefer, since our highest priorities lie in the benefit payment area. However, work is progressing on this system and we expect to have data available reasonably soon.

Mr. MICHEL. Your budget request for the program is lower because of a GAO report that some individuals receiving VR services did not meet the specified selection criteria.

Mr. CARDWELL. The funds requested for fiscal year 1977 are 90 percent of the amount of funds requested in the President's 1976 budget. The basis for this budget estimate, a reduction of $5,437,000 from fiscal year 1976, is the GAO draft report on the title II—that is, the disability insurance—beneficiary rehabilitation program. GAO indicated that some individuals receiving VR services under the title II program did not meet the special selection criteria. Since the selection criteria for the SSI program are patterned on those for the title II program, the budget assumes that the same situation will exist for the SSI program. This may or may not be the case.

Mr. MICHEL. What percent did not meet the special selection criteria in the GAO study?

Mr. CARDWELL. As I noted, the GAO study was of the title II beneficiary rehabilitation program. GAO reviewed the files of 350 beneficiaries reported rehabilitated and whose social security disability benefits were subsequently terminated. These sample cases were drawn from four State VR agencies. GAO concluded that 51 percent did not meet the special selection criteria.

During this fiscal year, SSA and RSA are conducting program administrative reviews of the disability insurance and the supplemental security income VR programs in all VR agencies. Although these reviews have not yet been completed, preliminary data indicate that the

special selection criteria error rate will be substantially lower than that found by GAO.

In addition, State VR agencies are currently reviewing all cases served with trust funds or SSI general funds to determine if the beneficiaries meet the special selection criteria. The States will continue to refine their present systems for selecting those beneficiaries eligible for services under these programs, and will place a heavy emphasis on refining their management systems. SSA is also taking steps to strengthen its administrative role with respect to SSA-funded VR programs.

Mr. MICHEL. What are the special selection criteria?

Mr. CARDWELL. The criteria were designed to assure that SSA funds are used for providing VR services to only those beneficiaries having the best potential for returning to productive activity. Specifically, the four criteria are:

1. There is present a disabling physical or mental impairment which is not so rapidly progressive as to outrun the effect of VR services, or to preclude restoration of the beneficiary to productive activity.

2. The disabling effect of the impairment, without the services planned, is expected to remain at a level of severity which would result in the continued payment of benefits.

3. There is a reasonable expectation that the provision of such services will result in the restoration of the individual to productive activity.

4. The reasonably predictable period of productive work activity is of sufficient duration that the expenditures made for rehabilitation services are expected to be offset by the nonpayment or substantial reduction of benefits.

DUE PROCESS

Mr. MICHEL. When the Secretary testified before us, I asked what it would cost you dollarwise to carry out the "fair hearing" requirement for SSI apparently imposed by the courts. He said he didn't have that information and said to ask you when you appear before us. Do you have those figures, and if so, what are they?

Mr. CARDWELL. I believe you are referring to the recent *Cardinale, et al.* v. *Mathews* decision. Yes, I have those figures but let me point out that the budget before you does not reflect any of the manpower and money that would be needed to implement this decision. We excluded a request for resources pending resolution of the court decisions on SAA's request that the district court reconsider and clarify certain aspects of the order—particularly those aspects dealing with continuation of payments in certain prescribed situations and the retroactivity of the decision.

This decision extends *Goldberg* v. *Kelly* protection to a number of SSI areas previously excluded by regulation. For example, it requires SSA to give advance notice of a benefit change and to offer the opportunity for a hearing while continuing unreduced payments, even in a case where SSI benefits have been reduced because of an increase in social security benefits, or because of a clerical error, or because of facts the beneficiary himself reported to SSA. Several compromises have been agreed upon including the elimination of the retroactive provision. If the court agrees with these changes, SSA now estimates that the ongoing administrative costs of complying with the court decision will be about 800 man-years and $15 million.

Mr. MICHEL. What is the total cost of providing "fair hearings" for the overall social security program?

Mr. CARDWELL. As you know, *Goldberg* v. *Kelly* protection was built into the old assistance programs before we federalized the SSI program—except for those areas excluded by regulation that I mentioned before. Additionally, in October, 1974, in the *Buffington-Biner* v. *Weinberger* case, a district court applied an injunction against SSA recovering an overpayment for a title II beneficiary without affording the beneficiary an opportunity for an oral hearing. In November, 1974 a moratorium was imposed by SSA on all adjustments of overpayments against benefits payable pending approval of new procedures for handling these cases. In July, 1975 SSA began to implement court approved interim procedures to handle the backlogged overpayment cases.

The current SSA budget request includes approximately 2,000 man-years and $28 million for fiscal year 1976 and 1,306 man-years and $20 million for fiscal year 1977 to provide for hearings for all of the social security programs. Of course, this excludes resources for Cardinale that I mentioned before.

But let me point out that late in February in the *Eldridge* case, the Supreme Court overturned the lower courts' decision that required SSA to conduct oral hearings prior to the termination of benefits as the result of a continuing disability investigation. This decision will decrease the amount of money that SSA had requested by $2.4 million.

RECIPIENT POPULATION

Mr. MICHEL. What is your current estimate as to the total number of people eligible for SSI as contrasted with the number actually receiving benefits?

Mr. CARDWELL. We haven't made an official estimate since before the program started. There are some serious limitations in the data used to support the estimate of eligibles. There isn't a single data source which surveys all of the populations potentially eligible for SSI and therefore a number of data sources must be used, and none of the sources contain information on people's resources; none of them report on people's income in a time interval that is comparable to the time frame used in SSI; none of them report on the physical and mental condition of people that is comparable to the program's definition to disability of blindness.

In addition, there is no way to take into account individual decisions about applying for SSI or attitudes about programs of this kind. One of the recommendations of the SSI study group was that the original projections should no longer be considered a significant factor in administering the SSI program and future projections should be based on experience to date. After the initial enrollment of people made newly eligible by SSI, the number of aged participants has stabilized. There may be a slight downward trend in the future, since increasingly, persons reaching the age of 65 have better incomes.

We have always expected that the number of disabled would increase. This is caused by the growth in the population, changes in the incidence of disability and economic conditions as they affect the chances for the physically and mentally handicapped to work. Also,

by and large, the disabled who are not entitled to disability insurance have no other sources of income, so that SSI is their basic support. We would expect to see continued growth in the disabled population receiving benefits.

OUTREACH

Mr. MICHEL. You have an outreach program underway about which you wrote me a couple of weeks ago. What is the outreach effort costing?

Mr. CARDWELL. As I noted in my March 2 letter to you we are continuing our efforts to reach all individuals who might benefit from the SSI program. Currently, outreach is part of a multifaceted effort for informing the public about all social security programs. Mass media is used extensively to get our message across—perhaps you have seen one of our most recent TV spots with Muhammad Ali. Other public information activities include cooperative outreach programs with other Federal agencies such as the Department of Agriculture because of food stamp eligibility for many SSI recipients; joint development of informational and training material with State and local agencies which serve low-income individuals; and strengthening of relationships with civic organizations, and welfare rights advocacy groups which have special interest in the aged, blind, and disabled. Our district offices tailor their outreach efforts to methods proven most productive and effective in their own communities.

While many of our outreach efforts are designed specifically for SSI, most are combined with public information efforts for the regular social security programs. This is especially true of the efforts undertaken by our district office staffs. In fiscal year 1976 SSA will spend approximately $10.2 million for all of our public information activities and about $10.5 million during fiscal year 1977.

OVERPAYMENTS

Mr. MICHEL. According to a recent report, the total SSI overpayment over a 2-year period is $547 million. Is that correct?

Mr. CARDWELL. $547.2 million is the cumulative amount of SSI recipient overpayments from January 1, 1974, through December 31, 1975, identified by the SSI overpayment system.

Mr. MICHEL. I understand this is only a partial estimate, and that the real overpayment may be in excess of $1 billion. Is that likely?

Mr. CARDWELL. First let me say that the cumulative overpayment total on the overpayment subsystem—$547.2 million through December 31, 1975—is not an estimate. All SSI overpayments are summarized through the computer tally done at the end of each quarter. This tally is made based on new or corrected eligibility factors that are fed to the computer system, which then performs a comparison of what is due the recipient against what has been paid to the recipient. If the two are not equal after the comparison, then a payment error has been made and either an overpayment is recorded or an underpayment is corrected by paying the amount due. The overpayment figure as it comes out of the system is the actual amount overpaid as detected.

In previous testimony before the Ways and Means Subcommittee on Oversight I did testify that the detected overpayment figure may reach $800 million. However, as I explained in that testimony, that figure

was just an estimate. We do not have the data necessary to make an accurate projection.

Mr. MICHEL. Is it true that you have stopped including errors between Federal books and State welfare agencies in your overall error figures, but are simply adjusting these through paper trades?

Mr. CARDWELL. We do not consider the 'paper trades," or "paper transactions" as we refer to them, as overpayments and thus their value is not included in any overpayment figures quoted. It should be made clear that these "paper transactions" represent overcharges and offsetting undercharges of Federal and State funds and do not affect the recipient. In these cases, the recipient was paid the correct amount in total but the Federal and State portions of that payment were incorrect. These "paper transactions" merely reallocate that portion of the payment that was previously allocated incorrectly. "Paper transactions" are accomplished by charging the Federal appropriation and crediting the State fund with a compensating amount or vice versa. The alternative would be to send a check to a recipient for a Federal underpayment, then request the return of the exact amount because of a State overpayment. We find that the "paper transaction" is a less expensive way of accomplishing the necessary recordkeeping and at the same time we keep from burdening the recipient with unnecessary notices.

Mr. MICHEL. What is the total number of overpayments involved in these paper trades?

Mr. CARDWELL. As I indicated previously, we do not consider these as overpayments, but adjustments between the Federal and State share of the payments made. Our records indicate that for the first 24 months of the program, slightly over 942,000 adjustments totaling about $43 million have been made to Federal/State distributions of payments.

REGULATIONS

Mr. MICHEL. According to a Ways and Means Committee report, SSI people in the field have been hampered to a great extent by the program's constantly changing regulations. Why the constant changes, and have you tried to stabilize things in recent months?

Mr. CARDWELL. Unfortunately, in the early days of the SSI program, it was necessary to issue interim rules by which the field people could operate because not all policy decisions had been made officially and for those that were made there was not sufficient time to adequately test all of them. As a result, we relied heavily on actual program experience to point out the need for changes and modifications in the instructions. As we gained experience and problems came to our attention revisions were made in some policies and procedures and appropriate new instructions were issued.

Also we had to communicate program changes to the field required by new legislation and court decisions. For example, in October 1974, Public Law 93–484, sometimes referred to as the Church amendment, was enacted. This legislation excluded from income the support and maintenance furnished by private, nonprofit, residential care facilities to its residents, and it was effective retroactively to January 1, 1974. A considerable body of new instructions was required to implement this legislation, particularly with respect to its retroactive effect and dealing with cases already on the SSI rolls.

We believe the program has stabilized considerably in recent months and the need for interim, ad hoc procedures has diminished to a great extent. Today instructions are being consolidated and formalized and are much more stabilized.

SSI FRAUD

Mr. MICHEL. Mr. Cardwell, to what extent is outright fraud occurring in the SSI program, and what are you specifically doing to get at the problem?

Mr. CARDWELL. In response to the first part of your question, as of March 12, 1976, almost 9,100 potential fraud cases had been identified. At that time, 3,000 cases were open, about 4,700 had been closed, most for lack of evidence, and about 1,400 had been referred to U.S. attorneys with a recommendation against prosecution. This latter group of cases involves situations where there is evidence that a crime occurred, but extralegal factors such as advanced age or illness make prosecution undesirable.

A total of 199 cases had been referred for prosecution to U.S. attorneys through that date. Convictions were obtained in 27 cases, 6 indictments are pending, 74 cases are awaiting decisions by U.S. attorneys, 6 dismissals, and 1 acquittal.

Now as to what we are doing about the problem—instructions for detecting, developing, and referring suspected fraud cases were issued to our district and branch offices, before the first SSI application was taken in July 1973. In late 1974, program integrity units were established in six cities throughout the Nation for handling potential fraud cases.

We have also instituted streamlined methods for working with U.S. attorneys and devised new procedures for the more effective handling of fraud caseloads; training our district and branch offices to recognize potential fraud situations has been increased, and ways to lessen opportunities to commit fraud are continually being worked on.

Internally, we have a number of safeguards built into the system to deter employee fraud. Some of these are procedural and some electronic. Procedurally, we try to use a number of persons in each process. For example: The redetermination of a case must be done by an employee other than the one who took the claim initially. On the electronic side we have several safeguards to guard against unauthorized use of our telecommunication systems. Each telecommunications station has a software lock with a unique password which permits only authorized employees to use these devices. In the central computer, we have a security index which restricts traffic by location to access only those programs which that particular location needs to access.

SSI CASE ERROR RATES

Mr. MICHEL. According to your statement, the SSI error rate cannot be lowered below 15 percent unless basic changes in the statute are undertaken. If these changes are made, what could we realistically expect the error rate to be lowered to?

Mr. CARDWELL. Hopefully, we could lower it to about 13 percent. The three proposed changes that we have in mind relate to State supplementary payments, benefit payment and adjustment periods, and

noncash income. More specifically, the proposals would (1) limit the number of payment level variations that a State may establish under a supplementary program that the Federal Government administers. (2) make determinations of eligibility and benefit amount on a monthly rather than a quarterly basis and allow time for adjustments in benefit amounts, made necessary because of changes in individuals circumstances, that recognizes the use of an automated payment system in a massive check-issuing program, and (3) eliminate consideration of income in kind in determining eligibility for and amount of SSI benefits.

LIVING ARRANGEMENTS

Mr. FLOOD. Mr. Conte?

Mr. CONTE. Under the program, if an aged couple are living with a married child their payment is reduced by one-third if no charge is made by the child for room and board, correct?

Mr. CARDWELL. If an aged couple is living with a married child in his household, the child is furnishing them support and maintenance, and no payment is made by the couple to the child, the couple's supplemental security income payment is reduced by one-third.

Mr. CONTE. Doesn't this work a hardship where the aged couple informally contributes to the income of the entire family unit, but not specifically for room and board?

Mr. CARDWELL. If the aged couple contributes to the household, it is not required that they designate what the contribution is for. Rather, the total household expenses are determined, and if the couple is paying at least their per capita share of the expenses when considering all members of the household, the one-third reduction does not apply.

Mr. CONTE. Isn't this also hard to enforce?

Mr. CARDWELL. Yes; it is difficult to enforce. First of all, a considerable amount of questioning and verification is necessary. It must be determined whether the individual or couple is living in another person's household and then whether support and maintenance are being received. If it is alleged that support and maintenance are not being received because the individual or couple is paying for what is furnished, the household expenses and the payments must be developed and documented. In most cases, we are dependent upon self-serving statements of the individuals involved. Also, while the one-third reduction may be applied initially, the individual or couple may start to contribute to the household as soon as supplemental security income payments are received. This often results in removal of the one-third reduction shortly thereafter. We are presently evaluating our policies and procedures in this area to see whether the provision can be applied more simply and uniformly.

REDETERMINATIONS

Mr. CONTE. Last year you stated that you hoped to have a regular annual cycle of checking on eligibility and correct payment amounts. Are you now on such a cycle?

Mr. CARDWELL. With everything else in fiscal year 1975—pushing to process initial applications, working to clear up the major systems problems just, to mention a couple—we did process about 2.4 million

redeterminations. Virtually all of these involved converted recipients—approximately 90 percent of all the converted cases still on the rolls. By the end of December 1975 we had completed redeterminations of all converted recipients who are still enrolled in the program and had begun redeterminations for recipients who have entered the program since January 1974.

For fiscal year 1976 and 1977 our goal is to make a redetermination on each SSI recipient who has not had his eligibility or payment amount rechecked within the last year.

PROCESSING TIMES

Mr. CONTE. Have you significantly reduced the time it takes to process a claim from that of last year?

Mr. CARDWELL. Yes; there has been a steady improvement in processing times for new claims. The median processing time for aged claims in 1974 was about 60 days. In 1975, it was cut in half to about 30 days. The median processing time for disability claims was reduced from 90 days in 1974 to about 60 days in 1975. We expect continued improvement this year.

VOCATIONAL REHABILITATION

Mr. CONTE. Have the State agencies become fully staffed and trained to take SSI vocational rehabilitation referrals.

Mr. CARDWELL. The Office of Human Development is responsible for directing the vocational rehabilitation program and I prefer that they respond to your question, and I will be glad to obtain this response for the record.

[The information follows:]

Information would indicate that most State agencies have made significant progress toward appropriate staffing for the SSI–VR program; even though, some have been hampered because of staff freezes and limited funds for personnel. The Rehabilitation Services Administration is finding through program administrative reviews that are currently being conducted that most State agencies either have or are in the process of hiring a State agency coordinator. This individual has statewide responsibilities and authority to effectively coordinate the SSI–VR activities. Several agencies, especially those that have large population centers, have also hired or are in the process of hiring counselors or other specialized staff to work specifically with the SSI caseload. Many of the agencies combined the responsibilities for these positions so that they cover both the regular social security disability insurance and the supplemental security income programs.

Training on the SSI–VR program has been provided by the following means:

In the fall of 1973, prior to the start of the program on January 1, 1974, RSA held biregional conferences for State agency supervisory staff to provide training on new operational guidelines.

Other training conferences for State agency supervisory staff have been held in all regions at various times since the beginning of the program.

A special training aid for counselors was issued to all State agency central and local offices in June 1975.

A rehabilitation services manual chapter on the SSI program was issued in July 1975.

A revised Counselor Handbook is ready to go to the printers with distribution to all counselors immediately following printing.

In addition, a special training package for counselors is being prepared and will be issued as soon as possible to all State agency training officers.

SUMMER EMPLOYMENT

Mr. CONTE. How have the special summer employment programs for the underprivileged been working?

Mr. CARDWELL. I would say that these programs work well. The summer aid program is our main source of summer employment. This program ephasizes work experience and on-the-job training, complemented with a limited program of counseling and training. In 1975, we engaged over 3,200 young people aged 16 to 21 from economically disadvantaged families.

I think that the program is successful both in terms of providing a meaningful work experience for disadvantaged youth, as well as providing SSA with a valuable source of temporary manpower.

STATE SUPPLEMENTATION

Mr. CONTE. How much does it cost the Federal Government to administer State supplementation payments for States which have chosen Federal administration?

Mr. CARDWELL. The SSI program as most individuals perceived it in the beginning would have been a simple, flat grant program. This concept was thought to apply not only to the basic Federal program but also to any federally administered State supplementary programs. Consistent with this perception, the law provides that for any State which chooses to have the Federal Government administer its supplementary programs, the Federal Government will bear all associated administrative costs. Therefore, when SSA incorporated SSI into its cost allocation system, we did not provide any mechanism to identify work solely caused by State supplementation. Consequently, we are unable to identify these costs separately.

Even though the federally administered State supplementary programs are more complex than we envisioned, we think that the amount of incremental work attributable to them is a relatively small portion of all SSI-related work. Basic eligibility for federally administered State supplementary payments is tied to an individual's eligibility for the Federal program. When a person applies for SSI payments, we obtain information from him such as age or disabling conditions, his assets, his income, and his living arrangements. All of this information is necessary to determine if he is eligible for SSL and if eligible, how large a payment he will receive based on other income he has. Some of the major complicating factors in administering State supplementation involve mandatory payments to converted recipients and the many living arrangements variations for optional supplementation in addition to living arrangements recognized by the Federal payment structure. Generally, we have found that these complicating factors involved in administering State supplementation tend to make the SSI caseload more error prone; however, because we rely primarily on recipient allegations, the related incremental administrative costs are not that large when compared with total SSI administrative costs.

VOCATIONAL REHABILITATION TERMINATIONS

Mr. CONTE. How many vocational rehabilitation service recipients have been terminated from the SSI rolls because of returning to more than marginal employment?

Mr. CARDWELL. We are storing data on recipients reported rehabilitated by the State vocational rehabilitation agencies, and they report having returned 9,140 recipients to competitive employment or self-employment. These data will be matched with the central computer records of recipients whose payments have been terminated or reduced as a result of VR services. We have not been able to give as high a priority to the extraction and interpretation of these data as we would prefer, since our highest priorities lie in the benefit payment area. However, work is progressing on this system, and we expect to have data available reasonably soon.

DRUG ADDICTS AND ALCOHOLICS

Mr. CONTE. What does "monitoring the treatment of disabled SSI recipients who are also drug addicts and alcoholics" entail?

Mr. CARDWELL. The law contains a requirement that eligibility for SSI payments for disabled recipients who are drug addicts or alcoholics is subject to their undergoing appropriate treatment for their conditions at an approved facility. The referral of drug addicts and alcoholics to approved treatment facilities and the subsequent monitoring of their treatment is performed by State and other government agencies under contract to the Federal Government. A full explanation of the process would be rather lengthening so I'll take this opportunity to insert the explanation into the record.

[The information follows:]

Under Federal/State contractual agreements, State agencies are responsible for the referral of drug addicts and alcoholics for treatment and for monitoring their compliance with drug addiction or alcoholism treatment. On the Federal level, the operational responsibilities are delegated to the Rehabilitation Services Administration (RSA), and the referral/monitoring function is carried out by the State vocational rehabilitation (VR) agencies (or other designated State agencies) under written agreements between the State and the Secretary.

In the monitoring of treatment, the VR agency (or other designated agency), upon referring the individual for drug addicts or alcoholic treatment, determines whether he reported to begin such treatment and notifies the district office as to whether treatment has commenced or reasons for the failure. (The treatment facility makes the decision as to whether an individual is in treatment and reports this information to the VR agency.)

Following initial referral and acceptance of treatment by a recipient, the VR agency monitors continued compliance with the treatment program and reports noncompliance to the SSA district offices. The VR agency must ascertain at least monthly (via telephone or other acceptable means) that the recipient is complying with the treatment requirements, although routine reports of continuing treatment are not necessarily reported to the district office. This monitoring function continues until the treatment facility reports that drug addict or alcoholic treatment is no longer indicated. Successful completion of treatment is reported to the SSA district office and subsequently to the State disability determination section who makes a redetermination of disability.

When treatment results are inconclusive or unsuccessful, the VR agency must ascertain that further treatment is not appropriate or available. In most instances, this decision is based on information from the treatment facility. When all available and appropriate treatment has been provided, the district office is so informed so that they can determine if the individual has satisfied the drug addict and alcoholic treatment requirements.

Whenever the SSA reports that drug addiction or alcoholism no longer contributes to a recipient's disability, the monitoring requirements cease.

The VR agency also submits periodic fiscal and program statistical reports to SSA through RSA (or direct to SSA if the contracting State agency is other than VR) concerning the referral and monitoring process for the purpose of program management and annual reports to Congress.

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THE 1976 BENEFIT PAYMENTS

Mr. CONTE. Why is there such a significant decrease in benefit payments from the original 1976 estimate to the revised fiscal year 1976 budget estimate?

Mr. CARDWELL. We revised the 1976 estimate of Federal benefit payments to reflect our most recent program experience. This experience shows that new recipients are not coming into the SSI program in the numbers we expected. This is particularly true of aged recipients.

The original estimate for fiscal year 1976 was based on projections that recipients of Federal benefits would increase from a little more than 4 million on the rolls at the end of 1975 to 4.5 million at the end of 1976. Despite outreach efforts, there were only 3.7 million Federal recipients at the end of fiscal year 1975. The revised fiscal year 1976 budget estimate reflects adjustments based on the actual number of recipients at the end of 1975 as well as data available from early 1976. These current projections now predict that there will be a population of 4.2 million Federal recipients by the end of 1976. This decrease of 300,000 in the estimate of recipients results in a corresponding $215 million decrease in estimated Federal benefit payments.

Again based on program experience, average monthly payments are generally higher than budgeted mainly because the proportion of disabled people participating in the program is higher than we originally estimated. The disabled generally have less other income than do the aged and are therefore entitled to receive higher payments. Also among aged recipients, there are proportionately more converted recipients compared to newly eligible aged recipients than we expected by this time. Converted recipients generally receive higher benefits than do the newly eligible. Prior to conversion to the SSI program, the former adult assistance programs generally had reached the neediest of the eligible adult population.

OVERPAYMENTS

Mr. CONTE. Between August and October of 1975, the Washington Star ran a series of articles on the SSI program. Among other things, it alleged that over $403 million was overpaid in the first 18 months of operation. Would you comment on this situation and any corrective action you have taken?

Mr. CARDWELL. The reported $403 million overpayment figure was accurate. However, since that time we have undertaken several important steps to decrease the incidence of overpayments. During this period a high incidence of error could be traced to the conversion process. Virtually all cases transferred from the States have now been reevaluated for eligibility and payment amount.

At the same time we have been continuing to refine our computer processes to achieve a higher degree of payment accuracy. For example, we now have a better automated system for cross-checking amounts of social security benefits being paid to SSI recipients who are eligible for both programs. This improvement is greatly reducing the number of errors resulting from incorrect social security benefits being used in the SSI benefit computation. We are now able to validate our computational processes each month before payment amounts are computed. Additional controls and edits have been es-

tablished whereby the computer will no longer accept at face value certain input that previous experience has shown is error prone without additional confirmation that the data is correct.

Despite substantial improvement in refining the computer processes and correcting erroneous information from which eligibility and payment amounts were determined, major problems still exist. For example, due process requirements and late reporting by recipients of events which effect payment and eligibility continue to be a significant cause of payment error.

Mr. FLOOD. Gentlemen, that is all for now.

JUSTIFICATION OF THE BUDGET ESTIMATES

Appropriation Estimate

Supplemental Security Income Program

For carrying out the Supplemental Security Income program under title XVI of the Social Security Act, section 401 of Public Law 92-603, and section 212 of Public Law 93-66, including payment to the social security trust funds for administrative expenses incurred pursuant to section 201 (g)(1) of the Social Security Act, [$5,518,523,000] *$5,910,122,000: Provided,* That for carrying out these activities [for the last two months of the current fiscal year] *after July 31,* 1/ such sums as may be necessary shall be available, the obligations and expenditures therefor to be charged to the appropriation for the succeeding fiscal [period or fiscal year 1977] *year.* 2/

Explanation of Language Changes

1/ This is a technical change made which shortens the appropriation language and relates to the new fiscal year which begins October 1 and ends September 30. The purpose of the language, now as before, is to provide that costs of the supplemental security income program for the last two months of a fiscal year can, if necessary, be financed from funds of the next fiscal year. This language is a safeguard for the aged, blind and disabled recipients under the SSI program. In the event that the appropriation estimates prove to be too low, the language permits payment of SSI benefits, "hold harmless" contributions, and other costs related to the program without interruption out of the subsequent year's appropriation.

2/ One time transition quarter language was required last year. It can now be deleted.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Supplemental Security Income Program

Amounts Available for Obligation 1/

	1976	1977
Appropriation	$5,518,523,000	$5,910,122,000
Comparative transfer from:		
"Payments to Social Security Trust and Other Funds"		
Purpose: To consolidate in one place all obligations for the Supplemental Security Income program 2/	+2,127,000	---
Subtotal, budget authority	5,520,650,000	5,910,122,000
Unobligated balance lapsing	-242,191,000	---
Total obligations	$5,278,459,000	$5,910,122,000

1/ Excludes the following amounts for reimbursable activities: 1976 Estimate - $1,195,000,000, 1976 Estimated obligations - $1,275,000,000, and 1977 Estimate - $1,240,000,000. These reimbursable obligations are for State-financed State supplementation payments administered by SSA on behalf of States who have chosen to have the Federal government administer their supplementation benefits.

2/ The fiscal year 1976 President's budget as acted upon by the House and Senate included funds in the SSI appropriation to reimburse the trust funds for the actual cost of SSI program space and funds in the Payments to Trust and Other Funds account to pay GSA the amounts charged in excess of actual costs for space and services used in the administration of the SSI program. In the fiscal year 1977 budget request SSA proposes to budget for the SSI total standard level user charge in the Salaries and Expenses account and to budget for full reimbursement to the trust funds from this SSI appropriation (in the "administration" activity).

Summary of Changes

1976 Estimated obligations.....	$5,278,459,000
1977 Estimated obligations.....	5,910,122,000
Net Change.....	+$631,663,000

	1976 Base	Change from Base
Increases:		
A. Built in:		
1. Federal benefit payments:	$4,545,000,000	
a. Full-year cost in 1977 of gross additions to the rolls during FY 1976 and the transition quarter (830,000 additions) at FY 1976 payment levels.....		+$170,000,000
b. Effect of automatic cost of living increases in SSI payments, 6.7% scheduled for payment in July 1976; 5.9% in July 1977.....		+605,000,000
c. Cost of paying 765,000 new recipients added to the SSI rolls during FY 1977 at 1977 benefit levels.....		+812,500,000
Subtotal increases, Federal benefit payments.....		+1,587,500,000
2. Payments to the trust funds for SSI administrative costs. (See Salaries and Expenses)	495,787,000	+4,565,000
Total increases....		+$1,592,065,000
Decreases:		
A. Built-in:		
1. Federal benefit payments:		
a. Effect on FY 1977 payments of gross deletions from rolls during 1976 and the transition quarter due to normal attrition (370,000 deletions).....		-156,000,000
b. Effects of 1976 SSI redeterminations effort on 1977 payments (savings of $150 million for full year in 1977 compared to FY 1976 part-year savings of $45 million).		-105,000,000
c. Effects of error reduction effort and SSI redeterminations during 1977.....		-50,000,000

	1976 Base	Change from Base
d. Effect of automatic cost of living increases in social security benefits, 6.7% scheduled for payment in July 1976; 5.9% in July 1977. Social security benefits count as income for SSI recipients who receive both social security and SSI payments and therefore reduce SSI payments to these recipients.....		-248,000,000
e. Effects on FY 1977 payments of normal attrition of 430,000 recipients during FY 1977.....		-328,500,000
Subtotal decreases, Federal benefit payments.....		-887,500,000
2. Federal hold harmless payments... Effect of automatic increase on the basic Federal SSI payment--as Federal benefit payments increase the amount of State supplementation payments subject to Federal hold harmless protection decreases.....	120,000,000	-65,000,000
3. Decreases in Federal liability for incorrect payments of State supplemental benefits administered by SSA.....	60,000,000	-3,000,000
Subtotal, built-in		-955,500,000
B. Program: 1. Vocational rehabilitation services.....	57,672,000	-4,902,000
Total decreases....		-$960,402,000
Total Net Change.....		+$631,663,000

Obligations by Activity 1/

Page Ref.		1976 Estimate	1977 Estimate	Increase or Decrease
58	Federal benefit payments.....	$4,545,000,000	$5,245,000,000	+$700,000,000
61	Federal hold harmless payments	120,000,000	55,000,000	-65,000,000
63	Vocational rehabilitation services.....	57,672,000	52,770,000	-4,902,000
66	Payments to trust funds for administrative costs.....	495,787,000 2/	500,352,000	+4,565,000
67	Federal fiscal liability.....	60,000,000	57,000,000	-3,000,000
	Total obligations.....	$5,278,459,000	$5,910,122,000	+$631,663,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Other services.....	$553,459,000 2/	$553,122,000	-$ 337,000
Grants, subsidies, and contributions....	4,665,000,000	5,300,000,000	+635,000,000
Insurance claims and indemnities.....	60,000,000	57,000,000	-3,000,000
Total obligations by object 1/.....	$5,278,459,000	$5,910,122,000	+$631,663,000

1/ Excludes the following amounts for reimbursable activities: 1976 Estimate - $1,275,000,000; and 1977 Estimate - $1,240,000,000. These reimbursable obligations are for State-financed State supplementation payments administered by SSA on behalf of States who have chosen to have the Federal government administer their supplementation benefits.

2/ Includes comparative transfer of $2,127,000 from "Payments to Social Security Trust and Other Funds" to the "Supplemental Security Income Program."

Authorizing Legislation

Legislation	1977 Authorized	1977 Appropriation Requested
Supplemental Security Income		
Title XVI of the Social Security Act; Section 401 of P.L. 92-603 and Section 212 of P.L. 93-66	Indefinite	$5,910,122,000

Supplemental Security Income Program

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1973	$77,207,000	$77,207,000	$77,207,000	$77,207,000
1974	2,211,636,000	2,211,636,000	2,211,636,000	2,211,636,000
1975	4,857,102,000	4,857,102,000	4,857,102,000	4,857,102,000
1976	5,538,523,000	5,518,523,000	5,518,523,000	5,518,523,000
1977	5,910,122,000			

Justification
Supplemental Security Income Program

	1976 Estimate	1977 Estimate	Increase or Decrease
Total Obligations 1/.....	$5,278,459,000	$5,910,122,000	+$631,663,000

General Statement

Legislative Authority and Purpose

Title XVI of the Social Security Act established the federally administered and financed "Supplemental Security Income" program (SSI). The objective of the program effective January 1974 is to supplement from general revenues the social security benefits and other income of the aged, blind and disabled when benefits plus other income are below a Federal minimum standard, or when they have no other income, to meet the entire Federal minimum standard from general revenues.

SSI replaced State and locally administered programs of old age assistance and aid to the blind and disabled. Under different matching formulas, the Federal Government paid part of the cost of these programs through grants administered by the Social and Rehabilitation Service.

Under present law, the SSI program currently guarantees income of at least $157.70 per month for an individual and $236.60 per month for a couple. When social security benefits (Title II) increase because of a change in the Consumer Price Index (Section 215(i) of the Social Security Act) then SSI benefits increase by the same percentage the month following the month the title II increase is effective (Section 1617 of the Social Security Act). Thus, benefit increases for both titles II and XVI are paid in the same month. Under present law the maximum monthly Federal SSI payments are projected to increase automatically by 6.7 percent on July 1, 1976; a further automatic increase of 5.9 percent is projected for July 1, 1977.

In addition to the Federal income guaranteed by Title XVI of the Social Security Act, Section 212(a)(i) of Public Law 93-66 was designed to protect SSI recipients who were on the State rolls as of December 31, 1973, against reduction in income resulting from the changeover to a Federal program. To be eligible for Federal matching funds for Medicaid, States must agree to maintain the December 1973 income of each aged, blind, or disabled recipient who was converted to the Federal program and received an assistance payment for December 1973. States may also optionally supplement the Federal SSI benefit regardless of whether a recipient was converted or newly eligible.

1/ Excludes the following amounts for reimbursable activities: 1976 Estimate- $1,275,000,000; and 1977 Estimate - $1,240,000,000. These reimbursable obligations are for State-financed State supplementation payments administered by SSA on behalf of States who have chosen to have the Federal government administer their supplementation benefits.

States may sign agreements with the Federal government to administer their supplementary payments (mandatory or mandatory and optional). The Federal government pays the cost of administering State supplementation payments for States which have chosen Federal administration. A State choosing Federal administration is protected from paying more in State supplementation because of overall growth in the recipient population than it paid in calendar year 1972 for assistance payments to the aged, blind, and disabled. This "hold harmless" protection applies to both mandatory minimum and optional supplementation payments. States can choose to exceed their 1972 costs by the level of optional supplementation payments they establish. Any such excess costs must be borne by the State.

Vocational rehabilitation services for SSI recipients are paid for by the SSI appropriation if such service will result in the individual's termination from the SSI rolls due to his recovery and his return to the labor force as more than a marginal wage earner. This activity of the SSI appropriation also pays the costs for monitoring the treatment of SSI recipients who are drug addicts or alcoholics. Such monitoring is required by law.

The SSI appropriation also covers reimbursement to the social security trust funds for administrative expenses of the SSI program. Because the workload processing operations for all programs administered by the Social Security Administration (SSA) are highly integrated, it is necessary to budget for administrative expenses for the social security and SSI programs in one place--the Salaries and Expenses appropriation, which is financed from trust funds. Then, the trust funds must be reimbursed from Federal funds for SSI administrative costs, as these costs are determined.

The appropriation request also covers Federal fiscal liability. For those States which opt for it, the SSA administers State supplemental benefits to SSI recipients. This activity provides funds to reimburse the States for incorrect State supplemental payments made by the Federal government.

Revisions to the FY 1976 budget

The Social Security Administration wants to bring to the attention of the Congress proposed changes to the FY 1976 budget estimates since the time Congressional decision were made. The revisions are summarized in the table below:

(dollars in thousands)

	1976 Congressional Action	1976 Revised estimate	Change
Federal benefit payments....	$4,760,000	$4,545,000	-$215,000
Federal hold harmless payments.....	205,000	120,000	-85,000
Vocational rehabilitation services.....	54,888	57,672	+2,784
Payment to the trust funds for SSI administrative expenses.....	498,635	493,660	-4,975
Federal fiscal liability....	--	60,000	+60,000
Total obligations.....	$5,518,523	$5,276,332	-242,191
Comparative transfer.....	--	2,127	+2,127
Adjusted obligations.....	$5,518,523	$5,278,459	-$240,064

--The most significant changes to the 1976 estimates occur in benefit payments (Federal benefit payments and Federal hold harmless payments) and reflect adjustments for actual program experience in FY 1975 and early FY 1976 which were not available at the time the original estimates were prepared. The previous estimates were based on projections that Federal recipients would increase from a little more than 4 million on the rolls at the end of FY 1975 to 4.5 million by the end of 1976. Actually at the end of FY 1975 there were 3.7 million Federal recipients which are now projected to increase to 4.2 million by the end of FY 1976. The estimates of Federal hold harmless payments are lower also because SSA did not realize its estimate of State suppplementation recipients. Previously we projected that SSA would administer State supplementation payments to 2.1 million recipients by the end of FY 1976. The revised estimate is 1.7 million.

--The net increase in the cost of providing vocational rehabilitation services results from several increases and decreases. These increases and decreases relate to the estimated costs of monitoring the treatment of SSI recipients who are drug addicts and alcoholics.

--The change in the estimate of Payments to the Trusts Fund for SSI administrative expenses also results from several decreases and increases as explained in the Limitation on Salaries and Expenses. The principal decrease is a result of not realizing the original estimates of 1976 recipients. This decrease is offset by SSA's emphases on improving payment accuracy and on increased training of its employees to improve the quality of their service to the public.

--At the time previous budget estimates were submitted to the Congress, SSA had no definitive data which indicated the extent to which the Federal government made incorrect payments of State supplementation benefits for which SSA would be liable. SSA has better information which, although not definitive, does provide a sufficient basis for making a budget estimate.

Highlights of the 1976-1977 Budget Request

The following items are the key elements of the new estimates of SSI obligations.

--The estimates of Federal benefit payments provide for two cost-of-living increases, the first one payable July 1976 (6.7 percent) and the second payable July 1977 (5.9 percent). These Federal cost-of-living increases cause estimated hold harmless payments to decrease in 1977 compared to 1976. The decrease occurs because as Federal benefit payments increase the amounts of federally administered State supplementation payments covered by hold harmless protection decrease.

--The estimates of Federal benefit payments include savings in each fiscal year because of SSA's redetermination and error reduction program. The following table shows savings as they occur in each fiscal year.

	Year of Savings		
Redeterminations Processed in:	FY 1975	FY 1976	FY 1977
FY 1975.....	$35,000,000	$145,000,000	$145,000,000
FY 1976.....	--	45,000,000	150,000,000
FY 1977.....	--	--	50,000,000
Total.....	$35,000,000	$190,000,000	$345,000,000

--For the first time the budget (both for FY 1976 and FY 1977) includes estimated settlements costs with States for Federal fiscal liability related to Federal administration of State supplementation payments.

--Estimates of SSI recipients on the rolls at the end of fiscal years 1976 and 1977 are based on recent program experience. Whereas the original 1976 estimate showed a recipient population of a little more than 5 million by the end of FY 1976, SSA does not expect to reach this level until the end of FY 1977. The following table, in addition to showing prior years' actuals, compares last year's recipient estimates to the current ones.

SSI Recipients of Federally Administered Payments

(End of Year --In Thousands)

			1976		Transition Quarter		
	1974 Actual	1975 Actual	Pres. Budget	Rev. Est.	Pres. Budget	Rev. Est.	1977 Est.
Recipients of federally administered:							
Federal and State supplementation payments.....	3,279	3,717	4,510	4,200	4,605	4,300	4,635
State supplementation payments only.....	305	379	560	465	595	480	535
Total.....	3,584	4,096	5,070	4,665	5,200	4,780	5,170

Activity 1: Federal Benefit Payments

	1976 Estimate	1977 Estimate	Increase or Decrease
Federal benefit payments.....	$4,545,000,000	$5,245,000,000	+$700,000,000

The table below shows the estimated number of persons receiving Federal SSI payments:

Federal SSI Recipients (End of Year)

	1976 Estimate	Transition Quarter	1977 Estimate
Aged	2,120,000	2,145,000	2,220,000
Blind and Disabled	2,080,000	2,155,000	2,415,000
Total	4,200,000	4,300,000	4,635,000

In addition, at the close of fiscal year 1976 there will be 465,000 individuals who because of other income are entitled to receive only a federally administered State supplementation payment. By the end of the transition quarter and FY 1977 these numbers will increase to 480,000 and 535,000 respectively.

Automatic Cost of Living Increases

On July 1, 1975, the maximum monthly Federal benefit payment increased by 8 percent due to the cost-of-living increase for the previous year. Under the automatic cost-of-living increase provision, maximum monthly Federal SSI payments are projected to increase by 6.7 percent on July 1, 1976. A further increase at 5.9 percent is projected to begin July 1, 1977. The maximum monthly Federal benefits payable for fiscal years 1976 and 1977 under present law are:

		FY 1977	
	FY 1976	First 9 mos. (Includes 6.7% Increase)	Last 3 mos. (Includes 5.9% Increase)
Single individual	$157.70	$168.30	$178.30
Couple	236.60	252.50	267.40

Estimated Average Monthly Payments

SSI recipients generally have some monthly income such as social security benefits or private pensions. These payments count as income to SSI recipients so that very few receive the maximum monthly payments shown in the preceding table. The table below shows average monthly Federal benefit payments to SSI recipients during FY 1976 and FY 1977:

	FY 1976	FY 1977
Aged	$72.00	$73.75
Blind and disabled	115.85	120.32

The average monthly payments reflect both pluses and minuses:

(1) Because SSI payments are reduced for SSI recipients who receive social security benefits or other income, SSA undertook a special project late in FY 1975 called resaturation. The resaturation project compared for SSI recipients who receive both social security and SSI, the social security benefits and earned income shown on the social security master beneficiary record (MBR) and the social security summary earnings record (SER) with the amounts shown on the supplemental security record (SSR). If social security benefits and earnings shown on the SSR were incorrect, the amounts were corrected and the SSI payments recomputed accordingly. The average payments shown in the table reflect the results of the resaturation check. This check had the effect of reducing SSI average payments.

(2) The effects of actions made during the redetermination process which correct erroneous SSI payments (both overpayments and underpayments) are also included in the estimated average monthly payments shown on the table. Overall the effect was to reduce SSI average payments.

(3) SSI recipients who were on the State adult assistance rolls prior to the SSI program were grandfathered into the SSI program. Experience shows that recipients who were converted from the State programs receive higher SSI payments than do those who have come onto the SSI rolls since January 1974. The number of converted recipients is declining steadily due primarily to death. As the proportion of converted recipients to the total recipient population declines average monthly benefits also decline.

(4) The SSI automatic cost-of-living increases (6.7 percent in July 1976 and 5.9 percent in July 1977) have the effect of raising average SSI payments. However, these increases only partially offset the three decrease factors cited above. Also, the automatic social security increases exert a negative effect on SSI average payments, since SSI payments go down as social security payments go up for dual SSI-social security recipients.

Derivation of the 1977 Budget Estimate

FY 1976 Estimated Federal Benefit Payments..... $4,545,000,000

Changes in the 1977 Base (these are changes in the recipient population and payment levels which occur in FY 1976 and affect 1977 payments)

1. During FY 1976 and the transition quarter a total of 830,000 new recipients will come on the SSI rolls. If these individuals had been added to the rolls at the beginning of FY 1976 and paid for the entire year they would have received benefits totaling $825,000,000. However, they came on the rolls at various times throughout the year and actually were paid $655,000,000. The difference of $170,000,000 is the additional cost in FY 1977 (annualization) which did not occur in FY 1976..... +170,000,000

2. During FY 1976 and the transition quarter 370,000 SSI recipients will leave the rolls due to normal attrition--death, cessation of disability, or excess income or resources. These individuals will receive $156 million while they are still on the rolls. This $156 million does not recur in 1977.....	-156,000,000
3. As a result of redeterminations processed in FY 1976 $150 million will be saved in Federal benefit payments for the full year 1977. $45 million will be saved during FY 1976 due to these redeterminations which had an impact during only part of the year.....	-105,000,000
1977 Base (the cost of paying for a full year in FY 1977 at FY 1976 payment levels the recipients on the rolls at the end of the transition quarter).....	$4,454,000,000
1977 Increases and Decreases:	
1. Two automatic cost-of-living increases, (6.7 percent to be paid in July 1976 and 5.9 percent in July 1977) are scheduled for both the SSI program and for social security benefits. As a result, SSI payments increase in FY 1977 by $605,000,000. About 55 percent of all SSI recipients also receive social security benefits. Social security benefits count as income for SSI recipients and SSI payments to social security beneficiaries are reduced accordingly. FY 1977 SSI payments are reduced by $248,000,000 because of the automatic increases in social security benefits. The net increase in SSI payments because of the automatic increases is $357,000,000.....	+357,000,000
2. Throughout FY 1977 SSA estimates that 765,000 new Federal recipients will come on the SSI rolls. As a result of adding these recipients, at FY 1977 projected average payments, Federal benefits increase by $812,500,000.....	+812,500,000
3. Throughout FY 1977 SSA estimates that 430,000 Federal recipients will leave the rolls due to normal attrition--death, cessation of disability, excess income or resources. Normal attrition during FY 1977 causes the level of Federal benefit payments to decrease by $328,500,000.....	-328,500,000
4. SSA expects new 1977 redeterminations and improved payment accuracy to save $50,000,000 in FY 1977.....	-50,000,000
FY 1977 Estimated Federal Benefit Payments.....	$5,245,000,000

Activity 2: Federal Hold Harmless Payments

	1976 Estimate	1977 Estimate	Increase or Decrease
Federal hold harmless payments.....	$120,000,000	$55,000,000	-$65,000,000

Hold Harmless Protection

Only States which opt for Federal administration of State SSI supplementation can, under law, benefit from "hold harmless" protection. Thus, there are two advantages to States which elect Federal administration of their mandatory and optional supplementation programs. First, the Federal Government bears the cost of administration. Second, the State is protected from paying out of State funds any more than its calendar year 1972 assistance expenditures for the aged, blind, and disabled because of overall growth in the recipient population. This financial protection is commonly referred to as "hold harmless." However, the State may choose to exceed those expenditures by the optional supplementation levels it sets. The following States are expected to benefit from hold harmless protection:

FY 1975 Actual	FY 1976 Estimate	FY 1977 Estimate
California	California	---
Hawaii	Hawaii	Hawaii
Massachusetts	Massachusetts	Massachusetts
Nevada	Nevada	---
New York	New York	---
Wisconsin	Wisconsin	Wisconsin

This "hold harmless" protection applies only to supplementation payments which do not on an average exceed a State's "adjusted payment level" (APL). The adjusted payment level is made up of three elements: (1) the money payment made to assistance recipients with no other income under the approved State plan in effect in January 1972; (2) the "payment level modification" available to States that paid less than their full need standard in January 1972; and, (3) the "bonus value of food stamps" that would have applied to the money payment in January 1972.

APL's Assumed in Budget Request

Previous appropriation requests used adjusted payment levels (APLs) determined by the DHEW Audit Agency during its audits of APLs reported by the States as a basis for estimating the amounts of Federal hold harmless payments. During the last year, California and New York, the two States which do not have final APLs, submitted additional data to SSA supporting their State reported APLs. The additional information, for the most part, tends to validate the earlier amounts reported by the States. As SSA advised the Congress previously, it requested that the five States which calculated their APLs based on a sample of cases on the rolls in January 1972 recalculate their APLs by reviewing 100 percent of the appropriate cases. Three of the five States have completed their recalculations; SSA expects California and New York, to complete theirs by the fourth quarter of FY 1976. Pending completion of the recalculations and based on the additional evidence provided by California and New York, the present budget request assumes that the final APL's will be established at levels closer to the APLs originally reported by the States than to those determined by DHEW audits of the State reported APLs.

Budget Estimate for Hold Harmless

"Hold harmless" payments are estimated to decrease from $120 million in FY 1976 to $55 million in FY 1977 because of projected cost-of-living increases in the basic Federal SSI payment (6.7 percent increase in July 1976; 5.9 percent in July 1977). The decrease occurs because under current law the States' adjusted payment levels and the amounts of their calendar year 1972 non-Federal expenditures (the two main factors which determine Federal hold harmless amounts) are fixed amounts which are constant even where program costs rise due to inflation or other factors. The APL's determine the portion of a State's supplementation payment which is "protected" and therefore credited toward reaching a State's calendar year 1972 non-Federal expenditures level. "Protected" State supplementation payments which exceed the calendar year 1972 non-Federal expenditures become Federal liability under the hold harmless provision of the law. As the maximum Federal payments increase, the difference between the maximum Federal payment (presently $157.70 for an individual and $236.60 for a couple) and a fixed State APL becomes smaller. This results in a smaller proportion of "protected" State supplementation payments and in turn in smaller Federal hold harmless costs. By FY 1977, the budget assumes that California, Nevada, and New York will no longer have large enough amounts of "protected" supplementation payments to entitle them to hold harmless protection.

Activity 3: Vocational Rehabilitation Services

	1976 Estimate	1977 Estimate	Increase or Decrease
Vocational rehabilitation services.....	$57,672,000	$52,770,000	-$4,902,000

Funds requested for this activity are for two purposes:

(1) To provide vocational rehabilitation services to SSI recipients (section 1615 of the Social Security Act); and

(2) To monitor the treatment of disabled SSI recipients who are also drug addicts or alcoholics (section 1611(e)(3)(A) of the Social Security Act).

These services are provided by State agencies which have agreements with the Secretary to perform the appropriate functions. States are fully reimbursed for their costs of providing these services. In most instances the Social Security Administration (SSA) transfers funds to the Rehabilitation Services Administration (RSA) which in turn allocates them to the States. SSA is responsible for negotiating agreements with governmental agencies in California and New York City to monitor the treatment of drug addicts and alcoholics.

Criteria for Vocational Rehabilitation, SSI Program

The fundamental objective of vocational rehabilitation for SSI recipients is to return as many as possible of the disabled individuals eligible for SSI payments to productive, self-supporting work activity. The criteria for selection for vocational rehabilitation determined by the Secretary of Health, Education, and Welfare under the law are as follows:

1. The disabling physical or mental impairment must not be so rapidly progressive as to preclude the individual's restoration to productive activity.

2. The impairment, without the planned rehabilitation services, is expected to remain severe enough to require continued payment of benefits.

3. It can reasonably be expected that these services will restore the individual to productive activity.

4. The predictable period of productive work activity following the provision of rehabilitative services will be long enough for the cost of the services to be offset by future savings in SSI payments.

The criteria are intended to exclude those whose impairments are responding to treatment and who can be anticipated to go off the SSI roll without the need of vocational rehabilitation services. The emphasis on "productive activity" rules out the financing from SSI funds of services which might be aimed at restoring an individual to non-remunerative activity or to a marginal earnings capacity that would fall short of substantially reducing dependence

on supplemental security income payments. These policies are modeled after the program for disabled social security beneficiaries as authorized by Title II of the Social Security Act.

FY 1977 Estimate

The 1977 budget estimate of $52,770,000 is made up of two elements.

(1) Vocational rehabilitation services to disabled SSI recipients ($48,933,000)

The funds requested for fiscal year 1977 are 90 percent of the amount of funds requested in the President's 1976 budget. The basis for this budget estimate, a reduction of $5,347,000 from fiscal year 1976, is a recent draft report from the Government Accounting Office (GAO) which indicated that some individuals receiving vocational rehabilitation services under the Title II Disability Insurance program did not meet the selection criteria. Since the selection criteria for the SSI program are patterned after the social security program the budget assumes that the same situation will exist for the SSI program. This may or may not be the case.

As a result of the recent draft report prepared by the GAO the State agencies will review all cases served with SSI funds (and Disability Insurance funds) to determine if recipients meet the selection criteria. The States will continue to refine their present systems for selecting those individuals eligible for services under these programs, and place a heavy emphasis on refining their management systems. SSA is also taking steps to strengthen its administrative role with respect to the SSA funded VR programs.

Because of these developments the budget assumes that the SSI caseloads for the State agencies will be lower in 1977. The following table summarizes the changes in the major workloads for the State agencies for this activity.

Workload Categories	FY 1976	FY 1977	Increase or decrease
1. Diagnosis and evaluation:			
Individuals	53,356	44,176	-9,180
Average cost per individual	$135	$144	+$9.00
Total cost	$7,068,100	$6,361,290	-$706,810
2. Extended Evaluation:			
Individuals	6,136	5,166	-970
Average cost for Individual	$620	$633	+$13.00
Total cost	$3,805,900	$3,425,310	-$380,590
3. Active Caseload:			
Individuals	49,203	41,380	-7,823
Average cost per individual	$884	$946	+$62.00
Total cost	$43,496,000	$39,146,400	-$4,349,600
Total cost	$54,370,000	$48,933,000	-$5,437,000

The first workload category reflects the number of new recipients who are referred to or those who apply for vocational rehabilitation services from the State agencies. It is at this stage that the States assess the individual background, capabilities, etc. and determine what services ought to be provided. The second workload category reflects more difficult cases from the first category that require more comprehensive tests or examinations to determine if the individuals meet the law and regulatory requirements for services and if they could reasonably benefit from services provided by the State agencies. The third category represents the active caseload of the State agencies and includes new SSI recipients to receive service, SSI recipients carried over from prior years who continue to receive services and recipients who are considered to be rehabilitated by the State agencies.

(2) Monitoring the treatment of drug addicts and alcoholics ($3,837,000)

Eligibility for SSI payments for disabled individuals who are medically determined to be drug addicts or alcoholics is subject to their undergoing appropriate treatment for their conditions at an approved facility. Under the monitoring program State agencies, or other governmental agencies, under contracts with the Secretary are to refer drug addicts or alcoholics to approved treatment facilities, monitor their treatment, and report non-compliance and successful treatment to the Social Security Administration.

Last year in the President's 1976 budget request SSA requested $6,572,000 in the Salaries and Expenses appropriation for a contract with New York City, to take claims and provide necessary monitoring and representative payee services for drug addicts and alcoholics. It is felt that it is more appropriate to include funds for this activity in the SSI account. The 1977 budget request of $3,837,000 for this activity includes $2,724,000 for the monitoring of the treatment of about 11,350 drug addicts and alcoholics in New York City. This is an increase of $214,000 over the revised 1976 budget estimate of $2,510,000. The original contract with New York City was never consummated; however, SSA hopes to enter into an agreement with another agency of New York City in 1976. The decrease in costs from the original estimate of $6,572,000 will be realized since the agency will only monitor the treatment of drug addicts and alcoholics. SSA's district office staffs will take claims and provide the normal representative payee services.

The estimated number of individuals subject to having their treatment monitored and the estimated costs are as follows:

	1976	1977	Increase or Decrease
Drug addicts or alcoholics.....	13,350	15,985	+2,635
Average cost per recipient.....	$240	$240	--
Total cost.....	$3,302,000	$3,837,000	+$535,000

Activity 4: Payments to Trust Funds for Administrative Costs

	1976 Estimate	1977 Estimate	Increase or Decrease
Payments to the trust funds for administrative costs.....	$495,787,000	$500,352,000	+$4,565,000

The Social Security Administration is responsible for administering the Supplemental Security Income program. The justification for the program's administrative expenses is included in the appropriation request for "Limitation on Salaries and Expenses, Social Security Administration."

Section 201(g)(1) of the Social Security Act provides that administrative expenses for the Supplemental Security Income program, including Federal administration of State supplementation payments, may be financed from the social security trust funds with reimbursement, including any interest lost, to the trust funds from the general revenues. The use of trust funds for SSI administrative expenses was primarily for administrative convenience and efficiency. The legislative history of the 1972 amendments indicates a desire to obtain economy of administration by giving the Social Security Administration the responsibility for the SSI program because of its existing district office network, administrative and ADP facilities. The integration of the administration of these two programs made it desirable to permit funding from one source and reimbursement to the trust funds based on a cost analysis of the respective expenses of the SSI and social security insurance programs. This appropriation includes an estimated $500,352,000 for payments to the trust funds in fiscal year 1977 for administration of the SSI program.

Activity 5: Federal Fiscal Liability

	1976 Estimate	1977 Estimate	Increase or Decrease
Federal fiscal liability.....	$60,000,000	$57,000,000	-$3,000,000

Background

States may choose to have the Federal government administer their State supplemental payment programs. At the present time, 28 States and the District of Columbia have federally administered supplemental payments. In administering State supplementation payments, the Federal government has made payment errors--overpayments, payment to ineligibles, or underpayments.

Based on review of the law, the Office of the General Counsel, DHEW, has advised SSA that Title XVI authorizes use of appropriated funds to reimburse States for supplemental payments "...made by SSA, to the extent such payments were made to ineligible individuals or otherwise constituted incorrect payments." On the basis of this opinion and because of contractual agreements with the States, the budget assumes that the Federal government will meet its commitment to the States to reimburse them for errors SSA makes in expending State funds. However, reimbursement will be only for incorrect payments of State supplementation resulting from Federal errors -- not those which resulted from faulty information about recipients provided by States during conversion from the State administered adult assistance programs to the SSI program.

Budget Estimates

1976 -- No settlements relating to Federal payment errors have been made with States to date. The budget assumes that Federal fiscal liability (FFL) settlements for errors made during fiscal years 1974 and 1975 will occur during FY 1976. Estimated obligations for these settlements are $60 million.

1977 -- The FY 1977 estimate of $57 million for FFL is intended to cover settlements made in FY 1977 resulting from FY 1976 payment errors.

The budget estimates are rough projections and are not based on definitive data. Plans for the method of achieving settlements with the States are now being discussed and formulated within the Executive branch. At this time generally, the plans call for conformance with existing provisions in the contracts between the States and the Federal government for Federal administration of State supplemental payments. For example, beginning with January 1975 and for successive six-month periods, SSA's fiscal liability under the contracts with the States is patterned after the 1973 HEW regulations for establishing the States' liabilities for their errors in administration of the Aid to Families with Dependent Children (AFDC) program. In both programs, the ultimate goals are to establish liability only for error rates which exceed 5% in overpayments and 3% in payments to ineligibles.

Unreimbursed State Supplementation

FFL settlements with States will have to take into account, where appropriate, amounts of unreimbursed State supplementation. These are amounts which SSA has paid out in fiscal years 1974 and 1975 on behalf of the several States, for which SSA has billed the States and has not been reimbursed. Some States have withheld partial reimbursement because of their allegations about Federal errors and their concern about the Federal posture in owning up to these errors. At the time the budget was prepared, the amount of reimbursement withheld by the States throughout fiscal years 1974 and 1975 which they attribute to Federal errors in paying State supplemental benefits was approximately $60 million. This number may fluctuate as negotiations begin with States and settlements are achieved.

In determining final settlement costs with each State, SSA intends to offset its FFL costs with appropriate States against the reimbursement they owe the Federal government. Although 1976 FFL settlement costs appear in the budget as obligations ($60 million), actual Federal cash outlays for FFL may in the aggregate net to zero because of equivalent recoveries of unreimbursed State supplementation for FY 1974 and FY 1975.

SSA again wants to bring to the attention of the Congress that it is using the SSI appropriation to cover shortfalls in State reimbursement of supplemental payments made on their behalf. This was first pointed out to the Congress in the justification of the 1975 supplemental appropriation request for the SSI program. Through the first 6 months of FY 1976, States have withheld approximately $30 million which they attribute to Federal payment errors. We think that use of the appropriation to cover the reimbursement shortfall will decrease once FFL negotiations with States are underway and they are assured of Federal intentions to deal fairly with all States.

SOCIAL SECURITY ADMINISTRATION

Supplemental Security Income Program

Program Purpose and Accomplishment

Activity: Supplemental Security Income Program (Title XVI, Social Security Act, Section 401 of P.L. 92-603, Section 212 of P.L. 93-66)

1976 Estimate	1977 Authorization	1977 Budget Estimate
$5,278,459,000	Indefinite	$5,910,122,000

Purpose: This appropriation provides for carrying out the provisions of title XVI of the Social Security Act, section 401 of P.L. 603 and section 212 of P.L. 93-66 which established or amended the Federal Supplemental Security Income program for the aged, blind, and disabled. This appropriation request covers: (1) the Federal benefit payments to aged, blind, and disabled recipients; (2) the amount of Federal hold harmless payments; (3) the cost of vocational rehabilitation services provided by State agencies to blind and disabled SSI beneficiaries; (4) payments to the social security trust funds for the administration of the program; and (5) Federal fiscal liability settlement costs.

The SSI program was effective on January 1, 1974 and replaced State and locally administered programs of aid to the aged, blind, and disabled, formerly financed in part by Federal grants from the Social and Rehabilitation Service. The SSI program currently provides a uniform income support level of $157.70 per month for an individual and $236.60 per month for a couple. Public Law 93-368, enacted August 7, 1974, requires that when social security benefits are automatically increased based on a cost-of-living computation, supplemental security income benefits will be increased by the same percentage. Under present law maximum monthly Federal SSI payments are projected to increase by 6.7 percent on July 1976; a further increase of 5.9 percent is projected for July 1, 1977. The following table displays the maximum monthly Federal SSI benefits payable throughout the current and succeeding fiscal years:

	FY 1976	FY 1977 First 9 mos. (Includes 6.7% Increase)	FY 1977 Last 3 mos. (Includes 5.9% Increase)
Single individual	$157.70	$168.30	$178.30
Couple	236.60	252.50	267.40

In addition to the basic Federal benefit, States are required to maintain the December 1973 income level of all recipients who received assistance payments for December 1973 under State programs through mandatory State supplementation payments. Also, those States wishing to pay an aged, blind, or disabled person additional amounts, may make optional State supplementation payments. If a State chooses Federal administration of its supplementation payments programs, the Federal government pays all associated administrative costs. In addition, under the hold harmless

provision for those States choosing Federal administration of their supplements, the Federal Government makes contributions toward State supplementation (hold harmless payments). This insures that States do not incur costs in excess of those incurred in 1972 for assistance payments to the aged, blind, and disabled, unless the State chooses to do so through optional supplementation.

The law requires that blind or disabled persons who receive SSI payments be referred to State agencies for vocational rehabilitation services. Payments for providing these services are made to the States from Federal funds through the Rehabilitation Services Administration. In addition, any disabled SSI recipients who are also drug addicts or alcoholics are subject to having their treatment monitored. The cost of monitoring treatment is included in the appropriation request.

The law also allows the use of the trust funds for financing administrative costs in the SSI program with reimbursement from this appropriation including any interest lost to the trust funds.

In addition, the appropriation is used to cover Federal fiscal liability settlements with States due to Federal errors in Federally administered State supplementation payments.

Accomplishments in 1976:

1. To make payments and maintain the rolls for SSI recipients including those receiving Federally administered State supplementation. The recipients on the rolls at the end of fiscal year 1976 are shown in the table below. The table includes recipients of Federal SSI payments and of State supplementation payments administered by the Federal government.

SSI Recipients End of Fiscal Year 1976

Aged	2,425,000
Blind and Disabled	2,240,000
Total	4,665,000

2. To make Federal benefit payments of $4,545,000,000 during FY 1976. In addition, SSA will pay $1,395,000,000 in Federally administered State supplementation payments (mandatory and optional). It is estimated that the Federal government will cover in hold harmless payments to the States $120 million of the $1,395,000,000.

3. To improve the accuracy of SSI payment through redsterminations of eligibility and of the correctness of payment amounts for SSI recipients (benefit payments take into account $190 million of savings because of this effort).

4. To provide vocational rehabilitation services to blind and disabled recipients who meet special selection criteria at a cost of $54,370,000 and to monitor the treatment of disabled SSI recipients who are drug addicts and alcoholics at a cost of $3,302,000.

5. To reimburse the trust funds for SSI program administrative expenses of $493,660,000.

6. To arrive at equitable settlements with the States for Federal errors made in the administration of State supplemental benefits (Federal fiscal liability estimated at $60 million for fiscal year 1976; this covers 1974-1975 errors).

Objectives for 1977: Fiscal Year 1977 objectives are:

1. To make payments and maintain the rolls for SSI recipients including those receiving Federally administered State supplementation. The recipients on the rolls at the end of fiscal year 1977 are shown in the table below. The table includes recipients of Federal SSI payments and of State supplementation payments administered by the Federal government.

SSI Recipients End of Fiscal Year 1976

Aged	2,565,000
Blind and Disabled	2,605,000
Total	5,170,000

2. To make Federal benefit payments of $5,245,000,000 during fiscal year 1976. In addition, SSA will pay $1,295,000,000 in Federally administered State supplementation payments (mandatory and optional). It is estimated that the Federal government will cover $55 million of the $1,295,000,000 in hold harmless payments to the States.

3. To improve the accuracy of SSI payments through redeterminations of eligibility and of the correctness of payment amounts for SSI recipients (benefit savings because payments take into account $345 million of this effort).

4. To provide vocational rehabilitation services to blind and disabled recipients who meet special selection criteria at a cost of $48,933,000 and to monitor treatment of SSI recipients who are drug addicts and alcoholics at a cost of $3,837,000.

5. To reimburse the trust funds for SSI administrative expenses of $500,352,000.

6. To arrive at equitable settlements with the States for Federal errors made in the administration of State supplementation benefits (Federal fiscal liability estimated at $57 million for fiscal year 1977; this covers 1976 errors).

Transition Quarter Analysis

	Obligations by Activity 1/	
	1976 Estimate	Transition Quarter
1. Federal benefit payments.....	$4,545,000,000	$1,255,000,000
2. Federal hold harmless payments.....	120,000,000	13,000,000
3. Vocational rehabilitation services..	57,672,000	13,200,000
4. Payments to the trust funds for administrative costs.....	493,660,000	127,320,000
5. Federal fiscal liability.....	60,000,000	-----
Total.....	$5,276,332,000	$1,408,520,000

Explanation

The estimates for the transition quarter have been revised downward from an estimate of $1,508,541,000 in the 1976 President's budget and from an estimate of $1,503,541,000 for the Congressional action based on more recent experience with the SSI program. Funds as indicated in the table above are required to continue SSI Federal benefit payments and Federally administered State supplementation to SSI recipients as indicated in the table below:

SSI Recipients on the Rolls at the End of the Fiscal Period

	FY 1976 Estimate	Transition Quarter Estimate	Increase or Decrease
Aged.....	2,425,000	2,460,000	+35,000
Blind and Disabled.....	2,240,000	2,320,000	+80,000
Total.....	4,665,000	4,780,000	+115,000

The estimates for Federal benefit payments and Federal hold harmless payments assume a 6.7 percent automatic cost-of-living increase effective July 1, 1976. The estimate for vocational rehabilitation services provides funds to the States which enable them to serve SSI recipients at the level projected for FY 1977. The estimate of obligations for administrative costs for the transition quarter is based on the same relationship between administrative costs for the Supplemental Security Income program and total Salaries and Expenses costs for the Social Security Administration as assumed for fiscal year 1976. The estimate assumes that no FFL settlements will occur during the transition quarter.

1/ Excludes the following amounts for the reimbursable activity:
1976 estimate..... $1,275,000,000
July 1, 1976 through September 30, 1976..... $302,000,000
These reimbursable obligations are for State-financed State supplementation payments administered by SSA on behalf of States who have chosen to have the Federal government administer their supplementation benefits payments.

LIMITATION ON SALARIES AND EXPENSES (TRUST FUND)

MARCH 18, 1976.

WITNESSES

JAMES B. CARDWELL, COMMISSIONER
ROBERT P. BYNUM, ASSOCIATE COMMISSIONER, OFFICE OF PROGRAM OPERATIONS
FRANCIS D. DeGEORGE, ASSOCIATE COMMISSIONER, OFFICE OF MANAGEMENT AND ADMINISTRATION
FRED SCHUTZMAN, DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
PHILIP A. O'BRIEN, ACTING BUDGET OFFICER, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER

Mr. NATCHER. We take up at this time the Social Security Administration limitation on salaries and expenses.

We have before the committee Mr. James B. Cardwell, the Commissioner, together with members of his staff.

Mr. Cardwell, we have carefully examined your statement. We find it to be an excellent statement, and with your permission we would like to insert it in the record in its entirety and just go right with the questions.

Mr. CARDWELL. Fine, sir.

[The statement follows:]

The "Salaries and expenses" request is for authority to spend up to $2,561,773,000 from the trust funds for the administrative costs of the social security cash benefit, medicare, and supplemental security income programs. The supplemental security income program is financed entirely from general revenue funds; however, initial advances from the social security trust funds are authorized for administrative expenses, with full reimbursement made from the SSI appropriation.

Of the amount requested for "Salaries and expenses," $500.4 million is for administering the SSI program; $1,286.3 million is for administering the cash benefit programs of old-age, survivors and disability insurance; and $750.1 million is for the medicare programs of hospital and supplementary medical insurance. As in the past, the request also includes a $25 million contingency reserve for use, if necessary, to handle workloads in excess of budget estimates and to meet mandatory increases in the costs of medicare contractors and State agencies.

This year our request, in terms of obligations, includes $1,725.1 million for bureaus and offices of the SSA; $523 million for contractors who process medicare claims; and $288.7 million for payments to State agencies which assist in the administration of the social security, SSI, and medicare programs. These figures demonstrate that 32 percent of the estimated administrative expenses are for the cost of third parties who are under contract or agreement to assist in carrying out the provisions of the Social Security Act.

ADMINISTRATIVE IMPROVEMENTS BUDGETED

For the 2 years since January 1974, the Social Security Administration has had to place its major emphasis on getting the Supplemental Security Income

(SSI) program off the ground. During this implementation period, deficiencies developed in the speed and quality of service rendered to the public in both the social security and SSI programs. These deficiencies must be corrected. Therefore, the major emphases in the administrative budget for 1976 and 1977 are to improve the payment accuracy, timeliness, and overall quality of SSA's service to the public. The following elements of the budget reflect these emphases:

Improvements in SSI payment efficiency.— Cases will be reexamined to correct conversion errors and update the data base. We hope to reduce payment inaccuracies to about 15 percent by the end of fiscal year 1977.

Stabilization of work force.—By converting term employees to full-time permanent positions, we will reduce the rate of employee turnover and thereby create a more stable, more efficient work force.

Improvements in SSI systems support.—We plan to build an interface of the SSI system with computer systems for other Government programs, such as the Veterans' Administration and the Railroad Retirement Board.

Increased emphasis on training and retraining.—The initial impact of the SSI program necessitated shortcuts in training in order to handle the volume of work. Conditions now permit a return to full basic training for new employees and increased ongoing training for other employees to keep pace with changing programs and policies.

Improved processing time for SSI and disability insurance program claims and for hearings and appeals on those claims that are denied.—The budget projects a reduction in the hearing backlog from 87,000 at the end of fiscal year 1976 to 34,000 at the end of fiscal year 1977.

ACCOMPLISHMENTS IN 1976

We have accomplished a number of positive actions that should go far toward helping us return to the level of service that prevailed before SSI.

SSI.—We have been steadily reducing the processing time for SSI claims. Median processing times are 30 days for an aged claim and 60 days for a disabled claim, compared to 60 days and 90 days, respectively, a year ago. Further, we have installed a working quality control system that is giving us feedback about the basic payment efficiency and areas of weakness and deficiency.

Redeterminations.—We plan to complete redeterminations on over 4 million SSI recipients to correct errors and update the data base to assure proper payments to all eligibles.

ADP systems.—We plan to increase our systems capacity and begin a total review of our operating systems and processes as the first step in the design of a new advanced operating system.

Reorganization.—We have completed a major reorganization of our management-leadership structure. Now, SSA's organizational components are better alined toward achieving (1) better clarification of responsibility and accountability for basic program operations; (2) improved operations support for SSI; (3) consolidation of the previously fragmented policy and planning functions; (4) improved communication with the public, Congress, and constituent groups; (5) improved agencywide program evaluation and quality assurance; and (6) modernization of SSA's automated systems.

AFDC enumeration.—We began the huge job of issuing social security account number to all persons on the AFDC rolls who do not have one.

Account number conversion project.—We continued the project to convert the 290 million paper account number file to an electronic data base.

WORKLOADS

The cost of administering the social security program is directly related to workloads generated by the statutory provisions of the law and demographic factors not subject to budgetary control. As a result of these factors, and most recently because of new legislation, the volume of work processed by the SSA continues to increase each year. Our principal workloads for 1977 will give some idea of the magnitude of the job that has to be done:

We expect to process over 4.1 million claims from retired workers and their dependents and from survivors of deceased workers, and over 1.9 million new claims from disabled workers and their dependents. Also, we will need to keep

current the beneficiary rolls for over 33 million persons under the social security cash benefits programs.

We will issue over 7 million social security account numbers and post over 414 million earnings items to workers' lifetime records of earnings under social security.

We will process 154,000 hearings from claimants who are appealing decisions concerning their eligibility and benefits, primarily in the disability and SSI programs.

We will process more than 1.4 million new SSI claims in fiscal year 1977 and serve the SSI beneficiary roll which is estimated to grow from 4.5 million people at the end of fiscal year 1976 to 5 million people by the end of fiscal year 1977.

We will complete 4.7 million SSI redeterminations in 1977. The Social Security Act requires that the Federal Government conduct redeterminations to verify the eligibility and correct assistance payment amounts for all persons on the SSI roll. In fiscal year 1975, we completed about 2.3 million redeterminations. In fiscal year 1976, we expect to complete about 4.4 million. By weeding out ineligibles and making sure we are paying benefits in the correct amount, we expect to save a total of $190 million in 1976 and $345 million in 1977 in SSI benefit payments.

Medicare contractors will process 134 million claims for payments from beneficiaries, physicians, and from hospital and other providers of service. Since some concern has been expressed recently about medicare contractor performance and increased fraud, I would like to treat these subjects briefly. In contractor performance we are reaping the benefits of a substantial improvement in performance from the early days of the medicare program. It is important to recognize that the unit costs of contractors for processing claims have been held rather stable over the past several years despite inflation. Concerning fraud, I would say that our processing systems already contain many checks and balances to assure proper medicare payments. These systems have evolved over many years' experience. Still, recognizing the need to detect, investigate, and eliminate fraud, we are widening the scope of our investigative staff by combining it with HEW's and placing the combined staff under the direction of the Under Secretary of HEW. This should result in a more effective and more flexible investigative function and improve overall program integrity.

The State agencies under contract to SSA will make 1.8 million disability determinations in 1977 on claims filed by disabled workers, widows, and children.

In addition to our regular, ongoing workloads, new workload responsibilities have been created for us by several new laws and court decisions. Among these new workloads are informal oral hearings as a result of due process court decisions; providing information to people as a result of the Privacy Act; and keeping records and supplying information because of pension reform legislation.

CHANGES IN OBLIGATIONS

The increase in workloads from fiscal year 1976 to fiscal year 1977 for the Social Security Administration and for the third parties who assist in the workload processing, would cost $124.1 million at fiscal year 1976 production rates and salary levels. However, if productivity improvements in SSA bureaus and third parties materialize as budgeted, we will be able to absorb $88 million of this workload increase, leaving a net increase of $36.1 million for handling increased work.

In addition to this net additional cost of handling increased workloads, our budget request contains $100.9 million in mandatory items which fall principally into two categories: (1) Increased salary costs for SSA employees resulting from the annualization of the 5-percent October 1975 pay raise, and annual within-grade increases and promotions to journeyman levels; and (2) increases in salaries and prices paid to third parties. The latter are estimated to increase by about 9 percent.

Other "increase" and "decrease" items in the budget result in a net increase of $27.1 million. In large measure, they are plus and minus costs of a one-time or intermittent nature, such as increases for the purchase of ADP equipment, and for a contract with Internal Revenue Service to assist in the keying of data necessary to convert our paper account number file to an electronic data base. These are partially offset by decreases for contracts with State welfare agencies

to assist in the assignment of social security numbers to AFDC recipients, for the premium cost of overtime, and for the cost of site preparation for new computers.

MANPOWER AND POSITIONS

I would close by emphasizing the staffing proposals contained in the 1977 budget request. To be successful in our efforts to improve the accuracy of SSI and social security payments, and to improve the quality of our service to the public, we must have a stable work force. The high employee turnover levels of the past 3 years must be reduced, and excessive use of overtime must be phased out. Accordingly, this budget converts the term positions to full-time permanent positions. This is an important step toward stabilizing the staff and conform to the will of the Congress as expressed in our 1976 appropriation language. The budget calls for a gradual decrease in our reliance on overtime. In 1975, about 7 percent of our total manpower was for overtime; in 1977, we plan to reduce overtime to about 5 percent of the total.

In addition to the conversion of term positions to permanents, our budget request for 1977 provides for an increase of 1,985 permanent authorized positions over the 1976 level. This staffing allowance will permit us to obtain more manpower from permanent positions, meet workload peaks during the year, and be better able to handle any workloads which are unanticipated or underestimated in the budget.

FRANKING PRIVILEGE FOR STATES

Mr. NATCHER. You are proposing to delete appropriation bill language concerning payments of postage. Apparently the Postal Service would not agree to some arrangement you had in mind. What is the effect of deleting the language? Will it cost more money or less?

Mr. DEGEORGE. The only effect, Mr. Chairman, would be in the franking privilege that we had an interest in allowing the State disability determination units to use. There is a disagreement between SSA and the Postal Service as to the proper utilization of that type of franking.

Mr. NATCHER. What about the cost; can you tell us?

Mr. DEGEORGE. We can, Mr. Chairman, but I don't have the number.

Mr. NATCHER. Would it cost more or less?

Mr. DEGEORGE. It would cost us more because we will have to pay——

Mr. CARDWELL. I don't know. I think the issue is whether franking charges are less than commercial postage charges. If they are, we could save money.

What happens now is the State agency pays postage, and we reimburse the State.

The alternative, what we proposed to the Postal Service, was to extend the Federal franking privilege to the States on the theory that they were acting as our agents; they were doing that which we would otherwise be doing for ourselves.

Mr. NATCHER. Then ultimately it would cost more money if approved?

Mr. CARDWELL. I don't think so. I think it will either be the same or possibly less, but we will verify that and insert a statement at this point in the record.

[The information follows:]

SAVINGS FROM USE OF THE FRANKING PRIVILEGE

State disability determination services (DDS) are under contract to the Social Security Administration to make disability decisions as part of the development of claims for disability benefits. We wanted to have the DDS's use franked envelopes as agents of the Federal Government, and obtained the necessary special

appropriation language. However, we have not been able to reach an agreement with the Postal Service, which was necessary to implement DDS use of the franking privilege.

If the DDS had been able to use the franking privilege instead of business reply envelopes, we could save 2 cents per envelope. This would save us less than $25,000 annually.

PERMANENT POSITION LANGUAGE

Mr. NATCHER. You are also proposing to delete language referring to full-time permanent positions. Why?

Mr. MILLER. Mr. Chairman, that was language which was in the 1976 Labor-HEW Appropriation Act. It is no longer necessary. We are converting those employees to permanent status.

Mr. CARDWELL. The language in question directed that the Social Security Administration utilize full-time permanent employees in lieu of so-called term appointments. In this budget we have proposed to do just that, and therefore the language is not necessary and would be redundant.

Mr. NATCHER. Have you converted all of your term positions to full-time people?

Mr. CARDWELL. No, sir. So far we have converted about 2,000.

It is our expectation that we won't convert everybody anyway since we will not be able to reach all the terms for permanent appointments on Civil Service Commission registers. However, we are well into the process of those conversions, and we are making no more term appointments. We are 100 percent in compliance in that regard.

Mr. NATCHER. What is your definition of a term employee?

Mr. CARDWELL. A person who would be offered an appointment not to exceed 2 years.

Mr. NATCHER. Mr. Cardwell, would all 6,000 term employees to be converted continue to work and would they continue to work on the supplemental security income program?

Mr. CARDWELL. The 6,000 employees were originally requested as a block of employees to work on all social security activities essentially in our district offices, and in our program centers, in our Bureau of Disability Insurance and Data Processing at headquarters.

At the time we made the request to Congress we said we would use the majority on SSI. We would from time to time determine the number applicable to each program by a workload measurement system that would measure what share of a day's work for an average employee went to which program.

As I pointed out to the committee earlier, all of our employees in the field work as generalists, and they take a claim as it comes to them. It might be an SSI claim, it might be a title II claim, a medicare claim, or a black lung claim. We then keep a record through a sampling system of how they are applying their time, and we use that as a basis for allocating both man-years and money by program.

But by and large most of those 6,000 people would go to the SSI program and would bring to a total of about 23,000 the equivalent employees working on SSI out of our total employment in excess of 80,000.

RECRUITMENT

Mr. NATCHER. What kind of problems have you experienced in recruiting people?

Mr. CARDWELL. We experienced considerable difficulty in recruiting against the term appointments. We have no problem that I know of at this moment—and I will ask Mr. Bynum to verify that—in recruiting for permanent appointments or short-term temporary appointments; in fact, the labor market looks quite good.

Mr. BYNUM. That is true.

Mr. NATCHER. How long does it take to fill a job? The other day the Commissioner of Education told us that it takes 6 months because of Civil Service rules. Does that apply to your agency, Mr. Cardwell?

Mr. CARDWELL. Under some circumstances—in supergrade executive positions at headquarters—that could occur, but by and large in the field we have no such problem.

I would ask Mr. Bynum to speak to it more specifically.

Mr. BYNUM. I would say a couple of months would be a reasonable period of time to recruit new employees from the time you make your decision.

MAJOR INCREASES

Mr. NATCHER. On page 87 of the justifications there are a couple of items of increase that stand out. One is the $44.9 million in rent, communications, and utilities. That is a 23-percent increase over last year.

Why the increase?

Mr. CARDWELL. The major increases are about $11 million for ADP-related rentals, $10 million for increased space rental—including some expansion space—and about $19 million for communications costs. This latter increase includes expansion of a new communications network known as SSADARS and expansion of toll free telephone service for the public.

Mr. NATCHER. You also show a $32 million increase for equipment. What is this for, a new computer?

Mr. CARDWELL. This is for four new computers, and also to purchase four others being rented in 1976. The actual acquisition of the four new computers will be reviewed at least one more time before they are put in place.

Mr. NATCHER. We know that other groups and committees are looking into your computer operation. There seems to be some opinion that your present space and equipment are not being efficiently used. What kind of study led you to the conclusion to purchase new computers, Mr. Cardwell?

Mr. CARDWELL. The leadtime on planning for purchasing or leasing computers is quite long, and this particular plan was started some time back. You are correct when you say that not everybody agrees with our estimate of computer power and time required. In fact, I am meeting with the General Accounting Office on a report from the consultant they have employed to examine this.

It is a subject that has been disputed many times.

We have one of our own employees who works in the field who feels very strongly that we have overstated our requirement for computer power in the long term, and all I can say to you is that this is a subject that will continue to be examined and I know will be re-evaluated at least one more time before these computers all go in place.

Mr. DEGEORGE. Mr. Chairman, the plan that was submitted some 2½ years ago, which is the basis for our present computer additions, was reviewed during that process by the Office of the Secretary, OMB,

and the General Services Administration, so it was not a unilateral decision on the part of this agency.

We did follow standard procedures during that period of time, sir.

ADVANCED SYSTEMS PLAN

Mr. CARDWELL. I think this should be mentioned because it was in the salaries and expenses statement. We have underway a very comprehensive review of our entire computer system which will use a lot of outside expertise, and which will require about 6 years to complete. This involves all of our basic processes for taking claims, adjudicating them and executing payments.

We ourselves are quite convinced that our present configuration is not as efficient as it might otherwise be because it really is the result of many years of patching, of adding and extending.

We still do a number of things serially, with runs of millions of records every 24 hours that new equipment today—if we could utilize it immediately—would make unnecessary.

The problem we face is the same one Internal Revenue faced 5 or 6 years ago. We can't afford to interrupt what we are now doing to make it better and to improve our utilization.

I have a feeling that is what GAO is going to tell us tomorrow, but we already have a very comprehensive plan underway to redo our whole system. However, we tell everybody that is a long leadtime proposition.

I would also mention that, as we do in the statement, we estimate it will be very costly.

Mr. NATCHER. Right at that point, Mr. Cardwell, how much will it cost eventually to meet your computer requirement?

Mr. CARDWELL. We estimate that a complete overhaul of the system would cost on a gross basis about $400 million. However, about $250 million of the money we will be spending during that same period of time on the present system, because we are constantly patching and repairing it, will offset the gross costs of the overhaul.

Thus, we think the overhaul itself would have a net cost perhaps of as low as $150 million. But we can almost assure you of two things that an overhaul will produce that patching and repairing can never produce. That is a less labor-intensive and more efficient operation.

Mr. NATCHER. What have you done to link your computer system with other Government systems such as the Veterans' Administration or the Railroad Retirement Board?

Mr. CARDWELL. Beyond laying this out in the planning stage we have done no linkage. That is a high priority item on SSI. If we are to improve the SSI payment efficiency, we should be more accurate in calculating the offsetting benefits that those programs trade off against each other, but we do have an action plan, and that is on our agenda for this year.

Mr. NATCHER. Describe your advanced systems planning project.

Mr. CARDWELL. That is the one I was referring to earlier. It is a project that is being operated and managed from inside. There is an Office of Advanced Systems that was created by me about a year ago. The head of that office reports to me directly. He does not have any ongoing operational responsibilities so that he can be free to develop improvements.

My theory was—it is not one everybody agrees to—that every time you assign to a planner the job of planning a new system, current crises in operations take over his time, and you look back 5 years later and you find you haven't gone from here to there.

This group has developed a very thorough plan. It has a time frame, milestones and targets.

We hope to use the best commercial and industrial advice we can obtain during that time. Their primary objective is to overhaul the basic systems that support the old-age, survivors, and disability program and the SSI program.

A charter would not take in at this stage the medicare program because we think the prospects of changes there, fundamental changes, perhaps national health insurance, are too likely to make that a good investment.

What we want to do, for example, is to consider whether we could avoid mailing the checks, 34 million checks a month, to take that pressure off the Treasury system and the post office system.

We want to automate the almost 300 million social security number records that are today still largely in paper form and have never been automated.

We have several hundred million basic documents in our program centers that are in some 30 million paper folders. Everybody thinks the Social Security Administration is just one big computer, but it never has been and isn't today. These are the kinds of things we would hope that group would do.

I have been working very closely with them, and I think there is a good chance we will pull it off.

The Internal Revenue Service did this several years ago. It took them about 5 years. I think they would tell you had it not been for that step at that time they wouldn't be able to do their job today.

Our job is constantly growing and it is becoming more labor intensive. We have to find ways to avoid that labor intensity and to do that in our judgment means we have to restart and do some very severe overhauling.

CONSULTANT SERVICES

Mr. NATCHER. How much of your salaries and expenses budget is used for consultants? And if you will, give us the main reason for hiring consultants.

Mr. CARDWELL. While they are looking up this exact figure, the No. 1 reason we hire consultants has to do with administration of the medicare program and the disability insurance program where we use outside expertise in the adjudicative or claims processing procedures.

In disability, for example, literally every case requires the technical expertise of someone who doesn't work for the Federal Government—a physician, for instance, an expert working close to either Social Security Administration or the State agency who is used to verify medical information.

We do not use consultants the way some of the other agencies in HEW do, to advise us to whom to grant money. We use them largely in our day-to-day work. The way the civil service system is arranged they are consultants rather than direct employees.

Mr. DeGeorge will give you the data.

Mr. NATCHER. Go right ahead, Mr. DeGeorge.

Mr. DEGEORGE. Mr. Chairman, the requirements have been placed on us by this committee and the Senate Appropriations Committee which addressed itself to approving consultant contracts. We plan to spend about $9.5 million in 1977 for the type of consultants Mr. Cardwell just described. Our total consultant contract estimate for 1977 is about $17 million.

IMPLEMENTATION OF CARDINALE VERSUS MATHEWS

Mr. NATCHER. In the justifications you indicate that no funds are included to implement the recent court decision in *Cardinale* v. *Mathews*. How would that decision affect your manpower requirements and why aren't you budgeting for it?

Mr. CARDWELL. I will try to answer the last question first.

The matter has not yet passed through the entire court system. We have received a lower court decision that, if it is upheld, could have a fairly serious consequence. We did not anticipate this in the budget, as a matter of fact, because we really think we have to decide first whether the legislative and executive branches want to take issue with the courts.

Mr. BYNUM. Actually, the thing that made the big difference, Mr. Chairman, and meant that we did not need very substantial increases in resources, didn't relate to *Cardinale* itself. We have published in regulations a reduction in the time an individual has to file for a due process hearing from 30 days to 10 days.

We found that by reducing that time limit from the 30 days to 10 days almost all the overpayments and the problems we would have been dealing with otherwise would be taken care of.

There are some manpower requirements related to the implementation of this regulation once it is finally approved—perhaps 800 man-years.

ADVISORY COMMITTEE ON MEDICARE

Mr. NATCHER. What is the current status of implementing the recommendations of the Advisory Committee on Medicare Administration?

Mr. CARDWELL. The so-called Perkins committee?

Mr. NATCHER. Yes.

Mr. CARDWELL. If you will permit me, I think that is one that is never going to go away.

We have reviewed all the recommendations; we have made a specific choice as to which ones we accepted, which ones we rejected. We advised the Secretary of HEW of those choices. He agreed to them. We advised the Congress, every committee that we though had any interest about our plans to accept and reject. We have specifically accepted most of them. Some of them call for things to be done once and some to be continued thereafter. We are attempting to do all the things that the report recommended.

I would suggest that I put in the record a full explanation that would display for you what the Perkins committee recommended and how we are proceeding.

[The information follows:]

Summary Status of Recommendations
of the
Advisory Committee on Medicare Administration, Contracting, and Subcontracting

Recommendation: Enter into a research contract with an independent entity in order to accelerate the improvement of the performance criteria.

Status: A request for proposal (RFP) was advertised in March for a firm to assist in the further development of performance standards. A contract should be awarded by the close of the fiscal year. The standards developed as a result of the contract will be tested in fiscal year 1977 prior to their use as an objective measurement of carrier performance.

Recommendation: Publish, at least annually, the results or statistics on relative carrier performance.

Status: The first report is scheduled for publication in December 1976 to cover FY 1976 and the transition quarter. The report will be refined to reflect new developments in performance standards as they are implemented.

Recommendation: Announce a policy of contract nonrenewal for poorly performing carriers.

Status: The complete utilization of this policy is contingent upon the further development of performance criteria. In the interim, carriers will be assessed individually, and contract nonrenewal will be considered for poor performance.

Recommendation: Reassign portions of workload of poorly performing carriers.

Status: This policy is fully implemented, and no further action is needed.

Recommendation: Formation of incentive reimbursement plans for carriers.

Status: The first contracts under an incentive reimbursement plan are scheduled for initiation in October 1976.

Recommendation: Survey carriers to determine what regulatory requirements they view as unnecessary.

Status: This survey will be conducted in conjunction with the conference of Government and contractor executives planned for late 1976. This area will form one topic of discussion at the conference.

Recommendation: Improvements in the procurement process (specifications for RFP's, factors and weights for bid evaluation, etc., for EDP subcontracts).

Status: These requirements are in the process of being incorporated in the contractor manuals. They are planned for implementation by the end of calendar 1976.

Recommendation: Set a 90-day time schedule for approval of EDP subcontracts.

Status: This recommendation has been met; in fact, a 60-day time schedule was adopted.

Recommendation: Limit the term of EDP subcontracts.

Status: This recommendation has been met. The limit recommended by the committee--2 years, with an option to renew for 1 year--was adopted.

Recommendation: Use of conflict of interest questionnaire by carriers.

Status: This recommendation has been met; a contract modification was made in the carrier agreements of July 1, 1975.

Recommendation: Treatment of carrier joint ventures.

Status: The policy suggested by the committee was adopted: when contractors act jointly, their joint venture will be treated as a subcontract arrangement.

Recommendation: Reduce the role of the Government in carrier decision-making (specifically in regard to data processing) and rely on its capacity to test carrier performance by results.

Status: The carrier agreements of July 1, 1975 and following were charged to State that data processing subcontracts no longer need prior approval of the Secretary of DHEW unless certain threshold amounts are triggered. The new threshold amounts for proposed data processing changes range from $35,000 for the smallest carriers to $150,000 for the largest.

An evaluation of these changes in the carrier agreements is presently underway to determine how successful they are in giving the carriers more latitude in data processing decision-making.

Recommendation: Withdraw from the maintenance responsibility for the Part B Model system, in two stages:

(1) transfer operational responsibilities for interim maintenance to a competitively selected private contractor,

(2) ultimately terminate the maintenance contract upon assurance of adequate competition.

Status: A policy has been implemented that will allow the 22 carriers using the Part B Model system to individually determine whether future systems maintenance should be provided by their own in-house staffs, under subcontract with private data processing firms, or by the Bureau of Health Insurance (BHI). An analysis of carrier experience under in-house maintenance and subcontracting for the service will be prepared in 1977, and a final decision will subsequently be made as to the continuance of BHI maintenance.

Recommendation: Separate the EDP subcontract decision-making process from the influence of the BHI Model B data processing group.

Status: An EDP Subcontract Review Committee composed of non-BHI Social Security Administration executives has recently been formed to advise the Director, Bureau of Health Insurance, on the approval or disapproval of carrier recommendations for EDP subcontract awards.

Recommendation: Make the Carrier Representative Group (CRG) a more effective body.

Status: The size of the CRG has been expanded and the rotation period of members has been extended. Additional steps to more fully implement this recommendation will be discussed at a meeting of government and contractor executives to be held in the fall.

Recommendation: Solicit carrier views on preliminary position papers before adopting binding policies.

Status: The Bureau of Health Insurance is currently utilizing this approach.

Recommendation: Hold an annual conference of government and carrier executives to discuss performance results and policy problems.

Status: A conference will be planned for late 1976.

Recommendation: Contract for an independent feasibility study to determine the benefits and costs of the regional approach to processing claims.

Status: A request for proposal (RFP) was released in November 1975. The responses to the RFP are now being evaluated. A contract is expected to be awarded in April 1976.

Recommendation: Develop improved cost reporting and cost accounting guidelines in order to be able to compare carriers with a reasonable degree of reliability.

Status: A detailed survey of accounting practices of the contractors is currently in progress. In addition, specifications have been developed for a contract with a private consultant group to assist in the development of cost accounting standards to the extent feasible for use by carriers. A contract is expected to be awarded by late summer, 1976.

Mr. CARDWELL. I think the primary recommendation of Perkins was in many ways more philosophical than procedural or operational, and it is one we have certainly attempted to embrace, although I think it is going to be inherently difficult to fulfill.

There are really two recommendations: One, that the carriers themselves as our contract organizations have the fundamental right to elect to perform for themselves or use a subcontractor for the basic data processing portion of their work for us. But where they used the contractor, it should be done competitively and by executive rules established by the Social Security Administration. We have adopted that policy, and it is very much a part of our current procedures.

The other general feature of their recommendations which I think will be difficult to achieve is that we should have developed some means of going in one direction which implies at least some oversight by the Federal Government, but at the same time we should go in the opposite direction of giving the carriers full opportunity to make their own choices. They thought the way to do that was to develop some performance criteria.

We are trying to do that by getting some outside advice, and the first step in that direction will be a contract that will be let before the end of this month.

I am not very optimistic that some outside expert will show us how to do this. Performance criteria in this field do not exist, and it would be new territory that would be explored for the first time.

TRAVEL TO PUERTO RICO

Mr. NATCHER. What are some of the steps that you are taking at this time to better manage the travel of your administrative law judges?

Mr. CARDWELL. I made a mistake. I let Mr. Trachtenberg go home for the afternoon. He is the one who should be here. He has set up a new set of rules on who can travel where.

I would assume that question has to do with the notoriety that attended the famous trips to Puerto Rico?

BACKLOGS IN PUERTO RICO

Mr. NATCHER. That was my next question.

Mr. CARDWELL. The prior practice of sending judges from all over the country to Puerto Rico has been discontinued.

Mr. NATCHER. What about the backlog of cases in Puerto Rico? That was really the question I wanted to ask you. Is it still quite a backlog?

Mr. CARDWELL. I think that backlog has been declining. I do not have a firm answer to it.

Mr. NATCHER. When you get the transcript, you can place a statement in there.

[The information follows:]

BACKLOG OF HEARINGS CASES IN PUERTO RICO

When workload pendings reached an all-time high on a national basis in April 1975, there were 2,521 hearings pending in Puerto Rico. As of the end of February 1976, there were 2,432 hearings pending. Although there has been difficulty in recruiting permanent staff for Puerto Rico, we have recently added staff, and this should reduce the backlogs more rapidly.

Mr. CARDWELL. I shouldn't have let Mr. Trachtenberg go back to his office.

SOCIAL SECURITY BENEFITS

Mr. NATCHER. A few minutes ago you pointed out to the committee that you do mail out some 34 million checks per month. Is the overall figure $71.4 billion for benefit payments—I believe that is the amount shown in the justifications—is that correct for the fiscal year 1977?

Mr. CARDWELL. That is retirement and survivors amount only. It would not include disability insurance, the supplemental security income, nor the black lung.

Mr. NATCHER. It would include the retired workers, dependents of retired workers, and then your survivors. In addition, Mr. Cardwell, would it include disability insurance and hospital insurance? I believe in 1976 the amount was $62.2 billion. Is that figure correct?

Mr. CARDWELL. Yes, sir. There again we have to exclude the categories that we just enumerated.

Mr. NATCHER. I understand.

SOCIAL SECURITY BENEFICIARIES

Now, Mr. Cardwell, how many beneficiaries do we have at this time?

Mr. CARDWELL. Taking them by category—and if you will, I will use the 1977 budget estimate as the basis for the figures—there would be $28.6 million in current payment status for the old age and survivors insurance program; 4.7 million for disability insurance; 24.9 million covered for hospital insurance; for supplementary medical insurance, 24.6 million: and for supplementary security income, about $5 million; black lung program, about 470,000.

Mr. NATCHER. Thank you, Mr. Michel?

Mr. MICHEL. Thank you, Mr. Chairman.

MEDICARE OVERPAYMENTS

Mr. Cardwell, you recently came out with regulations in the Federal Register of January 8 which basically implement provisions of the Social Security Act of 1972 forbidding the recovery of overpayments under the medicare program. What is the reason for these and how would these actually work?

Mr. CARDWELL. I think we have our wires crossed here somewhere. I don't follow the question.

Mr. TIERNEY. I don't recognize that interpretation at all, Mr. Michel. We are constantly doing that. I think there were some regulations which would apply in situations in which a beneficiary entered an institution without any fault on his part. He just goes in, the doctor orders him in, and later on it is found it was not medically necessary for him to have done so. In that case we can waive the amount we have paid once. The next time he does the same thing, he is on his own, but it just seemed inequitable for an old person to be faced with a $2,000 hospital bill when he didn't know why he was in there. He was put in there by a doctor, yet a utilization review committee determined that his stay in the hospital was unnecessary.

So we do have this waiver of liability once. But that doesn't mean that we are not recovering overpayments to institutions.

Mr. MICHEL. Were there a number of instances of that kind that you describe.

Mr. TIERNEY. There were. That was the purpose of this regulation.

Mr. MICHEL. Do you have any dollar figure of what is involved in that?

Mr. TIERNEY. On the waiver?

Mr. MICHEL. Yes.

Mr. TIERNEY. We don't have an exact dollar figure available but we do have statistics that indicate the impact of the waiver provisions.

Mr. MICHEL. It is pretty significant; isn't it?

Mr. TIERNEY. Yes; the amount we are talking about is significant. You can see the effect the waiver provision has had by looking at our retroactive denial rates. At one time this rate was high, especially in hospitals and skilled nursing facilities. Since the waiver provisions of the 1972 amendments have gone into effect, however, the denial rate has dropped off considerably to where it is down now to about 15 percent. What this indicates is that we are now paying for services under the waiver provision that we would have denied retroactively before. Although the waiver provision is only one of the several factors that have influenced the retroactive denial rate, it is one of the more important ones.

Mr. MICHEL. That was a real bugaboo at one time and we were concerned. That is why we get those specific cases documented, to try to find out what the problem was and how we were going to improve upon that.

Mr. TIERNEY. This is designed to eliminate the inequity to the person hopefully through intensified utilization and review activity, and now with the activity of the PSRO's there is going to be a sufficient educational continuing analysis of cases going on in hospitals that this will tend to disappear, but there will always be some of it.

MEDICARE ADMINISTRATION

Mr. MICHEL. Are we taking any specific steps to improve the administration of the medicare program?

Mr. TIERNEY. Yes; I think we are, Mr. Michel. We do that constantly.

Mr. MICHEL. Without putting you to the real test here for the moment, why don't you for the record give me a couple good hard and fast for instances. I hope there are some.

Mr. TIERNEY. There are.

[The information follows:]

STEPS TAKEN BY THE SOCIAL SECURITY ADMINISTRATION TO IMPROVE THE ADMINISTRATION OF THE MEDICARE PROGRAM

MONITORING CONTRACTOR OPERATIONS

To assure an equal and consistent review of all claims, we have supplemented the law and regulations through the use of a comprehensive set of instructions which are issued to all contractors. We have 10 Bureau of Health Insurance regional offices located throughout the country, which have the responsibility to review the work of medicare contractors on a day-to-day basis. They also conduct ongoing contractor inspection and evaluation reviews for the explicit purpose of monitoring contractor performance, resolving discrepancies and assuring a high degree of national consistency. Our regional offices utilize onside representatives in most contractor operations. These individuals are aware of

the contractors' performance and any changes in performance on a day-in and day-out basis. Finally, the Bureau of Health Insurance prepares a formal performance evaluation report on each contractor annually. This annual contractor evluation report is furnished to the contractor stating both positive and negative findings and contains recommendations for improvement where appropriate. Regular followups are made on these reports to assure ourselves that necessary changes are made. These reports are available to the public.

QUALITY ASSURANCE

We have instituted an end-of-line review to provide uniform and statistically valid performance data to use in a comparative analysis of carrier claims-processing performance. The end-of-line review, while still in the development stage, will add to the overall integrity of the medicare program. The major objectives of this program are: (1) to evaluate the quality of carrier's claims-processing operations. This is accomplished through a review of a statistically selected sample of a carrier's processed claims by carrier personnel and a 10-percent subsampling by regional office personnel; (2) to provide carriers with management information relevant to their claims-processing performance. This is accomplished through programs to identify the causes of the errors found by the reviewers, (3) to provide the Bureau of Health Insurance with management information for contract administration and policy evaluation. This is accomplished through the Bureau of Health Insurance regional office and central office analyzing the types of the errors detected and determining what factors cause these errors, for example, unclear policy issuances, insufficient training, et cetera, and (4) to assure the Bureau's responsibility and accountability for program administration. The end-of-line review provides data to enable the Bureau of Health Insurance to account for the accuracy of funds expended by carriers under the medicare program.

Mr. MICHEL. Was there also published a proposed regulation in the Federal Register under date of January 9 providing for experimental day care programs as essentially a transition program providing care for adults between hospital care and personal independence?

Mr. TIERNEY. Yes; under section 222 of the 1972 amendments, medicare coverage for adult day care was authorized on an experimental basis. Demonstration programs are operating at four sites: San Francisco, Lexington, Ky., White Plains and Syracuse, N.Y. The demonstrations began in May 1975 and will run through December 1976.

FRAUD CASES

Mr. MICHEL. The "special program integrity components" in the 10 Bureau of Health Insurance regional offices have handled, as I understand it, 423 fraud cases with 143 convictions.

Would any of you know how many of those 143 convictions were classified as provider fraud?

Mr. TIERNEY. I would think not more than four. When you say provider you mean institutional providers?

Mr. MICHEL. Yes.

Mr. TIERNEY. All the rest were individual situations.

I might say to you, Mr. Michel, that is out of a total universe of about 39,000 alleged fraud or abuse complaints which have been investigated. The obvious conclusion is the amount of fraud that you can finally develop is very, very small.

Mr. CARDWELL. In addition to the figure of 143 convictions, there are 106 now awaiting trial or decision by the U.S. attorney to go to trial. It sounds like a relatively small number for such a large program, but let me try to put it in perspective.

The 39,000 figure I think is significant. These are cases which have been processed under the existing medicare detection system.

There is a lot of attention being given these days by press and by the Congress too, and by the Secretary of HEW for that matter, to the issue of medicaid fraud and abuse. A lot of the newspaper reports tend to confuse the two programs. They use medicare when they mean medicaid.

I don't think we should be complacent but I should point out that the apparatus and the arrangements for prevention and detection of fraud and abuse are in place for medicare. Detection and prevention of fraud and abuse in medicaid, however, is dependent on the capacities of individual States, and there is a very uneven pattern of basic capacity.

The other advantage that medicare has always had is we build our system around the private insurance industry, which was already aware of the potential pitfalls, and had set up a system and approach to deal with it. However, no system—law enforcement, crime prevention, abuse prevention—is gong to avoid all of the games that people can play with programs as complex as medicare and medicaid.

Diligence and vigilance is something we should be held accountable for, and in this respect I think we are relatively in good shape compared to medicaid.

DIFFERENCE BETWEEN MEDICARE AND MEDICAID

Mr. MICHEL. I think it is important that you show the distinction, then, for the record between the medicare program and the medicaid program.

What you say is so true and by no means should the two programs be exchanged or interchanged, one for the other, when obviously, they are different programs.

[The information follows:]

DISTINCTION BETWEEN MEDICARE AND MEDICAID

Medicare is a federally administered and federally financed health insurance program, with uniform benefits throughout the United States, which operates under the princip'e of earned rights to program benefits. These earned rights grow out of a combination of earmarked social security tax contributions on wages and self-employment income during the individuals' working lifetime and direct premium payments after becoming eligible for the program. Medicaid, on the other hand, is a State-administered program, with partial general revenue support by the Federal Government, with variable benefits determined by State legislation and operating under the means-test principle. To become eligible for medicaid benefits, individuals must demonstrate, against standards defined by each State, that they have insufficient income or convertib'e assets to bear the full cost of necessary health care; that is, be medically indigent.

Mr. MICHEL. Who in the Bureau of Health Insurance is responsible for forwarding purported cases of "fraud" to the Office of Investigations, or do the "integrity components" conduct the criminal investigations?

FRAUD INVESTIGATIONS

Mr. TIERNEY. Our regional offices have the program integrity specialists who not only develop the evidence but present it to the U.S. attorneys. Also, they often participate in the prosecutions. As you know, the Department is now creating an Office of Investigation so that

when a case has been sufficiently brought along to a point where it looks as though there is need for a professional investigator, it can be turned over to that officer for investigation.

I think one thing, Mr. Michel, that people tend to overlook is that for most cases, you don't need a professional investigator, a fingerprint-type fellow. What you really need is someone well versed in the program who can detect these things. Therefore, you don't need a lot of gumshoe types.

Whenever there is a benefit paid, a copy of that goes to the beneficiary. It is the greatest source of our leads. When you get that kind of lead, you have to find out how many shots this doctor has given to how many patients, and so forth. We have not found the need for, in the past, criminal investigators in order to detect a pattern.

Mr. CARDWELL. Professional investigators are probably best used to fill gaps between the kind of development the Bureau of Health Insurance can do and the complete criminal investigation which may be needed by the Department of Justice. To this extent, you need criminal investigators, trained in criminal work.

I think that until you start reading someone his rights, you probably don't need a criminal investigator or someone trained in that aspect of law enforcement.

But as Mr. Tierney points out, when you are really trying to determine whether there is a pattern of abuse present, you need people who know how the medical system works, how hospital bills are prepared, and how to make comparative analyses. That is where we concentrate our attention.

Mr. MICHEL. My view has been right across the spectrum. Within the past couple of years with these mammoth programs in education, health, and welfare, the free, easy Federal bucks amounting to billions, represent just too much opportunity for flimflam. Heretofore, we have always said if there is some extreme case of fraud, involve the Department of Justice or the U.S. attorneys. However, there are too many of these day-to-day things that can't be taken care of by the Department of Justice; therefore, we have to do the job in-house with competent people to keep this abuse at a minimum. It is kind of breaking our back. The news media being what it is, it only takes one rotten apple to spoil the barrel.

Mr. CARDWELL. Take the example which received some attention a couple of weeks ago of local clinics taking kickbacks. That was a medicaid situation. Also, if an attempt had been made to find these clinics by identifying patterns in the system, the clinics would not have been identified. These arrangements were so prevalent in the community, there wouldn't have been a definite pattern. that is where a skilled investigator could have done something for you.

The Secretary is trying to develop methods for detecting such cases in collaboration with several States, Illinois being one of them.

ACCESS TO COMPUTERS

Mr. MICHEL. The Under Secretary stated in a letter to me, dated February 24, 1976, that one of the four priorities in preventing fraud and abuse by the Office of Quality Assurance is to increase the physical security so unauthorized persons do not have access to terminals or

other computer facilities. Has there been a measurable amount of unauthorized access to the SSA and SSI computers that has caused this to be a high priority?

Mr. CARDWELL. SSI has introduced a new risk of internal fraud which hadn't existed before. It really comes from having put into the Social Security Administration for the very first time, online computer systems. The claim is taken at the local office for SSI and a local operator sits there at a console and reads into the computer basic data for that claim. The computer picks it up in Baltimore and causes the check to be sent.

You can see the risk right there. One or two employees collaborate and can set themselves up in business, for example. It is that open console which makes it possible. We recognized this early on in the SSI system and are trying to develop ways to set up checks and balances. The SSI study group pointed out the same risk to us. GAO, I am sure, will eventually point it out, too. It will take a good bit of ingenuity, I think, to bring it to a minimum.

Mr. BYNUM. In addition to the software locks and other means to assure the entrance to the system is not abused, we have a number of checks and balances to help us discover these types of things after the event has taken place. I guess we have been fortunate so far, but we do not need to do more.

ACCOUNT NUMBER ISSUANCE

Mr. MICHEL. We were told by the SRS people that to obtain a person's social security number from your records, a manual search would be necessary, even if the person's name is known. I find this rather difficult to believe with all the computer facilities you have. Is it?

Mr. CARDWELL. If they tried to make a search without the number, it would have to be done by a fairly laborious means. The system is centered around the number as the identifier. We can do it by name. In fact, if you were to take a tour of the facility in Baltimore, one of the things they would be proud to show you is your social security records without having been given the number. To do that a thousand times would be time-consuming. It can be done.

Mr. MICHEL. Have you any idea as to the cost to do a manual search?

Mr. CARDWELL. We could try to give you an estimate but it would be many, manyfold. In fact, the system couldn't tolerate very large traffic.

Mr. BYNUM. In handling this, we simply have to have more input into the system to locate it. The same people who have the same names among 219 million people is very large.

QUALITY ASSURANCE SYSTEM REVIEW

Mr. MICHEL. The Under Secretary points out five objectives of the SSI quality assurance program and that no independent review has been conducted to determine the success of the quality assurance system in attaining these goals. Is such an independent review going to be made? If so, when?

Mr. CARDWELL. The HEW Audit Agency is now reviewing the SSI quality assurance process. This will be a comprehensive examination of all facets of the quality assurance process in the field as well as headquarters. In addition, the General Accounting Office is also starting a review of the SSI quality assurance system. Each of these reviews will be aimed at determining how well the system works and where it can be improved. Representatives of the Audit Agency and GAO have met to coordinate their work so that wherever feasible duplication of effort will be avoided. The Audit Agency's review is scheduled to be completed by the end of this calendar year. We will, of course, carefully consider the results of both reviews and take action on them.

DOCUMENT ANALYSIS LABORATORY

Mr. MICHEL. Is the Document Analysis Laboratory still located in the Investigations Branch in the Division of Administrative Appraisal and Planning?

Mr. CARDWELL. The Document Analysis Laboratory is still located in the Office of Administrative Appraisal and Planning. The Investigations Branch in which the laboratory was formerly located, was transferred to the newly established Office of Investigations in the Department.

Mr. MICHEL. How many document experts work in the document laboratory?

Mr. CARDWELL. At the present time there is one professional in the Document Analysis Laboratory. He is fully qualified in all aspects of document analysis, and has qualified as an expert in the field of questioned documents in local, State, Federal, and military courts.

Mr. MICHEL. I understand there is a backlog of 80 cases which are handled on an "emergency" type basis. True?

Mr. CARDWELL. It is true that at the end of February, the backlog total 80 cases; and as of March 19, it stood at 115. However, most of this increase has occurred since the first of this year. During calendar year 1975, the number of cases on hand at the end of any given month ran no higher than 24. We have been concerned with the recent increase in this backlog, and action is underway to reduce it to manageable proportions.

We give priority attention to "emergency" type cases where appropriate, such as appeals cases and cases involving criminal prosecution. This applies though to a very small number of cases. Our goal is to provide timely service on all cases requiring document analysis.

Mr. MICHEL. Is there any plan to increase the staff of the document laboratory to adequately handle the increasing workload?

Mr. CARDWELL. Yes; we are convinced of the need for an additional document analyst, and recruitment action is underway.

NATIONAL HEALTH INSURANCE

Mr. MICHEL. With all the difficulty you have in administering the SSI program, isn't it likely that a cradle-to-grave national health insurance program would result in even greater administrative problems and a high error rate?

Mr. CARDWELL. Any national health insurance program would be a major administrative undertaking. Problems would seem to be

inevitable. The key to successful implementation would seem to lie within two broad areas. First, the characteristics of the program will determine the kind and severity of administrative difficulties one can anticipate. For example, administration is simpler where there is universal eligibility for first dollar coverage of a uniform benefit package with a minimum of exclusions and limitations. Such a program may not be possible within the economic and political constraints of these times. On the other hand, cost sharing requires adequate recordkeeping, such as we have in the medicare program. Further income-related cost sharing could recall some of the income determination problems and the error rates of the early days of the SSI program. Further, no one has experience with the health card idea, which would require the processing of every bill for covered services and the extension of credit to everyone in the country. The second key element would seem to be the matrix of experience and resources which the administrative agency can bring to bear. The fact that we have in place an existing medicare administrative mechanism and 10 years of experience should serve to mitigate the complex problems inherent in national health insurance.

Mr. MICHEL. Mr. Cardwell, have you ever tried to determine how many more employees you would need to administer such a national health insurance program and what the likely administrative cost would be?

Mr. CARDWELL. The number of additional SSA employees needed and the amount of administrative cost required to administer a comprehensive national health insurance program will vary greatly depending on the specific characteristics of the program and its administrative framework. Total administrative costs and staffing requirements will vary with the need for maintenance of deductible and coinsurance records, with the need for income determinations where the extent of cost sharing is income related, and depending on whether or not a health card—that is, credit card—feature is included requiring all health provider bills to be processed through the system and whatever deductibles and coinsurance due are billed by the system.

Administrative cost estimates have been made varying anywhere from 10 percent of benefits to 15 percent of benefits depending on the program characteristics and the administrative framework. Medicare, which is simpler than most comprehensive national health insurance programs being discussed, operated in fiscal 1975 at less than 5 percent of benefits—$14.1 billion in benefits and $603.4 million in administrative costs, including both SSA and intermediary, carrier, and State agency costs.

DISABILITY PROGRAM

Mr. MICHEL. Mr. Cardwell, according to a GAO report just released, the SSA regulations and directives governing disability payments are confusing, contradictory, continually changing, and have resulted in divergent interpretations on the part of the States. What is your response?

Mr. CARDWELL. I would agree that, particularly at the beginning of the SSI program, instructions were issued by SSA which were in varying formats and may have been contradictory in some respects. However, with the exception of the instructions on drug addiction and

alcoholism and those on childhood disability, almost all these instructions dealt with issues regarding routing of claims, preparation and release of notices to claimants, proper completion of forms, case processing expedients, and so forth. Since disability determination making remained very much the same as it had been for some time, the actual decision as to whether a person was disabled should not have been altered.

We recognize the need for a new manual instruction system to reduce proliferation of instruction media and to provide manual users with a system better designed to meet their needs. Studies were initiated in 1970 to design such a system. However, the tremendous increase in volume and variety of claims-related instructional material throughout the Social Security Administration, necessitated by the Federal Coal Mine Health and Safety Act of 1969, the new supplemental security income program, and the 1972 Social Security Amendments, prevented completion and adoption of the new system.

A new manual instructions system is now being established to provide for a single official vehicle for dissemination of all program instructions used in administering SSA's benefit programs. Indexing will be accomplished by use of a computer data base, which may also be used for updating and retrieval purposes. This system should alleviate the proliferation, indexing, and cross-referral problems inherent in the current system. Its initial phase is scheduled to begin April 5, 1976, with other phases following as rapidly as practicable.

Mr. MICHEL. Apparently the disability program has doubled in 4 years. Is this true?

Mr. CARDWELL. If you compare the disability insurance benefits paid out during fiscal year 1973 and our estimate for fiscal year 1977, that would be correct. In 1973, $5.3 billion was paid out, and we estimate that $10.8 billion will be paid out in 1977. At the same time the average number of beneficiaries receiving disability insurance benefits increased by about 40 percent from 3.3 million to 4.7 million.

Mr. MICHEL. What is the reason for this increase?

Mr. CARDWELL. The amount of benefits paid each year increases as the number of beneficiaries increases. Average monthly benefits increase as general earnings rise and as automatic benefit increases, which are tied to the cost-of-living, become effective. As the result of enactment of Public Law 93–233, there was an 11-percent benefit increase effective June 1974, with 7 percent payable for March through May 1974. This law also authorized automatic benefit increases under certain circumstances based on changes in the cost of living. The first such increase was 8 percent effective June 1975. The estimated amounts for fiscal years 1976 and 1977 assume a 6.7-percent automatic increase June 1976 and a 5.9-percent increase June 1977.

The year-to-year growth in the number of beneficiaries is directly related to the incidence of disability in the population and the size of the population covered by the social security program. One major factor causing an increase in the roll since 1974 was the SSI program, which became effective January 1, 1974. Title XVI of the Social Security Act required that no person would be eligible for SSI benefits if they failed to file for other benefits to which they may be entitled. We believe this requirement stimulated filing for social security disability benefits by disabled persons who had been receiving only State assistance payments. While we don't know the exact reasons for the rapid

increase in the program in recent years, it appears economic factors may be having a signifiant increase. One reason for believing this is the fact that a significant increase in new claims occurred when unemployment became more severe in the mid-1970's.

Mr. MICHEL. Are disability criteria too loosely defined?

Mr. CARDWELL. We have no reason to believe this. The 1967 amendments liberalized the insured status requirements for workers disabled before age 31, permitting more younger workers to become eligible for benefits. There has been no other change in the disability criteria since the 1967 amendments, and we do not believe that the criteria have been applied more liberally in recent years.

Our actuaries are concerned about the volume of awards in the last 4 or 5 years. They believe that the generous replacement ratio of the title II benefit payment to the earnings of younger workers before they became disabled may be an incentive for claiming disability benefits, but claimants must still meet the severity standards in the regulations. In today's labor market, it does not seem likely that impaired workers would fail to apply for benefits even if the benefits were lower. Nongovernment disability insurance plans have also noticed an increase in claims. The fact that the title II disability program pays less than half of all disabled worker claims does not suggest that the criteria are too liberal.

There could be other reasons for our experience in the past few years. Some mortality trend statistics suggest the possibility that medical improvements could have an influence. For example, some leading causes of death which may be preceded by a period of disability are heart disease, cerebrovascular disease, and arteriosclerosis, diseases that account now for about a third of the disability insurance benefit awards. The mortality trend in these diseases for ages 25 through 64 has been clearly downward since before 1965. One explanation for the mortality trend could be, I would think, that improved technology in treating emergencies and better continuing care enables more heart disease victims to survive and live with their severe disabilities.

Mr. MICHEL. Have you developed any error rate for the disability program?

Mr. CARDWELL. In reviewing data collected from a stratified sample of disability decisions made by State disability determination service units, we have been able to identify a gross error rate for each State. This data is used to develop a national error rate. The most recent data indicates that approximately 2 percent of the initial disability insurance determinations processed by the States had clear decisional errors.

Mr. MICHEL. According to the GAO report, your quality assurance program provides little or no assurance that management problems are identified and solved. Do you have anything that shows that conclusion to be off base?

Mr. CARDWELL. The review of sample data is designed to analyze State application of adjudicative guides to the major issues considered in disability decisions. Analysis of State performance in arriving at correct and consistent decisions identifies problem areas for management. Studies for more specific identification of problems and corrective action are channeled by our regional program operations officers

through quality assurance units operating within the State disability determination sections.

Guided by the data collected through the quality assurance process, we have instituted onsite surveys of the decisionmaking process in these States which were high in errors. Recommendations have been made for corrective action within the disability determination sections. This is a recent development and it will become an ongoing process which incorporates a semiannual evaluation of State performance.

Mr. MICHEL. Apparently you have never conducted an overall study of the different interpretations of disability regulations by the States. Is that true?

Mr. CARDWELL. In responding to your question, I would like to point out that the States do not rely solely on the regulations in making a decision of disability nor are they expected to interpret the regulations. The interpretation of the law and regulations is performed by SSA and we in turn issue detailed guidelines and instructions to the States. This is not a one-way street. We encourage the States to question the instructions which they find confusing or difficult to implement. Our regional office staffs handle a substantial volume of these inquiries, when the problem is a local one, and refer to central office those which appear to have national implications. In addition, we solicit comments from the States and regional offices on proposed instructional changes.

We have never specifically conducted a study such as you mention. The Bureau of Disability Insurance continually monitors the State disability decisions through a quality review of a sample of each State's work. This review identifies determinations which deviate from established policy and guidelines. An analysis is prepared for each deficit decision which outlines the facts in the case and describes how the guidelines were misapplied. The case analysis statement is returned to the particular State along with copies of any pertinent documents from the case file. The States are encouraged to question the case analysis statements and ask for further clarification from the regional office or central office staff.

The quality assurance activities do not stop with the review of sample cases and the return of case analysis statements. Data from these reviews are analyzed to identify trends and major program areas in need of improvement. This analysis enables BDI to identify individual States which have shown consistently poor performance and to isolate the factors bearing on this poor performance. As I previously stated, we are currently conducting an onsite evaluation of some of these States.

TRUST FUND STATUS

Mr. MICHEL. What do you estimate the Social Security intake versus outgo will be in 1976? Last year there was a deficit of $1.5 billion.

Mr. CARDWELL. In calendar year 1976, based on the assumptions in the President's budget, outgo from the social security cash benefit trust funds will exceed income by $4.4 billion.

Mr. MICHEL. How about 1977 and 1978?

Mr. CARDWELL. The comparable estimate for 1977 is $4.1 billion and for 1978, $4.3 billion.

Mr. MICHEL. What is the present reserve in the trust fund?

Mr. CARDWELL. At the end of calendar year 1975, the assets of the social security cash benefit trust funds were $44.3 billion. Depending on what happens to the economy during the next few years, there is a chance that current reserves will be sufficient to carry the system into perhaps the early 1980's. But we risk further deterioration in public confidence by not acting now.

Mr. MICHEL. If the administration's decoupling proposal is adopted, what kind of total dollar savings would result?

Mr. CARDWELL. In the short run, decoupling has very little effect on the cost of the program. In fact, for the first few years it would actually increase program costs slightly since the proposal contains a provision assuring that no one in the near term would receive a lower benefit than under present law. As I said in my opening statement, our objective is to stabalize replacement rates—not social security benefit amounts. This will have a major impact in the long run, substantially reducing program costs. It is probably easier to understand the extent of the long-range effect of decoupling if it is expressed in terms of its effect on the long-term average social security tax rate that would be required to finance the system, rather than in terms of dollar amounts. Depending upon the exact form of the decoupling proposal, the savings will vary. We might use an example, however, of a decoupling plan that would maintain the current relationship between benefit levels and average wages as average wages increase over time. Such a plan could mean a reduction of 2½ percentage points in the long-term average social security tax rate below the rate otherwise necessary under present law.

These estimates, of course, depend on the economic assumptions projected over the next 75 years. New estimates, currently being developed in the 1976 trustees' reports, could reflect different savings.

Mr. MICHEL. Mr. Cardwell, your statement indicates that for a significant number of workers, the present formula will result in social security benefits that exceed preretirement wages. Do you have any specific numbers in this regard?

Mr. CARDWELL. I think the basic point here is that, under present law and under current economic assumptions, future benefit levels for current workers and their families will rise faster than average wages. If such a situation were to be allowed to continue indefinitely—and I do not believe that it will—gradually more and more workers would be better off at retirement than during their working years.

This trend can be illustrated by projecting the future relationship between initial benefits and the worker's preretirement earnings. At this time, I would like to include in the record a table that illustrates replacement rates—initial benefits as a percentage of preretirement earnings.

[The information follows:]

REPLACEMENT RATES FOR WORKERS AND COUPLES AT LOW, AVERAGE, AND MAXIMUM EARNINGS LEVELS[1] RETIRING AT AGE 62 IN 1976, 2000, AND 2050

[In percent]

Year	Low		Average		Maximum	
	Worker	Couple	Worker	Couple	Worker	Couple
1976	62	93	42	63	30	46
2000	75	113	49	73	36	54
2050	108	162	61	91	43	65

[1] Worker's age 62 unreduced benefit and couple's age 62 unreduced benefit as a percent of worker's earnings in the prior year. In 1975, low earnings are equal to $3,400 and average earnings are equal to $8,600; these amounts are assumed to increase at 6 percent a year over the long range.

Mr. CARDWELL. In this table, replacement rates are measured in relation to the worker's gross wages in the year before he reached age 62. The replacement rate figures would, of course, be higher if they were based on take-home pay rather than gross earnings, and higher still if work-related expenses, which cease at retirement, were also taken into account.

Whatever method one uses to measure replacement rates, the trend in those rates will be upward under any reasonable set of long-range economic assumptions. As shown in the table, under the current long-range economic assumptions replacement rates will rise substantially over the next 75 years unless action is taken to change the present method of calculating benefits.

Mr. MICHEL. Can you project as to what the financial condition of the social security system will be toward the end of the century with and without the administration's financing proposals?

Mr. CARDWELL. Without the administration's financing proposals, it is estimated that the social security cash benefit trust funds would be exhausted around the early or middle 1980's. Even with those proposals, the trust funds are projected to be exhausted by the turn of the century. New estimates currently in preparation for the 1976 trustees' report will probably show that the trust funds will be exhausted sooner, with or without the administration's proposals.

COSTS CEILINGS

Mr. MICHEL. How did you arrive at the 7 percent and 4 percent figures you are proposing for ceilings on medicare provider costs and physician services, respectively?

Mr. CARDWELL. The 7- and 4-percent limits are temporary 2-year controls. During that period, we hope to develop a more comprehensive long-range cost containment program. Without these limits, the inpatient hospital costs that medicare reimburses will probably increase at a 14.5-percent rate in 1977—far in excess of the overall cost-

of-living. The 7-percent limit is intended to bring such cost increases into line with the increase in the overall cost-of-living. Since it would be announced in advance, we hope it would provide an incentive for hospitals to contain their costs within reasonable limits.

The 4-percent figure is a proposed limitation on increases in reasonable charges for physician and other medical services. Under present law, increases in prevailing charge levels for physician services must be justified on the basis of an economic index reflecting changes in the expenses of physicians' practice and changes in general earnings levels. In spite of the application of this economic index, physician fees have continued to spiral upward. The 4-percent limit is intended to assure physicians a fair increase in compensation for their services without further encouraging general inflationary increases.

Mr. MICHEL. These ceilings would be for a 2-year duration. What are the various alternatives you are considering to limit costs in the future?

Mr. CARDWELL. At the present time, we are devoting considerable attention to alternative methods for reimbursing providers. The present system used by medicare and other third party payers generally recognizes whatever costs a provider incurs in rendering services to patients. We believe that this provides few incentives for hospitals and other providers to run efficient, economical operations. Moreover, there is some evidence that this system may actually be contributing to the high levels of inflation in provider costs. The Social Security Administration has underway several experiments designed to evaluate various methods for setting hospital and skilled nursing facility rates on a prospective basis.

We are also conducting research into the feasibility of paying physicians on the basis of negotiated fee schedules. Our objective in this regard is not just to contain medicare costs, but also out-of-pocket health care expenses of medicare beneficiaries, which tend to increase with the incidence of charges in excess of amounts recognized as reasonable under medicare.

PRIVATE MEDICAL INSURANCE

Mr. MICHEL. Mr. Cardwell, of the 25 million aged and disabled medicare beneficiaries, about how many are currently covered by private catastrophic medical insurance, and how many are not?

Mr. CARDWELL. Separate estimates of the number of disabled medicare beneficiaries who are privately insured against the costs of catastrophic illness are not available. Regarding the aged, the only estimates we have on private catastrophic medical insurance coverage are from the Health Insurance Association of America, which estimates that 3.1 million persons aged 65 and over have protection against catastrophic medical bills. The 3.1 million are enrolled in insurance company major medical, comprehensive, and high limit basic plans, Blue Cross-Blue Shield major medical and extended benefit plans, and in prepared group practice plans. On the basis of that estimate, roughly 19 million of the aged do not have insurance against the costs of catastrophic illness.

LOCALITIES TERMINATING SOCIAL SECURITY COVERAGE

Mr. MICHEL. According to a report last week, an increasing number of governmental bodies are withdrawing from the Social Security System. Does this cause you concern?

Mr. CARDWELL. The basic matter causes some concern. The present press attention tends to overstate the number of people who are jumping off the ship. So far, the number of localities who have opted out affect relatively few people. What is troublesome is largely philosophical.

Mr. MICHEL. How about that argument, that we can get a better deal outside the Social Security System?

Mr. CARDWELL. I think some of the local governments, particularly smaller ones, may misunderstand the ramifications. Many of these opt out after a number of people in the locality have been in long enough to earn the minimum benefit and they will not have paid in a share sufficient to finance that benefit. When the time for retirement comes they will get a windfall which is not available to the ordinary citizen.

Some of the larger governments who have opted out, for instance New York City has seriously looked at their retirement system, and find that they can't finance all the pension systems they have committed themselves to, ours being one of them. After they have finished their analysis, I would say they will not opt out of social security. They may drop something. We don't know yet.

This issue comes up when people talk about whether there should be universal coverage and whether Federal employees should be included. That makes the issue more troublesome than for just localities opting in and out. Congress is concerned that there may be a constitutional inhibitor as to whether a Federal tax can be imposed on a State employee or employer. That is why the option is in the law. They can opt in or out at will. If you would leave it to us, we would say, once you opt in, you are stuck.

Mr. NATCHER. Mr. Early.

COST OF SPACE

Mr. EARLY. The chairman asked you about the $45 million increase mentioned on page 87 of your testimony. I have only been here for 15 months and evidently the rental assessments by GSA have changed substantially in that short time. To the other agencies it doesn't mean much because it is all general funds. But with regard to social security, it is not our money, it is the employer/employee trust funds money.

So, my first question is, do you feel the rents are fairly assessed?

Mr. CARDWELL. This committee debated the issue of whether the social security trust funds should pay the user charge to GSA over and above their charge for the basic rent and maintenance. There is a provision which prohibits our transferring to GSA anything over and above their actual cost for rent and maintenance on any building or facility financed by trust fund moneys.

Mr. EARLY. You refer to the $45 million increase as free space. How much free space do we have?

Mr. CARDWELL. The $45 million increase is for the entire class of expenditures for rents, communications, and utilities. Additional space per se accounts for only about $5 million out of the $45 million, and increases in space rental rates, another $5 million. Other items in this class include $11 million for automatic data processing rental rate increases, $14 million for telephone service rate changes and expansion of toll free service and so forth. I don't have a figure on the square footage of space, but we no longer occupy any free space. Even in Federal office buildings we have to pay GSA for equivalent rents and services.

Mr. EARLY. Could anyone give us the figure now?

Mr. CARDWELL. Yes. I think we can give it to you, Mr. Early.

As of December 31, 1975, there were 14 million square feet, including the space we own.

Mr. EARLY. When you take the numbers, were were paying $129 million, originally it was estimated $175 million; for 1976, $94 million; for 1977, $239 million.

Mr. CARDWELL. Those are the totals for rents, communications, and utilities. I think we are the second largest users of space in the Federal Government, the Post Office being first. We may well be the largest agency on the GSA building list. I don't know.

GSA FUNCTION

Mr. EARLY. Do you think GSA is taking advantage of you? It certainly looks that way. The other agencies' rents are paid for by general funds, but this is a trust fund.

Mr. CARDWELL. I think one would have to look at the question of whether the GSA arrangement as the Government's overall land owner is the most economical.

Very philosophically, before I came to Social Security, I think I would have said I don't think it is a good system. I am now one of their tenants and would like to be on a good relationship with them, to tell the truth.

Mr. MILLER. May I make one point about GSA? Mr. Cardwell referred to some discussion in this committee and the Senate committee stating the committees did not want the trust funds to pay a surcharge, and they no longer do. Agencies funded out of general funds do pay such a surcharge. Whether GSA does the job efficiently, whether its rents are equitable, we can't comment. But the trust fund no longer pays a surcharge.

Mr. CARDWELL. In that sense, I think we are being very well treated by GSA and having one agency take care of the rental arrangements helps us out. For instance, in a particular locality, take Sacramento, Calif., we have an office, I guess we have two offices in Sacramento, Calif., if a need arose, and we determined we needed a larger office in lieu of one of the present offices, we would turn that matter over to GSA and GSA would invite landlords and renters in that community to give them a bid for space. They would negotiate a contract with them in our behalf. We would take over space and then pay GSA rent. For us to perform the same service for ourselves, we would have to have some additional overhead staff to do that work, overhead staff which GSA already has.

The theory is that overhead is shared on a common basis. In Sacramento they do it for all common agencies. If you examine it on that basis, you might find there is some marginal advantage by their handling the operation.

Mr. EARLY. That wouldn't justify their overcharging you——

Mr. CARDWELL. The question is, Is their overhead charge less than ours would be to take care of it ourselves?

Mr. EARLY. What percentage of your business is with buildings you own versus rentals?

Mr. CARDWELL. Eighty to eighty-five percent is rental or Federal office building space; the balance is owned.

Mr. EARLY. Of that 80 to 85 percent, what is the direct payment from GSA to the private rentor. We could compare that with the difference, the 15 percent, and determine how much that percentage represents.

Mr. CARDWELL. I don't think we have that data, but about 9 percent of the total GSA charge budgeted is for GSA overhead for space for SSA's trust fund programs. An advantage GSA offers to the Government as a whole is, I think, it tends to constrain Government agencies from leasing more than is necessary.

Mr. EARLY. There is a lot to be said for GSA, but as to their reassessment, in your case it is a little different.

In another response you made to the chairman, you suggested expenditures of $9 million for consultants. Do they receive the same benefits a government employee would receive?

Mr. CARDWELL. No.

Mr. EARLY. That would be roughly another thousand employees we fund.

THIRD PARTIES

Mr. CARDWELL. I would guess in fiscal year 1977 we are probably financing the salaries of 37,400 people counting medicare.

On the theory of our indirectly paying salaries of persons doing services on our behalf, it is 9,900 in State agencies alone.

I am just trying to make a point that our agency does a lot of its work outside direct Federal employment. The whole medicare program is managed through contracts using employees who work for the private sector. The disability adjudication process is carried out in part by using State employees who do, under the law, the initial adjudication. They make the determination; we don't. We pay the benefit once they make the determination. If you add those two large blocks of people who are really working for Social Security, you get 35,000 to 40,000 more people.

Mr. EARLY. I visited the medicare facility in my State. I would say physicians and hospitals are not getting 20 cents on the dollar. I spent 2 days at Children's Hospital in Boston and in 2 days I never found a single consultant who was paid. When I did find them it was in the afternoon using our facilities to see their own clients.

OVERTIME REDUCTION

With regard to overtime, in your statement you said you would like to get the 7 percent paid down to 5 percent. What is the overtime in dollars?

Mr. CARDWELL. I will have that for you in a moment.

Mr. EARLY. With regard to the term employees brought on in 1976 to handle SSI, you are now bringing them in as permanent employees. Is that correct?

Mr. CARDWELL. Yes; we are converting the term employees to permanent.

Mr. EARLY. I refer you to page 87 of your justification. Is the cost of the conversion to permanents in the $40 million increase shown on the line labelled "permanent positions"?

Mr. CARDWELL. The $40 million is the total increase in salary costs for permanent positions in 1977, over 1976. The increase is a combination of the salary costs of the additional authorized positions we are requesting in 1977, the full year effect of the Federal wage increase of last October, and the cost of promotions.

Mr. EARLY. What would be the cost to convert 6,000 term employees to permanent employees?

Mr. BYNUM. Slightly below our average.

Mr. CARDWELL. I would say in the neighborhood of about $12,000 to $15,000 each, including costs for personnel benefits as well as space, equipment, supplies, and so forth.

Mr. EARLY. What was their function?

Mr. CARDWELL. They were to perform the duties of a regular employee. They were taken off the Federal civil service registers. Rather than being offered a job with civil service tenure and retention rights, they were told, "If you take this job you will be terminated in 2 years." They were to do the regular work.

The theory was that SSI had a temporary peak which would eventually be passed and once it was passed, we could work with our regular employees.

Mr. EARLY. That $15,000 wouldn't be an average; would it? Because if you paid $15,000 to 6,000 employees, I would say we would have to have an additional $90 million.

Mr. CARDWELL. Only the difference between what we paid them in 1976 and their full year cost in 1977 is included in that figure.

Mr. EARLY. Is that number included in the $40 million?

Mr. SCHUTZMAN. Yes, and the salaries for the additional employees we are asking for in 1977. The term employees are being paid while they are term and will have similar salaries when converted to permanents.

Mr. EARLY. For submission to the Appropriations Committee wouldn't the 6,000 convertees from term to permanent be included?

Mr. CARDWELL. The reason is that in the 1976 budget when filed with Congress, even though those were term appointments, they were carried in the budget for the purpose of this analysis, on this table in the line, "Permanent positions."

Mr. MILLER. Even though they were term employees they were always counted as permanent.

Mr. CARDWELL. Because they were theoretically holding regular permanent jobs. Even though the appointments were term.

Mr. EARLY. Did they receive the same benefits as permanent Federal employees?

Mr. CARDWELL. Not all, such as retirement.

Mr. DEGEORGE. They do not receive the normal civil service retirement benefits, nor do they require competitive status.

OVERTIME COSTS

Mr. EARLY. Do you have the dollar number on the overtime?

Mr. CARDWELL. The line on page 87, "Other personal compensation," $93,360,000. It declines by about $23 million in 1977, to $70,367,000.

Mr. EARLY. In your statement you said you were going to shoot to reduce overtime from 7 to 5 percent.

Mr. CARDWELL. That is correct. Measured in terms of total man-years of effort put forth by all employees, we said that 7-plus percent of it was performed on overtime, we were going to reduce that number to 5 percent.

Mr. EARLY. So, you are not reducing the dollar amount, you are reducing the man-hours?

Mr. CARDWELL. We are reducing both, but it is the percentage of work performed on overtime which we plan to reduce by 2 percentage points.

Mr. EARLY. Evidently you are reducing the dollars a lot more than 2 percentage points.

Mr. CARDWELL. That is right.

Mr. EARLY. Commissioner, could there not be a higher attainable goal, unemployment being our biggest problem. Overtime is sensitive to me. Can't this overtime be replaced by permanent employees?

Mr. CARDWELL. That is what we are trying to do. When SSI came along, the tendency was to prove the original estimates were right, that you could do the job with 15,000 employees even though the States used 30,000. Once we set that limit and the work came in, we had to increase the manpower some other way. All we could do was use overtime.

The agency has been relying on excessive use of overtime. It got up to about 8 percent in fiscal year 1974. I think using that much of your manpower that way is not good and it was really being concentrated on one block of employees largely in the field. If you work them that way, they become tired and, second, they develop a different economic standard as a result of the overtime. What we are trying to do is evolve a substitute for overtime with permanent employment.

Mr. EARLY. When you take your 1976 figure over your total salary account you are talking about 10 percent of that account which is extremely excessive.

Mr. CARDWELL. I would like to see the number get down to 3 percent, myself. I don't know if it will ever get down to that.

HEARING BACKLOGS

Mr. EARLY. That is a fine goal.

One final question:

In your statement on page 3 dealing with case backlogs, what was the backlog of cases in 1974?

Mr. CARDWELL. I think it was about 77,000. Here again, Mr. Trachtenberg was excused for the afternoon. We should not have excused him. In 1975, it was 111,000. For the first time in a period of about 2½

years we are now processing more cases than we take in. In the period prior to 9 months ago it was going in the other direction. We were taking in more cases than we could process. Mr. Trachtenberg has been on the job for about a year and I think he has turned this thing around. He has increased the work force. He couldn't increase the number of administrative law judges that much because there are not that many available, given the strict eligibility requirements the Civil Service has imposed.

I think he has done quite a remarkable job in a short time. My hope is he will be able to sustain it because we still have a long way to go.

Mr. EARLY. That is all, Mr. Chairman.

AUTHORIZED POSITIONS

Mr. ROYBAL. How may total positions do you have authorized?

Mr. CARDWELL. SSA is currently authorized 79,293 positions for fiscal year 1976, and we are requesting an increase of 1,950 authorized positions for 1977.

PROCESSING OF COMPLAINTS

Mr. ROYBAL. I think all of us have heard complaints about the delay involved in processing of complaints. How long does an average complaint take to be processed from the time it is received until final appeal?

Mr. CARDWELL. We receive tens of millions of questions, claims, reports, and inquiries from the public each year. For the most part, we take care of these in one contact. Of course, there are always some questions that cannot be answered immediately, and some inquiries and claims that are exceedingly difficult. Naturally, these may require one or more followup contacts, depending on the degree of complexity.

Obviously, one area of frequent complaints is the situation in which a claimant is denied entitlement to benefits. When these denials are made, the individual has the recourse of requesting a reconsideration, then a hearing, a request to the Appeals Council, and finally a civil suit.

The average processing time for hearings in the first half of fiscal year 1976 was 231 days. In the same period, appeals reached final disposition approximately 92 days, on the average, after they were filed. The processing time for hearings is not acceptable to me. It is our goal to reduce the large number of disability hearings that are pending from the present level to about 3 months' work. We have budgeted to reduce this backlog to 4 months' work by the end of fiscal 1977, and we expect to reach and maintain a 3 months' level for hearings in fiscal 1978. That's about the right amount of work to have in the pipeline to insure a balance between a good service to the public and effective use of our resources. The Bureau of Hearings and Appeals presently has about 3.5 months of appeals work pending. We have budgeted to maintain that level.

SSI ERROR RATES

Mr. ROYBAL. We have heard much about the error rate of Social Security. Would you indicate what your error rate is and how much it costs the taxpayers each year?

Mr. CARDWELL. As I indicated in my January 19 letter to the chairman, the most recent overall case error rate for the 6-month period, January through June 1975, was 24.4 percent. The case error rate for the prior 6-month period, July through December 1974 was 24.8 percent. These case error rates include overpayments, payments to ineligible beneficiaries, and underpayments. The dollar value of these overpayments and payments to ineligibles has been estimated at $579 million for fiscal year 1975. The computation of this dollar value is based on an extrapolation from data collected in our question and answer samples. We do not have an estimate of the dollar value of the errors for fiscal year 1976.

I would like to explain briefly that though these error rates may appear high, many incorrect payments occur because of circumstances which are beyond our control. In the SSI program, as is common to most public assistance programs, one of our biggest problems is frequently changing circumstances of the recipients. In the SSI program, an individual is paid for the month on the first day of the month. The SSI program is further complicated because we prospectively compute a person's payment amount for the calendar quarter but pay him in equal monthly installments. If the circumstances affecting his payment change at anytime during the month, then he has received an incorrect payment for the month and probably for each month in the quarter. We also have the situation where the recipient fails to tell us about his changed situation. These problems with the changing circumstances of recipients are inescapable due to the nature of the SSI program as legislated. Through administrative and management actions we hope to achieve a 15 percent case error rate by the end of fiscal year 1977. Any improvement beyond our 15 percent goal would, I believe, require some basic changes in the statute.

DISCOURTESY COMPLAINTS

Mr. ROYBAL. We have heard complaints from senior citizens that SSA officials are discourteous. Is there a procedure whereby such a complaint can be handled?

Mr. CARDWELL. I am concerned about all complaints, whether made to a Congressman or to a field office employee. Providing high quality service in a courteous manner is one of our most important objectives, and all SSA emplyees, particularly those who interview the public, are reminded of it in various ways. When a complaint is received, facts are developed, a meaningful response is given and corrective action taken as quickly as possible. I'd like to point out that we must meet legal requirements in the claims process and, consequently, we often have to make decisions or take actions that are contrary to what a complainant really wants. Our goal, however, is to carry out our programs in a courteous manner, and one that is responsive to the feelings of others.

CONTINGENCY FUND

Mr. CONTE. How much of last year's contingency fund was used?

Mr. CARDWELL. As a matter of fact, we did not have to use any of the contingency reserve last year, although earlier we had anticipated needing it. However, we did receive a supplemental appropriation of $121,258,000 including $42,590,000 for the October 1974 pay raise.

REDUCING ERROR RATES

Mr. CONTE. How much of the administrative expenses will be devoted to reducing inaccuracy in the SSI program?

Mr. CARDWELL. The main thrust in the budget for cleaning up the base data for the SSI program and thereby reduce the inaccuracies existing in the program, is the redetermination process. By looking at every case each year in 1976 and 1977 and through recontact with the recipients, we expect to eliminate a large number of incorrect payments and ineligible persons. Our budget has $85.6 million in 1976 and $82.5 million in 1977 for this purpose. In addition, in 1977, we are budgeting $15.3 million in the SSI program for more complete claims interviews, and for more thorough development of new claims. This is in addition to a strong emphasis on training our staff—the thousands of new employees we have recruited in recent years as well as the old timers—in all aspects of the various programs administered by SSA, with special emphasis on the SSI program.

Mr. CONTE. Will you have sufficient resources to reduce error rates below 15 percent in the next 3 years?

Mr. CARDWELL. I think that our 1977 budget would give us the necessary manpower and money resources to bring the SSI error rate down to about 15 percent by the end of fiscal year 1977. However, as I have said before, to reduce the rate much below 15 percent I think legislative changes to simplify administration of the program are necessary.

Mr. CONTE. What effect will interfacing the SSI system with other governmental systems have?

Mr. CARDWELL. Our present exchange of data with other government systems is totally dependent upon clerical processing of SSA queries and other agency responses. The present exchange does not insure a rapid and accurate update of SSA records and has resulted in delayed and/or erroneous SSI payments.

An automated exchange of data between SSA and other governmental systems would facilitate, on a timely basis, the accuracy of data critical to the proper administration of the SSI program. Such an exchange would reduce the volume of erroneous payments to recipients and the attendant cost of recovery or waiver action. We are working with other Government agencies to develop automated exchange of information. In addition to reducing this potential area of overpayments, we would expect to reduce the amount of clerical processing in these exchanges.

HEARING BACKLOG

Mr. CONTE. How much do you feel you can reduce the hearing backlog which is expected to be 87,000 by the end of fiscal year 1976?

Mr. CARDWELL. With the completion of the large black lung hearings backlog in fiscal year 1976, we will be able to direct all of our efforts in 1977 to the reduction of the very large title II disability backlog and the smaller but equally important SSI backlog. By the end of fiscal year 1977 we expect to reduce the total hearing backlog to about 34,000 cases—about 4 months work. Then, in 1978 we will be able to achieve what we consider to be a normal backlog of about 3 months work.

NEED FOR NEW SYSTEMS

Mr. CONTE. Why do you need to design a new advanced operating system?

Mr. CARDWELL. We have experienced a series of rapid legislative program and benefit changes, each producing massive new workloads. Each successive change was imposed on a processing system basically designed for lesser workloads it now needs to handle. The short deadlines for implementing program changes required that the existing system be merely adapted with minimum disruption. There was no time or opportunity for basic revision for long-range efficiency and full confidence. This process of accommodation has long since reached the point of diminishing returns, so much so that without a basic redesign of the process our ability to handle future workloads efficiently is in question.

MEDICARE FRAUD CONTROL

Mr. CONTE. What controls do you have to catch medicare processing contractor fraud?

Mr. CARDWELL. We have a system for monitoring contractor operations by SSA regional office personnel and built-in safeguards in our systems. Each contractor is required to place in operation a vigilant protection and detection program developed by its own management personnel. We also require all contractors to maintain security measures in certain work stations, carried out by supervisors or by a theft/fraud detection group. These measures involve sampling the work being processed, placing controls on blank and returned checks, thoroughly documenting computer program changes, and separating key functions in the overall processing of claims. With respect to the latter, the dissemination of claims-processing duties helps prevent possible collusion between contractor employees. For instance, employees responsible for the issuance of checks are separated from the employees who approve claims for payment. Where the claims payment system is computerized, separation of the work of computer programers is required. Each program change should involve more than one programer, and the contractor is required to independently test new programs to insure that they cannot be used to defraud.

As part of an on-going contractor inspection and evaluation program, BHI regional office personnel monitor the contractors' operations, and evaluate their internal security and conflict of interest measures. Any weaknesses are identified and corrective action is then pursued.

PRODUCTIVITY GAINS

Mr. CONTE. On page 102, of the justification, you predict gains in productivity of 5.6 percent in 1976 and 3.6 percent in 1977. How do you arrive at these figures?

Mr. CARDWELL. The productivity improvement really reflects the difference between the manpower budgeted and the manpower it would have taken to do the budgeted work at the prior year's production rate. For instance, in 1976 the work we have to do is 11.7 percent

more than in 1975 and would require 93,856 man-years if no improvements were made. However, primarily because of systems and procedural improvements, better training and more experience with the SSI program, we estimate that we can do the job with 88,916 man-years—an increase of only 5.8 percent. The difference between the number of man-years needed to do the work at 1975 production rates and the man-years budgeted to do the job—4,940 man-years in this example—represents the productivity improvement. This calculates to 5.6 percent of the 88,916 man-years budgeted for 1976.

In 1977, we are projecting that the amount of work to be done will increase by 3.6 percent. However, we expect to continue making improvements in our methods of operation and in the efficiency of our staff, although at a relatively lesser rate than in 1976. As a result we expect to do the job in 1977 with about the same manpower as we used in 1976. In effect, then, we will be absorbing the 3.6-percent increase in work by a corresponding 3.6-percent increase in productivity.

Mr. CONTE. Are the increases in workload spread fairly well geographically?

Mr. CARDWELL. With the exception of the New York and San Francisco regions, the SSI workload is fairly well spread among our 10 regions. The workload is not spread evenly within each region, however, but impacts most heavily in metropolitan areas.

CONVERSION OF PAPER ACCOUNT NUMBER FILE

Mr. CONTE. When do you expect to complete conversion of your paper account files to electronic data base?

Mr. CARDWELL. The current deadline for completion of this project, December 1978, is based on the extensive use of IRS to assist with the conversion. The budget before you calls for IRS to complete the conversion of 28.8 million SS–5's during fiscal year 1976. Through December 1975, IRS had converted 23.5 million SS–5's. The remaining 5.3 million SS–5's will be converted during May and June 1976. For the transition quarter and fiscal year 1977, we expect IRS to convert 30 million and 60 million SS–5's respectively.

However, it appears unlikely that IRS will be able to complete its full share of the work and we plan to issue a request for proposal—an RFP—to test the availability of services in the private sector to assist with the conversion. This RFP will be for the conversion of 3 million documents over a 6-month period starting July 1976.

The completion date for this project may be pushed back to December 1979. This may not be necessary, however, should the soon to be released RFP establish that there are necessary services in the private sector at reasonable cost.

SOCIAL SECURITY TRUST FUNDS

Mr. NATCHER. Mr. Cardwell, as you know, I made several observations concerning the social security trust fund this morning and stated that this afternoon, we would discuss some of the matters as to the trust fund. We would like to know whether there is such a thing as a social security trust fund.

I will place in the record, at this point, an article entitled "Misinformed on Social Security."

You read it, then the answer the observations made in this article. If these observations are wrong, you say so, then make any additional statements you wish to make. We will clear up, at this point in the record, questions concerning the social security trust fund. It will be inserted in the record at this point.

[The article follows:]

[From the Washington Star]

MISINFORMED ON SOCIAL SECURITY

(By E. Edward Stephens)

"Dear Counsel:

"Have we been told the whole truth about social security taxes and the social security trust funds?"

No. We've been misinformed ever since the Social Security Act of 1935 became law. Result: General misunderstanding of the social security system.

We've been given the impression that, when we pay our social security taxes, we're really buying insurance—that our taxes are like insurance premiums.

False. Social security is quite different, even though it's called the old age, survivors and disability insurance program. Unlike insurance, benefit payments depend partly on each retiree's need. For instance, benefits are increased if you have dependents, and they're boosted to keep pace with inflation.

Let's face it. In reality, our social security system is a Federal welfare program—one in which rich and poor participate. Multimillionaires pay social security taxes and receive social security retirement checks, just as poor people do.

We've been told that social security tax collections are held in trust, that the trustees invest the money profitably, and that we now have about $44 billion in the trust funds, including interest earned over the years.

The truth is that, in reality, there are no trust funds. Over the years, the money collected by social security taxes was spent, mostly to pay social security benefits and expenses of administering the program, partly for other Federal Government operations.

The Internal Revenue Service collects social security (FICA) taxes and deposits them in the general fund of the Treasury. As the bureaucrats phrase it, these "contributions" are "immediately and automatically appropriated" to the social security trust funds.

What actually happens is that some entries are made in the accounting records of the Treasury Department. Credits are entered in three social security trust accounts—old age and survivors insurance, disability insurance and hospital insurance. No money is physically transferred. The cash remains in the general fund of the Treasury.

The managing trustee of these trusts is the Secretary of the Treasury. The other trustees are the Commissioner of Social Security, the Secretary of Labor, and the Secretary of Health, Education, and Welfare.

Each year, as social security benefit checks are paid out, the payments are charged to the trust accounts. Over the years, the trustees have invested the amounts not paid out as benefits and administration expenses.

The Social Security Act says the trust funds can be invested only in U.S. Government obligations. So, the mangaing trustee selects the Federal notes, bonds and certificates of indebtedness that the trust funds are to be invested in.

This is done by appropriate entries in the Treasury's books of account. No notes, bonds, or certificates actually are issued. but the effect is the same as it would be if they were issued. It's all done by bookkeeping.

At this point, the Federal Government is considered to have borrowed the money from the trusts and given its notes, bonds, and certificates (its promises to pay) in acknowledgment of the indebtedness. Interest on these securities is credited to the trust accounts as it's earned.

The accounting entries say the trust funds now have "assets" of about $44 billion, consisting of U.S. Government notes, bonds, and certificates.

The big difficulty is that we, the American people, own the trust assets, and we, the American people, also are the ones who owe the money stated in the notes, bonds, and certificates. We own $44 billion in trust assets, and we owe the trusts $44 billion. So, we're even with the board. The conclusion is inescapable. In reality, there are not trust funds. They're nothing but accounting hocus pocus.

The truth is that social security benefits can be paid only out of current tax collections and money borrowed currently by the Federal Government. Today's workers are paying retirement pensions to yesterday's workers. Pensions of today's workers will have to be paid by tomorrow's workers.

We have no savings with which to pay anything.

STATEMENT OF THE SOCIAL SECURITY ADMINISTRATION CONCERNING FREQUENT MISCONCEPTIONS ABOUT THE FINANCING OF THE SOCIAL SECURITY PROGRAM

Misconception.—Someone has been deliberately deceiving the public about the way the social security system is financed.

Fact.—Social security financing is not as well understood as it should be, but this is not because the public has been deliberately deceived or mislead. Throughout the history of social security, extensive efforts have been made to inform the public about what social security is, how it works, and how it is financed.

One way this is done is through public information efforts by the Social Security Administration. Also, the social security law requires the trustees of the social security trust funds to issue reports to the Congress annually. The trustees' reports are public documents and are availabe to anyone. The law also provides for periodic appointment of public Advisory Councils on Social Security to review all aspects of social security, especially its financing, and to report their findings to Congress. Advisory Council reports are also public documents. Whenever the Congress considers social security, public hearings are invariably held, which members of the public may attend and participate in. The proceedings of such public hearings are, of course, available to the public.

Thus, there is simply no basis for believing that there is or has been a conspiracy to deceive or mislead the public about the social security financing.

Misconception.—The social security trust funds do not exist—they are only a bookkeeping operation.

Fact.—Social security trust funds are real. They do exist.

Yes it is correct that the trust funds are integrally linked with Federal Government accounting procedures and cost allocation processes, and to that extent they are based on bookkeeping. However, accounting per se does not detract from the reality of the earmarked amounts credited to the trust fund anymore than bookkeeping makes unreal corporate accounts, bank deposits, and other fiduciary trusts. In short, the trust funds do exist as supported by bookkeeping transactions.

Money not needed currently to pay social security benefits and administrative expenses is invested in interest-bearing Federal obligations. The four social security trust funds now have invested assets of about $55 billion. These obligations are as real as Federal obligations held by private investors. Whether a Federal obligation is held by a private investor or the social security trust funds does not alter the fact that the obligation is an asset of its holder and a liability of the Federal Government, which must pay interest on the money borrowed and must repay the principal when the obligation is redeemed or matures.

Misconception.—Social security is not "insurance" because it does not maintain the kind of reserves that are required of most private insurance plans.

Fact.—Social security does not have reserves of the size that are considered necessary for an institution—like a private insurance company—that cannot count on a continuing income to meet expenses as they fall due.

This has nothing to do with whether social security is "insurance." As the enclosed statement. "The Social Security Program Is Insurance," points out, it is the use of insurance principles that makes social security insurance. However, social security is social insurance and differs from private insurance in several respects, including the kind of reserves that are necessary.

Funding social security on the same basis as a private insurance company is funded would be both unnecessary and undesirable. Both the 1971 and 1975 Advisory Councils on Social Security concluded that the present method of funding social security is superior to the alternative. The Councils' consideration of this issue is treated fully in their reports.

Misconception.—There is something wrong about the fact that current social security tax income is used to meet current benefit expenditures.

Fact.—The idea that there is something wrong with using current income to meet current expenses is contrary to the findings of various independent public advisory groups which have studied the social security program over the years, and whose members have included a number of distinguished economists, ac-

tuaries, private insurance company executives, and the like. For example, the 1971 Advisory Council on Social Security found that "Because compulsory social insurance is assured of continuing income (new workers must come into the program), it does not have to build up the kind of reserves that are necessary at all times in an institution that cannot count on current income to meet current obligations. It is proper in a social insurance program to count both on receiving contributions from new entrants to the system and on paying benefits to future beneficiaries, as well as those now on the rolls." The 1975 Advisory Council found that this method of financing social security "is a sound alternative."

As these findings indicate, the social security program does not have to be funded on a full-reserve basis in order for the program to be financially sound. Rather, as the 1971 Advisory Council stated, "The test of actuarial soundness for a social insurance system is whether the expected future income from contributions and interest on invested assets will be sufficient to meet anticipated expenditures for benefits and administrative costs over the valuation period."

Misconception.—Money from the social security trust funds has been spent for purposes unrelated to the social security program.

Fact.—As stated above, all social security money that is not needed currently to pay social security benefits and administrative expenses must by law be invested in Federal obligations. When the trust funds lend money to the U.S. Treasury, by investing in Government obligations, the Treasury uses this money just as it uses the money borrowed from other lenders and the money received in general tax revenues, to help pay the general expenses of the Government. Of course, the Treasury must pay interest on the money borrowed from all sources—including the trust funds—and must repay the principal when the obligations are redeemed or mature.

The Social Security Program Is Insurance

It is both appropriate and desirable to refer to the social security program of old-age, survivors, disability, and health insurance as "insurance."

The term "insurance" historically applies to both commercial and social insurance. Governmental programs like old-age, survivors, disability, and health insurance are in existence in countries all over the world and in some countries have been in effect for generations. Social insurance, recognized as one branch of insurance, is the term used traditionally and properly to describe these programs.

The Supreme Court in the case of *Fleming* v. *Nestor* specifically stated, "The social security system may be accurately described as a form of social insurance, enacted pursuant to Congress' power to 'spend money in aid of the "general welfare" ' * * *." The Congress in the Social Security Act has referred to the benefits paid under the social security program as "insurance benefits." It has entitled the part of the Internal Revenue Code that levies the taxes to finance the program the Federal Insurance Contributions Act.

It is the use of insurance principles that makes old-age, survivors, disability, and health insurance "insurance." The risks insured against are (1) loss of family income because of severe and extended disability, because of retirement in old age (at age 72 the payment is a straight annuity without a test of retirement), and because of the death of the family earner, and (2) burdensome health care costs in old age or in the event of severe and extended disability. While people are at work they pay a part of their earnings into the social security trust funds. Employers match these amounts. When the earnings stop because of retirement in old-age, disability, or death, insurance benefits are paid from the funds to partially replace the earned income that has been lost. At age 65, or in the event of severe and extended disability, insurance benefits are paid to help meet hospital costs, and, for those who have enrolled in the supplementary medical insurance program and paid supplementary medical insurance premiums, to help meet other medical expenses. The loss occasioned by the occurrence of the risk is averaged among the insured group. The cost of meeting the risks is actuarially evaluated and contributions intended to cover these costs are provided for. Benefits are paid on a predetermined basis when and if the risks covered eventuate. The right to these insurance benefits is a legal right enforceable in the courts. These are the characteristics that make social insurance "insurance"; they are the same as, or similar to, the characteristics that make private voluntary insurance "insurance."

The two branches of insurance of course differ in some respects. One way in which they differ is the nature of the right to the payment. The terms of the legal right to social insurance are spelled out in a statute, which can be amended as

any law can be amended; the rights under private insurance are spelled out in a contract, which for the duration of the period of the contract can be changed only by agreement of both parties to the contract.

The fact that the right to social insurance is not a contractual right is not a disadvantage; actually the fact that Congress can change the law is an advantage in social insurance. The contractual nature of private commercial insurance gives it an inflexibility in comparison with social insurance, since the latter can be changed from time to time to keep pace with changing conditions. As the Supreme Court said in the case already referred to: "To engraft upon the social security system a concept of accrued property rights would deprive it of the flexibility and boldness in adjustment to everchanging conditions which it demands." The private insurance approach does not lend itself readily to this type of adjustment.

Although the Congress can modify rights granted under the statute, it cannot do so in an arbitrary manner. The Supreme Court, in the above cited case, stated that the right to benefits under the social insurance program is protected by the due process clause in the fifth amendment to the Constitution against denial or diminution by arbitrary governmental action. Both majority and minority opinions support the concept that the right to social securiy benefits is an enforceable valuable right which cannot legally be arbitrarily diminished.

Another point at which social insurance differs from many branches of private insurance is in the nature of the reserves. Because compulsory social insurance is assured of new entrants into the program, it does not have to build up the kind of reserves that are necessary at all times in an institution that might have no new customers and might be forced out of business. Private insurance is required to maintain the type of reserves that will meet the threat of dissolution. Social insurance is actuarially sound, on the other hand, as long as its schedule of income is sufficient to meet all program costs as they fall due.

Thus, there are two branches of insurance; private insurance and social insurance. The basic characteristics the two have in common are what make them both insurance, and the differences between them are what define the two branches.

Mr. NATCHER. We want to thank you for the presentation of your part of the social security proposals for fiscal year 1977. We also thank the members of your staff.

JUSTIFICATION OF THE BUDGET ESTIMATES

Appropriation Estimate

LIMITATION ON SALARIES AND EXPENSES

For necessary expenses, not more than [$2,373,133,612] *$2,561,773,000* may be expended as authorized by section 201 (g) (1) of the Social Security Act, from any one or all of the trust funds referred to therein: *Provided*, That such amounts as are required shall be available to pay travel expenses either on an actual cost or commuted basis, to an individual for travel incident to medical examinations, and to parties, their representatives and all reasonably necessary witnesses for travel within the United States, Puerto Rico, and the Virgin Islands to reconsideration interviews and to proceedings before administrative law judges under titles II, XVI, and XVIII of the Social Security Act: *Provided further*, That $25,000,000 of the foregoing amount shall be apportioned for use pursuant to section 3679 of the Revised Statutes (31 U.S.C. 665), only to the extent necessary to process workloads not anticipated in the budget estimates and to meet mandatory increases in costs of agencies or organizations with which agreements have been made to participate in the administration of titles XVI and XVIII and section 221 of title II of the Social Security Act, and after maximum absorption of such costs within the remainder of the existing limitation has been achieved: [*Provided further*, That such amounts as may be agreed upon by the Department of Health, Education, and Welfare and the United States Postal Service shall be used for payment, in such manner as said organizations may jointly determine, of postage for the transmission of official mail matter in connection with the administration of the social security program by States participating in the program:][1] *Provided further*, That such amounts as may be required may be expended for administration within the United States of the social insurance program of the United Kingdom, under terms of an agreement wherein similar services will be provided by the United Kingdom in that country for administration of the social insurance program of the United States. [*Provided further*, That all of the permanent positions authorized for this appropriation shall be full-time

permanent positions without limitation as to the duration of the positions.]2/

(Department of Health, Education and Welfare
Appropriation Act, 1976)

Explanation of Language Changes

1/ The Social Security Administration has not been able to make use of this language. Implementation of the language was contingent upon an agreement between the Department of Health, Education, and Welfare and the United States Postal Service that State Agencies under contract with the Social Security Administration could use franked envelopes. The United States Postal Service has not agreed to this arrangement.

2/ This provision was added by the Congress to require the agency to employ 6,000 full-time permanent rather than 6,000 two-year term employees. Since the Administration plans to convert the 6,000 term positions to permanent positions, effective immediately, the language requiring that this be done is no longer necessary.

Language Analysis

Language Provision	Explanation
Provided, That such amounts as are required shall be available to pay travel expenses either on an actual cost or commuted basis, to an individual for travel incident to medical examinations, and to parties, their representatives and all reasonably necessary witnesses for travel within the United States, Puerto Rico, and the Virgin Islands to reconsideration interviews and to proceedings before administrative law judges under title II, XVI, and XVIII of the Social Security Act:	Authorizing legislation did not specify whether or not travel incident to medical examinations and for claimants, their representatives, and witnesses to attend reconsideration interviews and hearings was a necessary administrative expense. This provision which permits the payment of these travel expenses, reduces financial hardship to claimants.
Provided further, That such amounts as may be required may be expended for administration within the United States of the social insurance program of the United Kingdom, under terms of an agreement wherein similar services will be provided by the United Kingdom in that country for administration of the social insurance program of the United States.	Authorizing legislation does not specifically authorize SSA to perform duties or expend funds for the administration of the social insurance system of another country. This provision authorizes SSA to provide service to a small number of United Kingdom beneficiaries within the United States. In turn, service will be provided to a small number of social security beneficiaries within the United Kingdom.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Limitation on Salaries and Expenses

Amounts Available for Obligation

	1976 Revised	1977
Appropriation	$2,373,133,612	$2,561,773,000
Proposed supplemental (Oct. '75 pay raise)	22,597,000	---
Subtotal adjusted appropriation	$2,395,730,612	$2,561,773,000
Comparative transfer to:		
"Office of the Secretary, Departmental Management"		
Purpose: Regional safety management officers for DHEW regional offices	-94,500	---
Purpose: To provide headquarters related budget services to the regions	-44,000	---
Comparative transfer from:		
"Payments to Social Security Trust and Other Funds"		
Purpose: To consolidate in one account all payments to the Federal Buildings Fund for the Supplemental Security Income program	+2,127,000	---
Sub-total, budget authority	$2,397,719,112	$2,561,773,000
Unobligated balance, end of year (contingency reserve)	-25,000,000	-25,000,000
Total obligations	$2,372,719,112	$2,536,773,000

Summary of Changes

1976 Estimated Obligations	$2,372,719,112
1977 Estimated Obligations	2,536,773,000
Net Change	164,053,888

	Base		Change	
	MY	Amount	MY	Amount
Increases				
A. Built-in:				
1. Full year effect the October 1975 pay raise (5 percent)		$44,974,000		+$13,708,207
2. Full year effect of the December 1975 postal increase		4,306,000		+4,577,000
3. Other Mandatory changes in SSA payroll costs including cost of granting periodic step increases ($6,744,383) and cost of career ladder promotions to journeymen grade ($13,313,370) offset by savings for recruitment below the journeymen grade (-$5,415,574)				+14,642,179
4. Mandatory changes in wages and prices paid by public and private agencies performing work on a contract basis				
a. Disability State agencies (includes 8.4 percent salary increase)				+20,103,006
b. Health insurance State agencies (for 8.4 percent salary increase)				+1,026,000
c. Health insurance contractors (includes 9 percent salary increase)				+43,843,200

	Base		Change	
	MY	Amount	MY	Amount
5. Increase in rates to reimburse State centralized services based upon uniform government-wide standards (indirect costs).....		$78,102,480		+$3,027,836
Sub-total, built-in.....				+100,927,428
B. Program:				
1. Increase in total SSA work output (volume of work and improvements in the end product to be accomplished by staff of SSA and third parties in the disability, SSI and medicare programs).....		1,986,626,471		+124,076,361
a. Increase of 3.6 percent in work output of Social Security Administration employees primarily due to improvements in accuracy and quality of service.....	88,916	(1,333,537,146)	+3,162	(+63,074,619)
b. Increase of 3.3 percent in work output of State agencies making disability determinations because of new responsibilities assumed by the State agencies.....		(150,252,325)		(+8,963,142)

	Base		Change	
	MY	Amount	MY	Amount
c. Increase of .6 percent in work output of State agencies involved in health insurance (Medicare) reflects a small increase in the number of State agency survey visits to the providers of health insurance services....		($18,562,000)		($+545,000)
d. Increase of 10.6 percent in work output of health insurance (Medicare) contractors related primarily to higher hospital and medical insurance workloads...		(484,275,000)		(+51,493,600)
2. Continuing space costs for opening new offices, increases in rental costs and expansion requirements to alleviate over crowding.....		78,996,054		+9,599,946
3. Continuing communications costs.....		52,131,225		+19,167,692
a. Increase in Federal Telephone System charges.....				(+1,676,695)
b. Increase resulting from the expansion in 1977 plus the annualized effects of the expansion in 1976 of a new communications network known as SSADARS (Social Security Administration Data Acquisition and Retrieval System).....				(+11,935,535)

	Base		Change	
	MY	Amount	MY	Amount
c. Decrease resulting from the continued phasing out in 1977 of the older communications known as Advanced Record System (ARS). This system is being replaced by SSADARS.....				($-6,298,440)
d. Other rate increases in telephone and telegraph rates.....				(+1,525,259)
e. Other increases required to fulfill expanding use of telephones to handle Social Security Administration business.....				(+3,828,643)
f. Expansion of toll free telephone service.....				(+6,500,000)
4. Purchase of ADP equipment including four new large scale computers and four currently rented computers.....		$4,598,944		+33,869,881
a. Savings due to purchase of ADP equipment.....				-4,814,809
5. Replacement of wornout equipment for SSA offices.....		3,930,330		+1,489,985
6. Increase in Internal Revenue Service contract for additional work on the SS-5 file project.....		14,000,000		+7,000,000
Sub-total, program..			+3,162	+190,389,056
Total increases..			+3,162	+291,316,484

	Base		Change	
	MY	Amount	MY	Amount
Decreases				
A. Built-in:				
1. Savings resulting from one less work day in 1977.....		$8,206,822		$-3,894,228
B. Program:				
1. Procedural and other changes in production costs--SSA proper (3.6 percent productivity improvement).....			-3,159	-35,061,600
a. Procedural and systems changes to improve current method of handling workloads.....			(-2,923)	(-30,347,900)
b. Other changes in productivity primarily due to more experienced and better trained staff.....			(-236)	(-4,713,700)
2. Systems and procedural improvements and other changes in production costs for third parties.....				-52,971,571
a. Loss in disability State agency productivity of 1.9 percent related to increased training needs, and an increase in the number of disability claims which require consultative examinations.....				(+4,271,929)
b. Improvement in health insurance State agency productivity of 3.0 percent is anticipated from more experienced and better trained employees.....				(-649,000)

	Base		Change	
	MY	Amount	MY	Amount
c. Increase in health insurance contractor productivity of 11.0 percent resulting from systems and procedural changes. The principal factor contributing to this improvement is a continuous growth in the volume of workloads processed on new or upgraded automated processing systems.....				($-56,594,500)
3. A decrease in 1977 in the additional cost of overtime above the average payroll cost of regular time because of a reduction of 1,833 man-years in overtime compared with 1976.....		$18,960,000		-5,499,000
4. Decline in recruitment of new staff (savings in "other objects" costs such as equipment and training travel).....		5,630,384		-2,300,000
5. One time costs of opening new offices decreases in 1977. Most of this decrease is attributable to the moving of three program centers and opening of the Salinas keying center in 1976.....		2,146,402		-1,463,302
6. Other one time projects or intermittent costs.....		47,760,000		-8,222,895
a. Site preparation for new computers.....				(-3,145,265)
b. Other items.....				(-5,077,630)
7. AFDC social security number enumeration contracts with the States.....		15,000,000		-15,000,000

	Base		Change	
	MY	Amount	MY	Amount
8. Supplemental Security Income contracts with the States.....		$7,350,000		$-2,850,000
Sub-total, program decreases.....			-3,159	-123,368,368
Total decreases.....			-3,159	-127,262,596
Total, Net Change.....			+3	+164,053,888

Obligations by Activity

Page Ref.		1976 Estimate	1977 Estimate	Increase or Decrease
109	Old-age and survivors insurance:			
	Amount.....	$716,815,112	$736,488,000	+$19,672,888
	Positions.....	33,577	33,300	-277
114	Disability insurance:			
	Amount.....	$463,584,000	$549,839,000	+$86,255,000
	Positions.....	14,604	16,899	+2,295
119	Health insurance:			
	a. Hospital insurance:			
	Amount.....	$199,208,000	$208,526,000	+$ 9,318,000
	Positions..	2,193	2,132	-61
	b. Supplementary medical Insurance:			
	Amount.....	$497,325,000	$541,568,000	+$44,243,000
	Positions..	5,140	5,168	+28
127	Supplemental security income:			
	Amount.....	$495,787,000	$500,352,000	+$ 4,565,000
	Positions.....	22,000	22,000	-----
134	Standard level user charge (SSI).....	($21,037,000)	($23,003,000)	(+$1,966,000)
	Total obligations..	$2,372,719,112	$2,536,773,000	+$164,053,888
	Positions.....	77,514	79,499	+1,985

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Total number of permanent positions	77,514	79,499	+1,985
Full-time equivalent of all other positions	6,738	7,092	+354
Average number of all employees 1/	82,596	84,432	+1,836
1/ Excludes overtime man-years	6,320	4,487	-1,833
Personnel compensation:			
Permanent positions	$991,208,000	$1,031,355,000	+$40,147,000
Positions other than permanent	46,322,000	49,979,000	+3,657,000
Other personnel compensation	93,360,000	70,367,000	-22,993,000
Special personal service payments	30,000	30,000	---
Sub-total, personnel compensation	1,130,920,000	1,151,731,000	+20,811,000
Personnel benefits	102,622,000	103,985,000	+1,363,000
Travel and transportation of persons	25,998,000	25,255,000	-743,000
Transportation of things	8,021,000	7,809,000	-212,000
Rent, communications, and utilities	194,438,000	239,365,000	+44,927,000
Printing and reproduction	20,249,000	21,110,000	+861,000
Other services	97,201,112	102,954,000	+5,752,888
Payments to States:			
Disability	225,424,000	261,549,000	+36,125,000
Health	21,493,000	22,656,000	+1,163,000
SSI contracts	7,350,000	4,500,000	-2,850,000
AFDC enumeration contracts	15,000,000	---	-15,000,000
Payments to Medicare contractors	484,275,000	523,017,000	+38,742,000
Supplies and materials	19,771,000	20,715,000	+944,000
Equipment	19,947,000	52,116,000	+32,169,000
Land and structures	8,000	9,000	+1,000
Insurance claims	2,000	2,000	----
Total obligations 2/	$2,372,719,112	$2,536,773,000	+$164,053,888

2/ Excludes $25,000,000 contingency reserve included in the appropriation.

Significant Items in House and Senate
Appropriations Committee Report

Item	Action taken or to be taken
1976 Senate Report	
Term versus Permanent Employees	
1. Committee determined that the 6,000 positions requested as term should be authorized as full-time permanent positions (page 84).	1. The agency is moving to fulfill the wishes of the Committee. All vacant term positions are being filled with permanent staff. Term employees on duty are being converted to permanent employees to the extent that Civil Service procedures for competitive appointments permit such moves. The remaining positions now filled with term employees will be converted to permanent positions as promptly as possible under Civil Service regulations.
Limitation on Travel	
1. Committee directive that departments and agencies make every effort to keep travel costs at a minimum (page 6).	1. SSA is limiting travel expenditures to comply with the Committee's directive. Its 1976 travel request is $6.5 million under the amount requested by the offices and bureaus of SSA; however, SSA still needs $26.0 million in Salaries and Expenses for travel. This amount, which is $1.9 million above the 1975 level, (adjusted for the rate change in the Travel Expense Amendments Act of 1975 (P.L. 94-22)) is essential to fulfill program responsibilities. The principle reasons for this increased need are in training and operations travel. New field staff are trained in the elements of the social security law at central training locations before assuming responsibilities at their duty station in district offices. Increased workloads in claims, redetermination of SSI eligibility, hearings, and other work will all require additional workload travel funds for 1976.
Limitation on Consultant Contracts	
1. Committee concern over "extensive use and abuse of consultant services and consultant hiring practices," and the resulting directive to establish controls on such expenses, to report on them periodically, and to avoid increases in the current rate without consulting with the	1. SSA has established special accounting controls over consultant services contracts and is emphasizing the attention needed to control such contracts at every step in the budget process. SSA will need an increase over the 1975 level in order to carry out some major new projects. This includes contracts

Item	Action taken or to be taken
appropriate committees of Congress (pages 101, 102).	to both profit-making and non-profit consultants. SSA will be prepared during the appropriations hearings to supply the Committees with the details on all of its requirements in this area. Some of the major new projects which depend upon outside contracts and will make this increase necessary include projects to implement the Perkins Committee recommendation, improvements in the agency's Maximum Allowable Cost program to limit prescription drug costs for Medicare and Medicaid, projects to improve current systems performance and advanced systems planning required to enable SSA to handle the workloads of the eighties without large manpower increases.
1976 House Floor and Senate Report	
Arnold, Mo. Contact Station	
1. $1,612 over the '76 budget estimate and $403 over budget estimate for transition quarter added to establish social security contact station in Arnold, Jefferson County, Mo. (page 84)	1. When '76 Appropriations Act is signed into law, contact station will be opened in compliance with will of Congress.

Authorizing Legislation

Legislation	1977 Authorized	1977 Appropriation requested
Limitation on Salaries and Expenses		
Title II Section 201 (g)(1) of the Social Security Act.....	Indefinite	$2,561,773,000

Limitation on Salaries and Expenses (Trust Fund)

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1967	$601,414,000	$600,459,000	$600,459,000	$600,459,000
1968	720,188,000	716,428,000	715,328,000	715,328,000
1969	817,492,000	807,492,000	807,492,000	807,492,000
1970	953,409,000	933,709,000	953,409,000	943,559,000
1971	1,044,991,000	1,044,991,000	1,044,991,000	1,044,991,000
1972	1,150,167,000	1,150,167,000	1,150,167,000	1,150,167,000
1973	1,403,047,000	1,403,047,000	1,403,047,000	1,403,047,000
1974	1,887,898,000	1,887,898,000	1,887,898,000	1,887,898,000
1975	2,156,829,000	2,113,365,000	2,125,987,000	2,125,987,000
1976	2,373,132,000	2,373,133,612	2,373,133,612	2,373,133,612
Proposed Supplemental	22,597,000			
1977	2,561,773,000			

General Statement

The request for a 1977 "Limitation on Salaries and Expenses" is a request for the Social Security Administration to use the social security trust funds to meet the administrative expenses incurred in carrying out the social security programs of retirement, survivors, disability and health insurance and the supplemental security income (SSI) program for the aged, blind, and disabled. Although the administrative expenses of the SSI program are paid initially from the social security trust funds, the trust funds are reimbursed currently on an estimated basis from Federal funds. A final accounting including any interest adjustment is made after the close of the fiscal year. The account, "Supplemental Security Income Program," contains $500,352,000 for this purpose in fiscal year 1977.

The statutory basis for the retirement, survivors, and disability insurance programs is title II of the Social Security Act. The health insurance (Medicare) program is authorized by title XVIII of the Social Security Act. The basic objective of the social security programs is to protect individuals and families against the risks of economic loss resulting from retirement, disability, death, and the costs of health care for the aged and disabled. The statutory authority for the SSI program is title XVI of the Social Security Act. This program replaced the former State and local administered program of aid to the aged, blind and disabled. The objective of the SSI program is to supplement from general revenues, the social security benefits and other income of the aged, blind and disabled when benefits plus other income are below a Federal minimum standard or, when they have no other income, to meet the entire Federal minimum standard from general revenues. In addition, the law provides for mandatory and optional State supplementation payments which may be administered by SSA through agreements with the States.

Size of Program Administered

Since the Social Security Act became law on August 14, 1935, Congress has passed numerous amendments to the Act which have made significant changes in the scope and character of the program. As a result, today more than nine out of ten jobs in paid employment and self-employment are covered or eligible for coverage under the cash benefit program. Almost all persons aged 65 or over are insured against most hospital costs, and about 95 percent of the aged have enrolled in the voluntary medical insurance program which insures them for a substantial part of doctor and other medical bills. The table below summarizes the growth in the number of persons covered by insurance programs authorized by the Social Security Act.

Growth in Persons Covered Under Social Security Programs
(in millions)

Program	1967	1977
Retirement, Survivors, and Disability	22.4	33.3
Medicare	19.5	22.4

In addition, there are other groups who were not afforded coverage in 1967 but will benefit from programs administered by SSA in 1977:

--An estimated 2.5 million disabled persons will be insured for hospital and related costs under the hospital insurance program.

--An estimated 2.2 million disabled persons will be insured for a large part

of doctor and other medical bills under the supplementary medical insurance program.

--An estimated 5.1 million aged, blind, and disabled persons (including recipients of Federally administered State supplementation benefits) will receive supplemental security income payments.

The following table compares the program payments made in fiscal 1967 with those projected for 1977.

Program Payments Under Existing Legislation
(in millions)

Cash Benefit	1967	1977
Retirement and Survivors Insurance	$18,886	$71,362
Disability Insurance	1,861	10,804
Subtotal	20,747	82,166
Medicare		
Hospital Insurance	2,508	15,090
Supplementary Medicare Insurance	664	5,905
Subtotal	3,172	20,995
Total Insurance Program	$23,919	$103,161
Supplemental Security Income Program		
Federal Payments	-0-	$5,245

Comparison of Administrative Costs with Income Under Present Law

There are two principal sources of income to the social security trust funds from which the social security programs are financed. They are: (1) contributions from employees (which are matched by employers) based on earnings for the retirement, survivors, disability and hospital insurance programs; and 2) premiums from enrollees and Federal fund contributions for the supplementary medical insurance program. In addition, the law requires that funds not currently needed for benefit payments or administrative expenses be invested with the interest earned used to help finance the program (interest earnings for fiscal year 1977 are estimated at $3.5 billion, a sum which more than covers administrative costs.)

The total administrative costs of the social security trust fund programs estimated for fiscal year 1977 are only 2.1 percent of the income from contributions premiums and investments under existing legislation. The total administrative costs include not only Salaries and Expenses (cost of the Social Security Administration components and those of the State agencies and health insurance contractors who perform necessary functions under the disability and Medicare programs), but also the costs of construction, an appropriate share of Departmental Management, and social security related work performed by other agencies such as the Treasury Department.

The table below shows the relationship of administrative expenses to income by trust fund for fiscal year 1977.

Administrative Expenses as Percentage of Trust Fund Income - Fiscal Year 1977

Trust Fund	Percent
Old Age and Survivors Insurance	1.4%
Disability Insurance	3.4%
Hospital Insurance	2.1%
Supplementary Medical Insurance	8.0%

The administration's legislative program for 1977 includes a proposal to increase the social security tax rate for employees and employers effective January 1977. This step would increase revenues and decrease the above ratios of administrative costs compared to income.

As the table shows, administrative costs as a percent of income vary widely from program to program. The highest ratio, the 8.0 for the SMI program, is due to the processing of a large number of small bills.

Fiscal year 1977 administrative costs of the supplemental security income program, which is financed from Federal funds, are 7.6 percent of benefit payments (including State supplemental payments administered by SSA). It should be noted, however, that SSI benefits in many cases supplement other income and, therefore, the average amount of these monthly payments is much lower than the average social security cash payment. The table below illustrates average monthly payment amounts for retired and disabled workers and for aged and blind and disabled SSI recipients.

	Retired Worker	Disabled Worker	SSI Federal Payment	
			Aged	Blind and Disabled
Average Monthly Benefit paid in July 1975	$205	$224	$77	$122

Federal Pay Raise and Other Changes in the Fiscal Year 1976 Budget

The Social Security Administration wishes to bring to the attention of the Congress a number of changes in FY 1976 budget plans for the Salaries and Expenses appropriation. These changes are summarized in the table below:

	Obligations (in 000) FY 1976		
	1976 President's Budget	Revised Estimate	Difference
SSA personnel compensation and benefits (excluding October 1975 pay raise).....	$1,244,297	$1,188,568	$-55,729
SSA "other object" requirements.	366,985	383,647	+16,662
Medicare contractors and State agencies.....	512,364	505,768	-6,596
Disability State agencies.....	210,566	225,424	+14,858
SSI State agencies.....	13,922	7,350	-6,572
AFDC Enumeration contracts with States.....	--	15,000	+15,000
October 1975 pay raise.....	--	44,974	+44,974
Total.....	$2,348,134	$2,370,731	$+22,597
In 1976 President's Budget.....	$2,348,134	$2,348,134	--
Pay raise supplemental.....	--	22,597	+22,597
Comparative transfers.....	--	1,988	+1,988
Adjusted obligations.....	$2,348,134	$2,372,719	+24,585

The changes between the original and revised estimates shown in the table are due to factors largely beyond the control of SSA. For instance, the original estimate did not reflect the cost of the October 1975 pay raise ($44,974,000 total). SSA is absorbing $22,377,000 of this total, and requesting a supplemental appropriation of $22,597,000 for the balance. Without the effect of the pay raise, personnel compensation would have been $55,729,000 lower than originally estimated as a result of a reduction of 1,084 man-years and a reduction in average salaries. The principal reason for the reduction in man-years was SSA's inability to recruit the 6,000 term employees as scheduled in the President's 1976 budget. SSA entered FY 1976 with 1,735 term employees on duty instead of the 6,000 budgeted.

"Other object" requirements (excluding the AFDC contract discussed below) increase by $16,662,000 over the estimate contained in the President's 1976 budget. This is the net effect of a number of plus and minus changes. Travel and transportation costs increase by about $5.0 million primarily because of the increase in mileage and per diem rates brought about by P.L. 94-22--the Travel Expense Amendments Act of 1975--and an increase in parcel post charges as a result of the postal rate increase effective January 1976. In "Rents, Communications and Utilities" there is an increase of $3.8 million in penalty mail costs due to the January 1976 postal rate increase and $4.7 million to cover GSA program direction costs for providing space to SSA. Prior to the Public Buildings Amendments of 1972 these program direction costs were covered by direct appropriation to GSA. The original 1976 SSA estimate contained no funds for GSA program direction, which is one aspect of "actual costs." In "Other Services" the increase over the President's budget is $12.3 million. Of this $7.4 million occurs in the project to convert all social security number applications to an electronic data base, originally scheduled for completion by the end of FY 1979. Since the President's 1976 budget was formulated we have found that IRS may be able to provide SSA with significantly more assistance than initially assumed and by utilizing this assistance, all 290 million records could be converted by December 1978.

The remaining $4.9 million increase covers unbudgeted payments to GSA for services incurred for renovation of space to house four computers and for other space improvements and maintenance not covered in the President's budget.

Partially offsetting these increases in "other objects" are reductions from the President's budget. Obligations for printing are down by approximately $7.0 million and result from SSA's previous overestimate of price increases for all types of printed materials, a decrease in workload related forms and delays in the printing of public information pamphlets and booklets. Another reduction from the President's budget occurs in purchase of equipment amounting to about $2.0 million principally due to a decision to continue the rental of optical scanning equipment. SSA did not purchase the optical scanning equipment because of concern about its adequacy to process future workloads.

The funds budgeted for Medicare contractors and health insurance State agency costs were reduced by $6,596,000 from the original estimate. The greater part of this reduction, $6,502,000 was in the Medicare contractors because greater productivity was achieved in FY 1975 than was estimated. This higher productivity obtained in part from prior year systems improvements was carried into the revised 1976 estimate.

Funds budgeted for the Disability State Agencies are now $14,858,000 greater than were in the 1976 President's budget. Experience to date indicates that State agency salaries and fee schedules for medical examinations are increasing at a rate greater than originally projected. Also, 1975 experience indicates that the State agencies require more manpower than originally budgeted in 1976. The State agencies lost productivity in 1975.

Requirements for governmental agencies who are still assisting in the Supplemental Security Income program drop by $6,572,000. This was the amount originally budgeted to monitor the treatment of New York City drug addicts and alcoholics. This function will be handled at less cost than previously estimated and those funds formerly carried in Salaries and Expenses are now included in the SSI appropriation account under the activity entitled "Vocational Rehabilitation."

The revised estimate for 1976 also includes $15 million ($7 million in the transitional quarter) to reimburse State agencies under contract to assist the SSA in the plan to enumerate all recipients of the AFDC program by the end of December 1976. About 15 million applications for social security numbers will be taken by State workers and transmitted to SSA for processing. The FY 1976 President's budget assumed that the States would perform this function without reimbursement.

Emphases in the Fiscal Years 1976-1977 Budgets

I. Improvements in Accuracy Processing Times and Quality of Service

For the two years since January 1974, the Social Security Administration has had to place its major emphasis on getting the new and complex Supplemental Security Income (SSI) program off the ground. During this implementation period when the priority had to be placed on getting checks into the hands of millions of needy people who had never before received supplemental security income protection from the Federal Government, it was almost inevitable that the degree of payment accuracy acceptable to the Congress and to the Social Security Administration itself would not be achieved. During this implementation period it is also not surprising that deficiencies developed in the speed and quality of service rendered to the public in both the social security and SSI programs. These deficiencies must be corrected. Therefore, the major emphasis in the administrative budget for 1976 and 1977 are to improve the payment accuracy, timeliness and overall quality of SSA's service to the public. The following elements of the budget reflect these emphases:

--The budget request for 1977 contains an additional 1,855 man-years to improve quality of service. Steps SSA intends to take include more complete claims interviews of beneficiaries, a more thorough development of each claim, the expanded use of automatic data processing equipment to verify entitlement data, and an improved workflow management system. While increasing SSA's overall level of service and accuracy, these and other steps will also speed the average processing time for many claims by removing the inaccuracies which have slowed action in the past and brought about the need for expensive manual processing to achieve corrections.

--The Social Security Act requires periodic redeterminations to verify the eligibility and payment amount of each SSI recipient. The major effort on SSI redeterminations begun in fiscal 1975 will continue in 1976 and 1977. The goal of the Social Security Administration is to make these redeterminations once each year. The purpose of the redeterminations is to correct overpayments and underpayments and to remove ineligibles from the rolls. The table below summarizes the redetermination workloads and the man-years budgeted to process them:

SSI Redeterminations

	Fiscal Year 1975 Actual	Fiscal Year 1976 Estimate	Fiscal Year 1977 Estimate
Number completed (millions).....	2.3	4.4	4.7
Man-Years required.....	2,935	5,349	5,158

The manpower for redeterminations decreases by 191 man-years in 1977 as a result of a combination of factors. While the volume of redeterminations increases slightly (6.4 percent) in 1977, the additional manpower for this workload is more than offset by a variety of procedural and systems improvements and man-years saved because of a more thoroughly trained and experienced staff.

--In fiscal 1977, SSA proposes to expand free telephone service, at a cost of $6.5 million, to the approximately 20 percent of the public who presently must pay long distance charges to contact a social security office. This service is offered by other Federal agencies and assists many beneficiaries who have limited financial resources. In addition, rising fuel costs and the need to conserve scarce fuel make it desirable to encourage the public to contact SSA by phone when possible.

II. Additional Training is Budgeted

The initial crunch of SSI necessitated a reduction in employee training both ongoing for existing staff and for the thousands of new employees SSA recruited because of SSI. At times initial training courses were cut in length by one-third with the result that many new employees were trained in only certain aspects of their jobs. Since much of the on-going training was of necessity devoted primarily to SSI, on-going training in the regular social security program suffered. Shortcuts in employee training account in part for the deficiencies in accuracy and service noted previously. Conditions now permit a return to full basic training for new employees and increased on-going training to meet the needs of many employees who did not receive full basic training.

The man-years for training budgeted for the workload operations staff are summarized below:

Social Security Administration Training
Man-Years Used and Budgeted for
Workload Operations

	Fiscal Year 1975 Actual	Fiscal Year 1976 Original Estimate	Fiscal Year 1976 Revised Estimate	Fiscal Year 1977 Estimate
Training Man-Years...	5,989	5,375	6,935	6,977

III. New Workload Responsibilities

Several new laws and court decisions have created new workload responsibilities for the Social Security Administration and result in the need for additional manpower. The table below lists the man-years budgeted for each of these areas.

Salaries and Expenses Man-Year
Needs for New Workload Responsibilities

Item	Fiscal Year 1976 Original Estimate	Fiscal Year 1976 Revised Estimate	Fiscal Year 1977 Estimate
Due Process.....	500	1,209	552
Privacy.....	--	242	207
Pension Reform.....	--	235	329
Direct Deposit.....	186	298	19
	686	1,984	1,107

SSA's due process needs result mainly from the 1974 case of Buffington-Biner vs. Weinberger which requires SSA to provide oral hearings before adjusting or reducing benefits to recover overpayments. Other court decisions affect the reduction, suspension, or termination of benefits. The requested manpower, which is needed for mailing notices, offering reconsideration reviews, and for waiver determinations on all overpayments, is conservative. For example, the budget does not reflect the manpower that would be needed to implement the recent Cardinale, et al. vs. Mathews decision. This decision extends Goldberg vs. Kelly protection to a number of SSI areas previously excluded by regulation. For example, it requires SSA to give advance notice of a benefit change and offer the opportunity for a hearing while continuing unreduced payments, even in a case where SSI benefits have been reduced because of an increase in social security benefits, or because of a clerical error, or because of facts the beneficiary himself reported to SSA. SSA is asking the court to clarify some areas of the decision and is contesting its retroactive application.

The Privacy Act (P.L. 93-579 enacted December 31, 1974) requires additional manpower to: (1) inform individuals of the need for and uses of the information collected from them; (2) provide individuals who request it access to their records to review the information contained therein; and (3) maintain a file listing all disclosures made to other agencies about individuals.

The Employee Retirement Income Security Act, P.L. 93-406, dated September 2, 1974, (or "pension reform") requires SSA to: (1) establish and maintain a record of pension fund names and addresses and of employees who have vested rights in these plans, and (2) supply the pension funds with earnings history information about these employees. The budget assumes

that the pension funds will reimburse SSA for the cost of supplying this detailed earnings information, and the Advances and Reimbursement budget contains 268 man-years in 1976 and 825 man-years in 1977 for this purpose not included in the above table. Additionally, this Act is expected to cause increases in such regular SSA workloads as requests for earnings information from individuals, earnings discrepancies, and correspondence.

Direct deposit is a program whereby a beneficiary may elect to have the Treasury Department upon instruction from the Social Security Administration send his benefit check directly to his bank for deposit rather than have the check come to his home. Direct deposit of benefit checks does not result from legislation or court decisions, but is an SSA initiative to improve service to the public and to guard against the loss or theft of benefit checks.

IV. Hearings Backlog Decline

Hearings backlogs are presenting a major problem to SSA, and the 1976-1977 budgets both for "Black Lung" and "Salaries and Expenses" provide added resources for reducing these critical backlogs. This will be accomplished by recruiting and training additional administrative law judges, SSI hearing examiners, clerical personnel, professional support personnel, and law clerks in the Bureau of Hearings and Appeals. BHA man-years for all programs are budgeted to rise from 3,313 man-years in 1975 to the 4,400 level in 1976 and 1977. The table below displays the trend in the backlogs for each program.

Hearings Backlogs - End of Fiscal Year

Program	FY 1974 Actual	FY 1975 Actual	FY 1976 Estimate	FY 1977 Estimate
Retirement and Survivors....	1,652	1,616	2,016	816
Disability.....	39,240	67,090	65,290	28,390
SSI.....	1,595	17,041	18,341	4,741
Medicare.....	1,454	1,107	1,357	457
Black Lung.....	33,292	24,315	--	--
Total.....	77,233	111,169	87,004	34,404

V. Computer Equipment and Telecommunications Increasing

Beginning in fiscal 1975, and continuing into 1976 and 1977, SSA has purchased or plans to purchase new automatic data processing equipment or equipment presently being rented to keep pace with workloads. Purchase is undertaken when a cost benefit analysis proves that this is less costly than rental. Four large-scale computers are scheduled for installation in fiscal 1976 under an installment purchase plan. The fiscal 1977 budget contains about $37 million to purchase these computers as well as an additional four new systems. These systems will meet the critical shortage of computer capacity SSA currently faces and will reinforce SSA's efforts to improve program accuracy and service.

The telecommunications budget for fiscal 1977 increases about $5.6 million due to the expansion of the SSA Data Acquisition and Response System (SSADARS). This system allows field offices to access central office computers for payment and entitlement information needed for the claims and post-entitlement processes, which is essential for reducing processing times to a minimum. These extra funds will expand the SSADARS network to more field offices.

VI. Advanced Systems Planning Project

In 1976, SSA began a project to review in total its operating systems and processes in order to design and implement an advanced overall SSA process responsive to the public's needs given the workloads of the future. This project will take 6 years to complete and will cost an estimated $350 to $400 million through the target completion date of September 30, 1981. This cost includes new technology and hardware as well as manpower to conduct the project. The purposes of the project are to enable SSA to keep pace with the inevitable growth in program workloads without accompanying increases in manpower, or with reduced manpower, to develop improved systems to better serve the public, and to take advantage of the most advanced technology available.

The budget request contains 71 man-years for this project in fiscal year 1976 and 214 man-years in 1977. To assure that the new process takes maximum advantage of the most advanced ADP technology available, the budget also included $646,000 in FY 1976 and $2,454,000 in FY 1977 for contracts with experts in this field.

Approximately 32 Cents Out of Every Administrative Dollar in 1977 is Budgeted for Third Parties

As indicated in exhibit 1, in 1977 32 cents out of each dollar requested for Salaries and Expenses will go to third parties who assist in carrying out the provisions of the Social Security Act. These third parties are State agencies who perform functions under the disability, health insurance, and supplemental security income programs as well as non-profit private contractors who perform functions under the health insurance program.

Of the 32 cents, more than 11 cents will go to State agencies who make disability determinations for the social security and supplemental security income programs on (1) initial claims for benefits, (2) reconsideration claims resulting from medical denials, and (3) investigations of continuing eligibility for benefits. These disability determinations must be made on all claims where eligibility involves meeting medical disability criteria.

About 1 cent of the 32 cents going to third parties goes to health insurance State agencies (principally public health agencies), which certify that providers of services--i.e. hospitals, skilled nursing facilities, home health agencies and independent laboratories--meet Medicare standards and thus are eligible to participate in the program.

The remainder of the 32 cents--about 21--go to health insurance contractors such as Blue Cross and Blue Shield organizations and private health insurance companies. These third parties process most Medicare bills and claims for payment and perform certain other administrative functions.

Work Output and Productivity

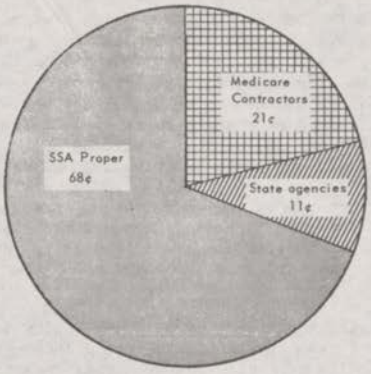
Work Output

Work output represents the number of units of program workloads processed adjusted for substantive changes in the quality of the product and non-recurring work involving the use of agency manpower.

The following table shows the percent increase in the work output projected for the various components engaged in processing the work of the Social Security Administration.

Exhibit 1

ADMINISTRATIVE EXPENSE DOLLAR-FISCAL YEAR 1977 ESTIMATE



	Amount	Percent of Total Amount
SSA Proper.....	$1,725,051,000	68.0
Medicare Contractors.....	523,017,000	20.6
State Agencies:		
A. Social security program		
Disability.....	167,708,000	6.6
Medicare.....	22,656,000	.9
B. Supplemental Security Income Program:		
Disability.....	93,841,000	3.7
Other State contracts.....	4,500,000	.2
Total State Agencies.....	288,705,000	11.4
TOTAL OBLIGATIONS.....	$2,536,773,000	100.0

Component	Percent Change 1977 over 1976
SSA Bureaus	3.6
Medicare Contractors	10.6
State Agencies - Medicare	0.6
State Agencies - Disability	3.3

The work output of the Social Security Administration proper increases by 3.6 percent for an increase of approximately 3,200 man-years. Of this, approximately 600 man-years is required to process a small net increase in the number of units of work over FY 1976. The principal areas of increase in work units are in the disability and health insurance activities. Approximately 1,900 man-years will be required to make quality improvements in the claims taking processes in district offices and approximately 700 man-years are needed to further improve the quality of redeterminations of SSI recipients.

The 10.6 percent increase in the work output of the health insurance contractors is primarily due to increases in the number of bills for hospital services and in claims for medical insurance services. These increases are due to the normal growth in the aged population and the higher utilization of health services.

The work of the State agencies that make disability determinations for the disability insurance and the Supplemental Security Income program is projected to increase by a net of 3.3 percent. The principal reason for the increase is that the disability State agencies are assuming added responsibilities. Beginning in fiscal 1976 (annualized in 1977) the State agencies will conduct due process hearings with a beneficiary whose social security disability benefits are about to be terminated. An even more important new responsibility is the reconsideration interview procedure. Under this process, to be implemented in 1977, trained examiners in the State agencies will discuss face-to-face with claimants the vocational and medical evidence aspects of their disability insurance and SSI disability claims. One purpose of these new procedures is to reduce Bureau of Hearings and Appeals workloads by making better decisions at an early stage in the appellate process and to explain the decisions to the claimant.

Productivity in the SSA Bureaus

After a long trend of increasing productivity the bureaus and offices of the Social Security Administration lost ground in fiscal year 1974 (-2.4 percent). This came about as a result of the necessary preoccupation with putting into motion the new SSI program with a resultant setback in planned improvements to systems capabilities in the social security program; the hiring and training of large numbers of new unexperienced employees; and a growing workload backlog situation, which produced many public inquiries and caused disruption of normally efficient processes. However, SSA recaptured this lost productivity in FY 1975 when its productivity increased by almost four percent. Further productivity increases are projected in fiscal years 1976 and 1977 as shown in the following table which displays the yearly changes in productivity and the man-year values.

Recent Trends in SSA Productivity

	Year to Year Increase	Man-Year Savings/Costs
FY 1971.....	2.4	-1,334
FY 1972.....	1.6	-909
FY 1973.....	4.8	-2,865
FY 1974.....	-2.4	+1,829
FY 1975.....	3.9	-3,312
FY 1976 Est.....	5.6	-4,940
FY 1977 Est.....	3.6	-3,159

In both fiscal years 1976 and 1977, the major factor contributing to better productivity is a series of improvements in SSA systems and procedures. Among these improvements are: (1) increased automation in the social security account number system; (2) improvements in the automated SSI claims and payments systems; (3) an increase in the receipt of Medicare bills on tape rather than on hard copy; and (4) improvements in telecommunications and (5) increased efficiency by a more experienced staff. Of course, as in any budget projection, there are always a number of uncertainties surrounding the estimates. For example, to the extent that planned changes in systems and procedures are delayed the productivity budgeted cannot be achieved. Therefore, SSA's predictions of productivity often vary from the estimates.

Historical Trend in Productivity of SSA Bureaus

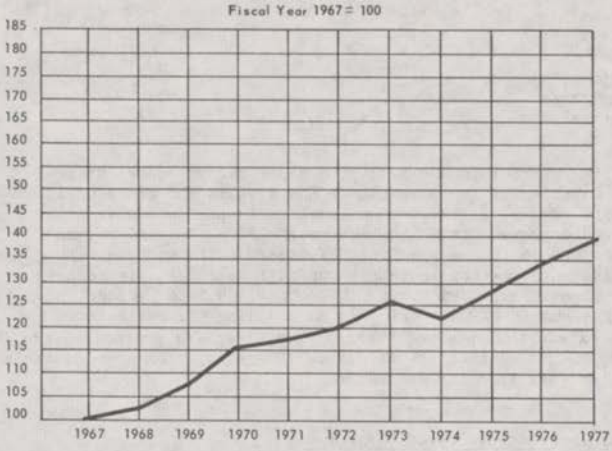
Exhibit 2 displays SSA productivity improvement for the ten-year period--FY 1968 through FY 1977. Using FY 1967 as the base the work of the agency's bureaus is projected to increase 150 percent while manpower increases only 79 percent, resulting in a productivity improvement of 39.5 percent.

The work output index used in computing the productivity index in this exhibit is based on units of program workloads processed adjusted for changes in the quality of the output, and non-recurring work involving the use of SSA manpower. The manpower index covers total manpower paid directly from the Salaries and Expenses appropriation including overtime. Work performed by State agencies and contractors is excluded from this computation.

Over the past two decades the SSA has shifted a significant portion of its work from manual to computer processes and productivity increases have been achieved principally by these shifts and by making improvements to the computer systems and procedures now in place. In the past few years productivity improvement has slowed in part because of the inability to extract further improvements out of the present generation of ADP equipment and to obtain significant procedural improvements from the existing systems without a basic redesign. Now the agency is committed to taking a new and total look at all of its major workload flows and to plan how to handle on a long-range basis its growing workloads. Special emphasis will be given to advanced systems design and improved computer technology. An Advanced Operation Systems Staff has been established and has started work in this area. The staff reports directly to the Commissioner to ensure that it has continuing priority attention. As the workloads of the Social Security Administration grow, advanced systems design and implementation are necessary to ensure prompt and accurate processing of them without commensurate increases in staff.

Exhibit 2

COMPARISON OF MANPOWER WITH WORKLOAD[1]
PRODUCTIVITY INDEX
Fiscal Year 1967 = 100



INDICES OF WORK OUTPUT, MANPOWER, AND PRODUCTIVITY

Year	Work Output	Manpower	Productivity 2/
1967 actual	100.00	100.00	100.00
1968 actual	113,36	110.31	102.76
1969 actual	118.07	109.58	107.75
1970 actual	124.67	108.05	115.38
1971 actual	131.93	111.66	118.15
1972 actual	136.48	113.69	120.05
1973 actual	150.90	119.93	125.82
1974 actual	186.37	151.79	122.78
1975 actual	216.00	169.26	127.61
1976 estimate	241.23	179.09	134.70
1977 estimate	249.82	179.10	139.49

[1]Work performed by State agencies and Medicare contractors and the manpower for them are excluded.

[2]Productivity index equals work output index divided by manpower index times 100.

Productivity of State Agencies and Medicare Contractors

Presently the most significant productivity advances are occuring in the Medicare contractors where improved operating procedures and automated electronic data systems are being applied to the handling and processing of well over one hundred million bills and claims on an annual basis. Productivity for the Medicare contractors is projected to improve in 1976 by 5.5 percent and in 1977 by 11.8. Actual productivity for the Medicare contractors achieved in 1975 was 13.8 percent.

On the other hand the State agencies who are under contract to make disability determinations for the disability insurance and the supplemental security income programs are experiencing relatively level or decreasing productivity. In 1977 productivity is projected to decline by 1.9 percent. One major factor contributing to this situation is the increasing number of disability claims that require special medical examinations thereby increasing the time examiners spend on these cases. Another reason for the decline is increased training time for disability insurance State examiners.

Manpower and Positions

The major thrust in the budget to improve the accuracy of SSI and social security payments and to improve the quality of SSA service to the public cannot succeed unless SSA has a stable workforce not impacted by high turnover and excessive overtime on a continuing basis.

Last year the budget proposed the employment of 6,000 two-year term employees beginning in the second half of FY 1975. Since these employees could not become permanent additions to the Federal workforce, turnover among the term employees was considerably higher than for the regular permanent staff of the agency. As a result, the experiment with term employment is being dropped, and steps are underway to fill vacant term positions with permanent employees and to convert term employees on the rolls to permanent status wherever these employees can be reached on permanent civil service registers through standard competitive procedures for Federal employment. The budget request for FY 1976-1977 thus provides for the 6,000 term positions to become full-time permanent.

The budget also provides for a gradual decrease in overtime over the two-year period 1976-1977, as illustrated in the table below:

	SSA Man-Years - All Programs		
	1975 Actual	1976 Estimate	1977 Estimate
Total man-years.....	86,168	91,189	90,758
Overtime man-years.....	6,360	6,493	4,690
% of overtime to total man-years....	7.4%	7.1%	5.1%

In addition to the conversion of terms to permanent employment and the reduction of overtime, the 1977 budget provides for an increase of 1,950 permanent authorized positions over the 1976 level for all programs administered by SSA. However, the budget projects that the level of SSA permanent staff on-duty (all programs) will be virtually unchanged from the end of fiscal year 1976 to the end of fiscal year 1977 (78,359 permanent employees at the end of FY 1976, and 78,309 at the end of FY 1977). One purpose of the 1,950 increase in authorized staffing is to enable SSA to obtain more permanent man-years from its employment ceiling. Another purpose is to enable SSA to prepare in advance to meet workload peaks during the year. The agency would be allowed to staff up as high as 81,243 permanent positions (2,934 positions higher than the end-of-year ceiling) by the end of the transition period (September 30, 1976) and come

down to the ceiling by September 30, 1977 through attrition. A third purpose of the 1,950 increase is to provide the potential for increasing end-of-year employment to cover workloads unanticipated in the budget estimate, or workloads which may be underestimated.

SSA's total man-year and position requirements for all of the programs it administers are shown in the table below. Positions and man-years in the Salaries and Expenses appropriation, which finances the administrative costs of the cash benefits, Medicare, and SSI programs, are identified separately in each table. The other programs requiring man-years and positions are the black lung program and reimbursable work performed for private groups and other Government agencies. The reimbursable work does not require an appropriation of funds.

Certain trends indicated in the tables below should be noted. Revised estimates of man-years and positions for fiscal year 1976 for the Salaries and Expenses appropriation show a decrease from the estimates in the 1976 President's budget. However, the revised man-years and positions for all programs administered by the Social Security Administration are virtually unchanged. The principal reason for the decrease in Salaries and Expenses is SSA's inability to recruit the 6,000 term employees as scheduled in the President's 1976 budget. SSA entered 1976 with 1,735 term employees on-duty instead of the 6,000 budgeted. The revised 1976 estimates for the black lung program include large increases in appellate workloads because in fiscal year 1975 SSA processed fewer black lung hearings than planned, and hearing receipts in this program were up by about 28 percent over the estimates. As a result, SSA will require 1,308 man-years and 871 full-time permanent positions for the black lung program in 1976 instead of the 600 man-years and 435 positions in the 1976 President's budget. Also, there is an increase in positions and man-years for reimbursable work due to the Pension Reform Act, which was not considered in the 1976 President's budget. Under the law SSA will supply pension funds with earnings history information about employees with vested rights in these funds. The budget assumes SSA will be reimbursed by the funds for the cost of this service and this will require 268 additional man-years in 1976.

In fiscal year 1977, Salaries and Expenses man-years and end-of-year positions filled remain level with 1976. However, man-years for SSA as a whole decrease by 431, and total positions filled decline by 50. Again, changes in requirements for black lung and reimbursable work explains this difference. Black lung workloads decline significantly in 1977 and manpower requirements drop by almost 1,000 man-years. Reimbursable manpower increases by about 550 man-years in 1977 primarily because of increased work related to the pension reform act.

	Man-Years		
	FY 1976 President's Budget	FY 1976 Revised Estimate	FY 1977 Estimate
Salaries and Expenses			
Permanent and term position man-years	76,236	75,858	77,340
Temporary and part-time position man-years	6,927	6,738	7,092
Overtime man-years	6,837	6,320	4,487
Total	90,000	88,916	88,919
Total, Social Security Administration			
Permanent and term position man-years	77,103	77,590	79,052
Temporary and part-time position man-years	7,106	7,106	7,106
Overtime man-years	6,900	6,493	4,600
Total	91,109	91,189	90,758

	Positions Authorized		
	FY 1976 President's Budget	FY 1976 Revised Estimate	FY 1977 Estimate
Salaries and Expenses			
Full-time permanent	72,356	77,514	79,499
Term	6,000	--	--
Subtotal	78,356	77,514	79,499
Temporary and part-time	7,261	7,261	7,276
Total	85,617	84,775	86,775
Total, Social Security Administration			
Full-time permanent	73,291	79,293	81,243
Term	6,000	--	--
Subtotal	79,291	79,293	81,243
Temporary and part-time	7,276	7,276	7,276
Grand Total	86,567	86,569	88,519

	Positions Filled at End-of-Year		
	FY 1976 President's Budget	FY 1976 Revised Estimate	FY 1977 Estimate
Salaries and Expenses			
Full-time permanent	71,343	76,580	76,565
Term	6,000	--	--
Subtotal	77,343	76,580	76,565
Temporary and part-time	7,261	7,261	7,176
Total	84,604	83,841	83,841
Total, Social Security Administration			
Full-time permanent	72,359	78,359	78,309
Term	6,000	--	--
Subtotal	78,359	78,359	78,309
Temporary and part-time	7,276	7,276	7,276
Total	85,635	85,635	85,585

Old-Age and Survivors Insurance Program

	1976 Estimate	1977 Estimate	Increase or Decrease
Old-age and survivors insurance program	$716,815,112	$736,488,000	+$19,672,888
Permanent Positions	33,577	33,300	-277
Man-years	40,856	39,655	-1,201

Scope of Program

Funds requested for the old-age and survivors insurance program provide for: (1) the initial determination of eligibility of workers, wives, widows, children and dependent parents for old-age and survivors benefits; (2) reevaluation of the initial determination when requested by the claimant; (3) changing the beneficiary rolls to assure proper and correct payment of benefits; and (4) investigation of the beneficiary's continuing entitlement to benefits including the evaluation of the performance of representative payees. This activity, along with the disability and health insurance activities, includes a distributive share of functions which support all social security programs: the issuance of social security numbers, the maintenance of earnings records for workers covered by the social security program, the overall direction of the Social Security Administration and administrative services.

Workloads

A. Workload Trends

Indicative of the workload trend in this activity is the number of retirement and survivors beneficiaries on the roll. The table below (based on present law) shows the average number of persons receiving benefits and the amount of benefits paid in selected years.

Fiscal Year	Average Number of Beneficiaries in Current Payment Status	Benefits Paid During Year
1960	13,243,564	$10,269,708,577
1965	18,236,173	15,225,894,366
1971	23,569,000	31,101,018,452
1972	24,359,000	34,540,813,346
1973	25,205,000	42,169,743,826
1974	26,311,000	47,848,838,432
1975	26,942,000	54,838,818,324
1976 estimate	27,699,000	62,245,000,000
1977 estimate	28,564,000	71,362,000,000

The number of persons on the old-age and survivors insurance beneficiary roll will continue to increase for many years into the future. The normal year-to-year growth in the roll and in the amount of benefits paid is in large measure dependent on population growth, economic growth and demographic changes. Year-to-year growth is also affected by legislative changes to the basic Social Security Act.

The amount of benefits paid each year increases as the number of beneficiaries increase. In addition, average monthly benefits increase as general earnings rise and as automatic benefit increases which are tied to the cost of living become effective. The amount of benefits paid during 1974 increased partly as a result of the enactment of Public Law 93-233 (enacted December 1, 1973) which authorized an across-the-board benefit increase of 11 percent effective June 1974, with 7 percent payable in advance for March through May 1974. This law also authorized automatic benefit increases under certain circumstances based on changes in the cost-of-living beginning in June 1975. The estimated benefit amounts for fiscal years 1976 and 1977 assume a 6.7 percent automatic increase effective June 1976 and 5.9 percent increase effective June 1977.

B. Work Output

An overall decrease in work output of 2.4 percent is projected in 1977 as compared to 1976. The principal indicators of work output used to compute the year-to-year change in volume in this activity are:

	1976 Estimate	1977 Estimate	Difference 1977 over 1976 volume of work	Difference 1977 over 1976 % change
Claims for retirement and survivors insurance benefits, processed.....	4,117,000	4,143,000	+26,000	+0.6
Average number of beneficiaries serviced.....	28,920,000	29,849,000	+929,000	+3.2
Changes of address....	6,052,000	4,221,000	-1,831,000	-30.3
Overpayments recovered.....	1,636,500	903,000	-733,500	-44.8
Appellate actions processed (includes reconsiderations of claims decisions, hearings before administrative law judges and appeals to the Appeals Council).....	34,575	37,590	+3,015	+8.7

	1976 Estimate	1977 Estimate	Difference 1977 over 1976 volume of work	% change
Persons subject to continuing eligibility reveiw. (These include representative payees other than the natural parent, age 18-22 beneficiaries attending school, and beneficiaries who are working and file reports of earnings).....	2,983,000	3,002,000	+19,000	+0.6

Other principal indicators of workload volume for functions whose costs are distributed to this activity and to the other insurance program activities are:

Social security numbers established.....	12,542,100	7,120,000	-5,422,100	-43.2
Earnings items posted to worker's lifetime record of earnings..	393,228,000	414,144,000	+20,916,000	+5.3
Account number file conversion project..	33,000,000	40,000,000	+7,000,000	+21.2

The tables above show several changes taking place during the 1976-1977 period in workload processing for this activity. The number of claims processed in 1976 includes reduction of a small backlog. By the end of 1976 backlogs will be reduced to the normal work in the pipeline at year's end (approximately 154,000 claims or two weeks of receipts). This level is maintained in 1977. SSA expects to have fewer changes of address to process in 1977 because of the program to encourage the direct deposit of benefit checks in banks initiated in 1976 caused an abnormal increase in change of address requests for this purpose. This one-time peaking of the workload will not repeat in 1977. Approximately 700,000 overpaid cases were backlogged during 1975 while SSA developed procedures to implement the Buffington-Biner court decision. These procedures were approved by the courts late in 1975 and the backlogged cases are to be processed during 1976. As a result of backlog reduction in 1976 SSA will process 733,500 fewer overpaid cases in 1977.

During fiscal year 1976, SSA will issue over 12.5 million social security numbers. This is an increase of 5 million over the 1975 level and 5 million more than will be issued during 1977. The most significant cause of the peaking of this workload in 1976 is the enumeration of recipients of Aid to Families with Dependent Children which was mandated by the 1974 Social Services amendments (P.L. 93-647). The budget includes a total of $22 million ($15 million in fiscal year 1976 and $7 million in the transition quarter) to reimburse the States for the costs they will incur in taking account number applications for this project. These applications will be turned over to SSA for the issuance of numbers. SSA plans to have this project completed by January 1, 1977.

The table below summarizes SSA manpower and costs for this project.

Issuance of Social Security Numbers to AFDC Recipients

	1976 Estimate	Transition Quarter Estimate	1977 Estimate
SSA man-years	690	199	229
SSA costs	$12,021,000	$2,310,000	$4,915,000
Contracts with States	15,000,000	7,000,000	---
Total Costs	$27,021,000	$9,310,000	$4,915,000

The Social Security Administration has been undertaking the conversion of its paper account number files, an estimated 290 million "applications for a scoial security number," to an electronic data base. SSA has contracted with the Internal Revenue Service to provide keying assistance during IRS' non-peak workload periods, on a reimbursable basis. Completion of this conversion, now projected for December, 1978, will save manpower by improving efficiency and save approximately 50,000 square feet of storage space. In addition, IRS will use its resources more efficiently by minimizing the effect of peaking in its workloads. The table below summarizes SSA manpower and total costs for this project.

	1975 Actual	1976 Estimate	Transition Quarter Estimate	1977 Estimate
SSA man-years	930	647	192	651
SSA costs	$9,222,000	$ 4,858,000	$ 1,738,000	$ 5,894,000
Contracts with IRS	150,000	14,100,000	9,800,000	21,000,000
Total Costs	$9,372,000	$18,958,000	$11,538,000	$26,894,000

Costs for account number issuance and the social security numbers file project are shared by Activity 1 (OASI Program) and the other trust fund activities, although total costs are shown here for purposes of clarity.

The 2.4 percent decrease in work output in 1977 for the OASI activity computes to a decrease of 979 man-years and is the net result of:

1. An increase of 603 man-years to improve accuracy and reduce error rates by providing for longer interviews and more thorough claims development.

2. A 3.81 percent decrease in the number of work units to be processed, which accounts for a reduction of 1,551 man-years. The principal decrease elements are in one-time workloads--the processing in '76 of the backlog of overpayment cases and the enumeration of AFDC recipients.

3. A decrease of 31 man-years in the time spent on small one-time projects.

In addition, a net reduction of 222 man-years is budgeted in 1977 for systems and procedural improvements and other changes in productivity.

Money Requirements

The cost of administering this activity in 1977 is budgeted to increase by $19,672,888. This is the net of a decrease of $6,224,453 for payroll costs and an increase of $25,897,341 for other expenses as shown in the table below:

	1976 Estimate	1977 Estimate	Increase or Decrease
Personnel Compensation Benefits.....	$540,327,453	$534,103,000	-6,224,453
Other expenses.....	176,487,659	202,385,000	+25,897,341
Total obligations...	$716,815,112	$736,488,000	+19,672,888

The decrease in payroll costs is due to the reduction of 1,201 man-years partially offset by increases needed to meet mandatory payroll cost increases, such as annualization of the October 1975 pay raise and periodic within grade and career ladder promotions. The increase of approximately $26 million in other costs includes nearly $15 million for the purchase/rental of additional ADP equipment needed to up-grade SSA's systems capabilities and $2.8 million for expansion of the telephone service for beneficiaries and claimants who contact the district offices and this activity's share of the increase for the IRS contracts for the SS-5 conversion project. The remaining increases in other costs are related to continuing space and communication costs, annualization of the higher postal rates, and other increases in rates and prices, partially offset by this activity's share of decreased State agency costs for the AFDC enumeration project.

Disability Insurance Program

	1976 Estimate	1977 Estimate	Increase or Decrease
Disability Insurance Program....	$463,584,000	$549,839,000	+$86,255,000
Positions.....	14,604	16,899	+2,295
Man-Years.....	17,771	19,553	+1,782

Scope of Program

Funds requested for the disability insurance program provide for: (1) initial determinations of eligibility for cash benefits for disabled workers and their dependents; (2) making initial determinations of eligibility for Medicare benefits for disabled workers and other disabled beneficiaries; (3) reevaluating the initial determination upon the claimant's request; (4) making changes in the beneficiary roll to assure proper and correct payment of benefits; and (5) investigating the beneficiary's continuing eligibility for benefits. The administrative costs budgeted for the disability program include the costs of State agencies which determine the existence and continuance of a disability.

Workloads

A. Workload Trends

The following table displays the trend in the average number of disability insurance beneficiaries in payment status and in the amount of benefits paid for selected years.

Fiscal Year	Average Number of Beneficiaries in Current Payment Status	Benefits Paid During Year
1960.....	460,000	$528,303,887
1965.....	1,563,000	1,392,197,572
1970.....	2,495,000	2,778,117,937
1971.....	2,666,000	3,381,447,900
1972.....	2,930,000	4,045,895,169
1973.....	3,271,000	5,161,839,962
1974.....	3,561,000	6,158,569,149
1975.....	3,912,000	7,629,795,831
1976 estimate.....	4,357,000	9,141,000,000
1977 estimate.....	4,713,000	10,804,000,000

The year-to-year growth in the number of beneficiaries is directly related to the incidence of disability in the population and the size of the population covered by the social security insurance program. In addition, legislative changes in the program affect the size of the beneficiary roll and the amount of disability insurance payments made each year. One major factor causing an increase in the roll since 1974 was the Supplemental Security Income program which became effective on January 1, 1974. Title XVI of the Social Security Act as amended provides that no person shall be eligible for supplemental security income if he fails to file, within 30 days of notification by the Secretary, for other benefits such as retirement, disability, workmen's compensation and unemployment benefits to which he may be entitled. It is believed that this requirement stimulated filing for social security disability benefits by disabled persons who had been receiving only State assistance payments.

The amount of benefits paid each year increases as the number of beneficiaries increase. Average monthly benefits increase as general earnings rise and as automatic benefit increases which are tied to the cost of living become effective. The amount of benefits paid during 1975 increased partly as a result of the enactment of Public Law 93-233 (enacted December 1, 1973) which authorized an across-the-board benefit increase of 11 percent June 1974, with 7 percent payable in advance for March through May 1974. This law also authorized automatic benefit increases under certain circumstances based on changes in the cost-of-living beginning in June 1975. The first such increase was 8 percent, effective June 1975. The estimated benefit amounts for fiscal years 1976 and 1977 assume a 6.7 percent automatic increase effective June 1976 and a 5.9 percent increase effective June 1977.

B. Work Output

1. Social Security Administration

The work output for this activity is projected to increase 11.4 percent in fiscal year 1977 over 1976 for the Social Security Administration. The principal indicators of the work output volume in this activity for the Social Security Administration are:

	1976 Estimate	1977 Estimate	Difference 1977 over 1976 volume of work	Difference 1977 over 1976 % change
Claims for disability benefits from disabled workers and their dependents:				
Receipts	1,872,000	1,979,000	+107,000	+5.7
Processed	1,883,000	1,985,000	+102,000	+5.4
Average number of beneficiaries serviced	4,426,000	5,005,000	+579,000	+13.1

	1976 Estimate	1977 Estimate	Difference 1977 over 1976 volume of work	% change
Appellate Actions:				
Reconsiderations:				
Receipts	252,265	266,765	+14,500	+5.6
Processed	247,310	266,200	+18,890	+7.6
Hearings:				
Receipts	92,500	88,500	-4,000	-4.3
Processed	94,300	118,600	+24,300	+25.8
Appeals:				
Receipts	24,940	31,750	+6,810	+27.3
Processed	21,395	33,525	+12,130	+56.7
Persons subject to continuing eligibility services 1/	3,337,520	3,753,006	+415,486	+12.5

1/ Includes representative payees for disabled beneficiaries other than the natural parent; disabled persons on beneficiary rolls, all of whom are subject to periodic checks on their continued disability; and dependents age 18-22 attending school and dependents who work and must file reports of earnings.

The 11.4 percent increase in work output, an increase of 2,025 man-years, is the net effect of: (1) 10.1 percent increase in workload units processed (1,792 man-years), (2) an increase of 276 man-years for providing better service to the public and improving the quality of claims taken in the district offices, and (3) a decrease of 43 man-years, related primarily to the completion in 1976 of a project to purge the disability files of dormant cases.

A net increase of 1,782 man-years is budgeted for this activity. The man-year increase of 2,025 related to a higher level of work is partially offset by a net savings of 243 man-years in productivity.

The reduction in the number of hearings to be filed is expected because a claimant who requests a reconsideration of the initial determination will have the opportunity to meet with the person making the reconsideration determination to discuss the medical and vocational aspects of their claims before the claim is denied. This is an added responsibility for the disability State agencies staffs. The new procedure is expected to be implemented by some States in the second half of fiscal year 1976 and by all State agencies in fiscal year 1977. With a fuller understanding of the law and rationale for the decision we expect that fewer applicants will be inclined to file a request for a hearing before an administrative law judge. The large increase in the volume of hearings processed is a result of working off the large backlog of hearings which accumulated in prior years. At the end of 1977, SSA expects to have the hearings pending workload at the normal on-going level. The increased volume of appeals of hearing decisions to be received and processed in 1977 results from the large number of

hearings that are to be processed in 1976 and 1977 and the need to work off backlogs which have accumulated in prior years.

2. State Agencies

The State agencies are under contract to the Social Security Administration to make disability determinations on claims filed by disabled workers, widows and children. In addition, the States make determinations to ascertain the continuation of disability. In fiscal year 1977, the work output of the State agencies is expected to increase by 13.2 percent. The principal reasons for this increase are that there is a 6.3 percent increase in the number of disability insurance determinations to be received and processed by the disability State agencies, and the States are assuming added responsibilities. The principal new responsibility is the reconsideration interview procedure. Under this procedure, to be implemented in 1977, trained examiners in the State agencies will meet with claimants to discuss the medical and vocational aspects of their disability claims before it is denied. In addition, beginning in 1976, the States will offer a disabled insurance beneficiary whose social security benefits are about to be terminated an opportunity for a face-to-face hearing. One purpose of these new procedures is to reduce the Bureau of Hearings and Appeals workloads by making better decisions at an early stage in the appellate process and to explain the decisions to the claimants. The indicators of work output volume for the State agencies are:

	1976 Estimate	1977 Estimate	Difference 1977 over 1976 volume of work	Difference 1977 over 1976 % change
Disability Determinations:				
Receipts	1,712,300	1,820,700	+108,400	+6.3
Processed	1,707,600	1,814,600	+107,000	+6.3

A productivity decrease of 2 percent is projected for the State agencies in 1977 for this activity. In order to provide a better disability decision we intend to increase the number of consultative medical examinations which are used to assist in making the disability determination. Although these examinations will improve the quality of the decision they also add cost as well as time and effort by State employees. These efforts decrease the productivity in the State agencies and are only partially offset by increased employee efficiency in the processing of claims.

Money Requirements

The cost of administering this activity in 1977 is budgeted to increase by $86,255,000 over 1976. Of this increase, $50,690,000 is for the Social Security Administration and $35,565,000 is for the Disability State Agencies, or as shown in the table below:

	1976	1977	Increase or decrease
Personnel compensation and benefits.....	$255,578,100	$286,713,200	+$31,135,100
Payments to States.....	132,143,000	167,708,000	+35,565,000
Other Expenses.....	75,862,900	95,417,800	+19,554,900
Total obligations.....	$463,584,000	$549,839,000	+$86,255,000

The $50,690,000 for the Social Security Administration includes $31,135,100 for payroll costs and $19,554,900 for other expenses. The payroll cost increase is due to the inrease of 1,782 man-years and to mandatory changes such as annualization of the October 1975 pay increase, periodic within grade promotions, and promotions of employees to the journeyman grade. The net increase of $19.6 million in other expenses includes an additional $8 million for continuing space and communication costs, $6.9 million for the purchase/rental of ADP equipment needed to upgrade SSA's system capabilities, $1.1 million for the expansion of free telephone service in district offices and $1.5 million for fee basis consultants. The additional costs for fee basis consultants is the result of higher unit costs and an increase in the number of cases in the Bureau of Hearings and Appeals and Bureau of Disability Insurance that will be reviewed by medical or vocational consultants. The remaining increases in other expenses are related to **increased work output and manpower, increases in rates and prices,** and this activity's share of the increase for IRS contracts for the SS-5 conversion project. These increases are partially offset by this activity's share of decreased State agency costs for the AFDC enumeration project.

State agency requirements for fiscal year 1977 are expected to increase by $35,565,000. A change in work output accounts for an increase of $17,464,150. Additional increases occur in the average salary of State employees ($7,324,875), the unit costs of medical examinations purchased by the State agencies ($5,299,650), overhead and indirect costs ($1,823,000) and other objects of expenditure ($975,950). Other increases, primarily related to increased use of consultative medical examinations because of the new reconsideration interview procedure amount to $2,677,375.

Health Insurance Program

	1976 Estimate	1977 Estimate	Increase or Decrease
Health Insurance Program...	$696,533,000	$750,094,000	$+53,561,000
Permanent Positions.....	7,333	7,300	-33
Man-Years.....	8,924	8,781	+143

Scope of Program

Funds requested for Activity 3 provide for the administration of the hospital insurance program (Part A) and the supplementary medical insurance program (Part B).

These programs, frequently referred to as Medicare, provide insurance protection to persons age 65 or over, disabled persons who have been eligible for social security disability benefits for at least 24 months and to workers insured under social security and their dependents who have chronic renal disease and receive hemodialysis or renal transplant. The hospital insurance program affords protection against the costs of inpatient hospital services, post-hospital home health services and post-hospital skilled nursing facility services. The voluntary supplementary medical insurance program covers the costs of physicians' services and other medical costs. There are certain deductible and coinsurance requirements to be met in both programs.

The hospital insurance program is financed primarily by payroll contributions, except for those "deemed" insured under previous legislation whose costs are funded from general revenues and the uninsured who can enroll by paying a monthly premium. The supplementary medical insurance program is financed partially by a monthly premium paid by the participants and partially by Federal fund appropriations.

The administrative costs of Medicare budgeted under this activity include those incurred by components of the Social Security Administration in enrolling persons into the program, maintaining the individual beneficiary records of utilization of hospital and medical services, and collecting premium payments. The administrative costs also include the costs of processing bills for services rendered under the hospital insurance program and claims for services rendered under the supplementary medical insurance program. For the most part, these bills and claims for services rendered by providers and physicians are processed by third party contractors, i.e. Blue Cross and Blue Shield plans and by private insurance companies but SSA itself serves providers and physicians who elect to deal directly with SSA. Also included are the administrative costs of the State Health agencies who are responsible for certifying that hospitals, home health agencies, skilled nursing facilities, end stage renal disease units, independent laboratories, and other covered facilities meet and adhere to the health and safety standards of participation in the Medicare program.

Medicare Coverage and Benefits

The estimated growth of Medicare in 1976 and 1977 is reflected in the number of persons covered under the hospital and medical insurance programs, the number of persons receiving reimbursement, and the amount of benefits paid. These data are arrayed below and include, in addition to the aged covered under Medicare, those covered as a result of the Social Security Amendments of 1972. These amendments extended Medicare coverage to people under age 65 who have been entitled for at least 24 months to social security or railroad retirement

benefits because they are disabled or who have been receiving treatment for chronic renal disease for 3 months.

	Average Number of People Covered by the Program	Persons Receiving Reimbursed Services	Benefits Paid
Fiscal Year			
Hospital Insurance			
1975 Actual.....	23,698,000	5,525,000	$10,353,011,000
1976 Estimate.....	24,276,000	5,715,000	12,184,000,000
1977 Estimate.....	24,945,000	5,925,000	15,090,000,000
Medical Insurance			
1975 Actual.....	23,308,000	12,600,000	3,765,225,000
1976 Estimate.....	23,890,000	13,240,000	4,687,000,000
1977 Estimate.....	24,586,000	14,240,000	5,905,000,000

Benefit payments are expected to increase at a faster rate than the number of persons receiving reimbursed services essentially because of higher costs of health services. The budget estimates shown above for benefits paid are based on existing law and do not reflect the effect of legislative proposals by the President which would reduce Medicare outlays. The "benefits paid" column for 1976 and 1977 does reflect a number of reductions to stem from budgeted administrative actions which have been or will be taken. The major reductions are due to the following:

1. Require hospitals under new utilization review regulations to improve the review of the medical necessity of admissions; determine the maximum length of stay based on norms for a particular diagnosis; review requests for extended stays and review the quality of patient care rendered. The regulations are being revised and are expected to be effective in the fall of 1976.

2. Reduce the upper limit on the amount which the Medicare program will recognize as reasonable for the reimbursement of hospitals, from 90 percent to 80 percent of the costs incurred by similar hospitals for routine in-patient care (Section 223 of the Social Security Amendments of 1972). This change was effective July 1975.

3. Limit Medicare reimbursement for drugs provided during inpatient stays in hospitals and skilled nursing facilities to the cost of less expensive generic equivalents (as opposed to brand name) if these equivalents are widely and consistently available. The general policy regulations will be effective in April 1976, and the job of identifying specific generic equivalents is underway.

4. Limit the increase in reimbursement for physicians' services to a level which is based on an economic index of changes in physicians' expenses of practice and general earnings levels (Section 224 of the Social Security Amendments of 1972). This change was effective July 1975.

1975 experience and the budget estimates under existing legislation for the newest areas of Medicare coverage are shown in the table below:

Extensions of Coverage	Average Number of People Covered by the Program	Persons Receiving Reimbursed Services	Benefits Paid
1. Medicare for Disabled			
Hospital Insurance:			
1975 Actual.....	2,044,000	619,000	$891,000,000
1976 Estimate.....	2,258,000	708,000	1,179,000,000
1977 Estimate.....	2,520,000	818,000	1,589,000,000
Medical Insurance:			
1975 Actual.....	1,824,000	1,384,000	293,000,000
1976 Estimate.....	1,985,000	1,520,000	458,000,000
1977 Estimate.....	2,185,000	1,717,000	632,000,000
2. Chronic Renal Disease			
Hospital Insurance:			
1975 Actual.....	13,000	6,000	47,000,000
1976 Estimate.....	16,000	7,000	54,000,000
1977 Estimate.....	19,000	7,000	68,000,000
Medical Insurance:			
1975 Actual.....	13,000	16,000	137,000,000
1976 Estimate.....	16,000	20,000	195,000,000
1977 Estimate.....	19,000	23,000	270,000,000

Highlights of the FY 1976-1977 Budget Request

I. Work Output

Work output is the sum of two principal factors - the volume and composition of the workloads to be processed and efforts to improve the quality of the final product. The work output of the three components processing work in this activity, is projected to increase as follows in fiscal year 1977 over 1976:

	Percent Change Over 1976 Work Output
Social Security Administration.....	+7.2
Health Insurance Contractors.....	+10.6
State Health Agencies.....	+.6

A. Workload Volume

The principal indicators of workload volume in this activity are:

Workload and Component Responsible for Processing	1976 Estimate	1977 Estimate	Difference 1977 over 1976 Volume of Work	% Change
Bills for hospital insurance services - Social Security Administration ahd Health Insurance Contractors.....	11,895,500	12,718,300	+822,800	+6.9
Claims for medical insurance services - Social Security Administration and Health Insurance Contractors.....	107,526,600	121,383,400	+13,856,800	+12.9
Audits of hospitals, skilled nursing facilities, and home health agencies - Health Insurance Contractors.....	12,923	12,460	-463	-3.7
Surveys and other visits to providers by State health agencies.....	40,705	40,180	-525	-1.3

The increase in workload volumes in the Social Security Administration and in the health insurance contractors is primarily due to 1) the normal growth in the population aged 65 and over; 2) the year-to-year growth in the number of persons extended coverage under the 1972 amendments, particularly the disabled; and 3) the higher utilization of health services. (For example, in 1976 491,000 hospital insurance bills were processed for every 1,000,000 people enrolled in the hospital insurance program; in 1977, actuarial estimates predict that 511,000 bills will be processed per 1,000,000 enrollees. In the medical insurance program, the number of claims processed per 1,000,000 enrollees is expected to increase from 4,519,000 in 1976 to 4,967,000 in 1977.)

The increase in workload volume in the State health agencies (+.6%) is due to a rise in the number of initial application surveys and annual resurveys to be performed. Partially offsetting this increase is a reduction in the number of less costly "other visits" which are conducted primarily as follow up visits after substandard conditions are found during annual resurveys.

	1976 Estimate	1977 Estimate	Difference 1977 over 1976
Initial Application and Annual Resurveys.....	18,570	18,880	+310
Other Visits.....	22,135	21,300	-835
Total.....	40,705	40,180	-525

The State agency surveys and visits are required to certify and recertify hospitals, skilled nursing facilities, and other facilities as meeting the standards established for participation in the Medicare program. Included in this workload in fiscal years 1976 and 1977 for the first time are surveys and visits to end stage renal disease units and to physical therapists in independent practice. The extension of coverage to services provided by these facilities was contained in the Social Security Amendments of 1972 and the budget assumes that

regulations implementing certification requirements for these facilities will be promulgated during fiscal year 1976.

B. Qualitative Improvements in the Health Insurance Contractors

Included in the 10.6% increase in work output in the health insurance contractors is an increase of 1.0 percent in added work due to qualitative improvements. This will increase costs in 1977 over 1976 by an estimated $4.8 million. One of the major factors contributing to this increase will be the efforts on the part of the contractors to implement new cost reporting requirements for hospitals.

The Social Security Amendments of 1972 contained numerous provisions such as limits on costs, limits on capital expenditures, reimbursement for lower of cost charges, chronic renal disease services, etc., that necessitate changes in hospital accounting policies and cost reporting procedures. The contractors will assist the hospitals in making these changes as well as revise their own procedures to facilitate review.

Another major qualitative improvement effort is in the Part A contractors and involves the implementation of new uniform desk review procedures. These revised procedures will be used to review provider cost reports and will enable the Part A contractors to uniformly determine if an audit of a provider should be performed and if so whether the audit should be limited or full scope.

Implementation of the Privacy Act of 1974 is another area of qualitative improvement in FY 1977. The contractors' role in implementing this Act is similar to the role of Federal agencies and requires that the contractors 1) inform beneficiaries about the need for and use of information requested from them, 2) establish procedures that allow individuals access to their records, 3) maintain files on all disclosures about beneficiaries to other organizations, and 4) maintain records for an individual's review and correction.

Development of a program to measure Part B contractor performance was begun in January 1974. The data obtained from this program will be used as a tool to rank the relative overall performance of the Part B contractors. This program is expected to be fully operative in the latter part of FY 1976. One other significant improvement planned to begin in FY 1976 and continue into 1977 is the development of a quality assurance review program of Part A contractor performance.

II. Perkins Committee Report

In February 1973, the Secretary of DHEW appointed the Advisory Committee on Medicare Administration, Contracting and Subcontracting (the Perkins Committee) to advise him and the Commissioner of Social Security concerning broad organizational and operational matters, contract formulation, and reimbursement principles applicable to Medicare contracts and subcontracts. The Committee report, released in June 1974, contained recommendations designed to result in more efficient and economical administration of the Medicare program. The broad issues covered in the report include measuring carrier performance, actions to be taken against a poorly performing carrier, incentives for high carrier performance, and increasing competition in the field of data processing for the Part B (physician services) program.

A tracking system has been established within the Social Security Administration for following each of the recommendations of the Perkins Committee through evaluation and implementation. A report requested by the

Senate Committee on Appropriations on actions to implement the Perkins Committee recommendations, or reasons for not doing so, was forwarded to the Committee on August 19, 1975. This report indicates SSA's general concurrence with the major thrust and theme of the Perkins Report recommendations and explains the steps SSA has taken to implement many of them.

For example, several of the recommendations were aimed at improving carrier performance. In this regard, SSA will, during fiscal year 1976, award a contract to a private management firm for the purpose of assisting SSA in designing improved standards for carrier performance. These standards will provide the basis for rewarding high carrier performance and for terminating contracts with poorly performing carriers. By placing greater emphasis on measuring and evaluating the results of carrier performance SSA expects that a reduction of the Federal role in carrier decision-making will result. Concurrently, the Department of HEW intends to improve the consultative role of carriers by soliciting carrier views as early as possible in making major Medicare decisions affecting carrier interest, by enhancing the role of carrier representative groups, and by holding an annual conference for carrier and Department executives.

In order to carry out Perkins Committee recommendations to reduce Medicare sponsorship involvement in the government financed Model B System, SSA has sent a letter to the contractors informing them they have the option of deciding (by the end of March 1976) whether they want to continue to rely on SSA for the maintenance of the Model B System or if they prefer to subcontract for this service by the competitive procurement process or to perform their own maintenance in-house.

In order to implement the recommendation to improve and expedite subcontracting decisions (that is, to improve the procurement process for EDP subcontracts and to separate the EDP subcontract decision-making process), SSA has established time limits for approval of EDP subcontracts. In addition SSA is developing detailed specifications, explicit factors and weights to be used in the evaluation of proposals and improved bid procedures to insure objectivity in the evaluation process.

The Perkins Committee also recommended developing improved cost reporting and cost accounting guidelines. SSA already has incorporated into the provisions of the recently negotiated contracts these cost accounting standards. Furthermore, SSA plans to conduct a study of the extent of variation in cost reporting among contractors with the objective of standardizing cost reporting to the extent possible.

SSA also has implemented recommendations to use Carrier Conflict of Interest Questionnaires, to allow carrier joint ventures, and to make an independent feasibility study of benefits from regional processing centers.

III. Utilization Review

New utilization review regulations are currently being prepared. The overall objective of the revised regulations are to insure that patients receive quality care and that there is an effective and efficient utilization of health services and facilities. These proposed regulations will complement the Professional Standards Review Organization program (PSRO) which was authorized by the 1972 Social Security Amendments. PSRO's are organizations or practicing physicians in local areas who will review the delivery of health services to assure that they are both necessary and provided in accordance with professional standards. Toward this end, PSRO's have been given the authority to delegate this responsibility to hospital

utilization review committees if the PSRO determines that the hospital can effectively perform the review function. Accordingly, the new utilization review regulations are expected to increase the effectiveness of hospital utilization review committees to a point where the PSRO's will be able to delegate much of the routine review function. In doing so, the PSRO's would then be able to concentrate their own review efforts in areas of questionable professional activity.

The health insurance contractors have played a significant role assisting hospitals in the establishment of utilization review programs and improvements of existing utilization review programs, and toward this continuing effort SSA has budgeted over $6,000,000 for the contractors in fiscal year 1977.

IV. Productivity Improvement in the Medicare Contractors

The 10.6% increase in work output in the health insurance contractors in FY 1977 is more than offset by savings resulting from a projected 11.8% improvement in productivity in 1977. Productivity improvement for 1976 is budgeted at 5.5%.

The 1977 increase is a goal based on the assumption that the economies realized in FY 1975 when productivity increased by 13.8% can again be realized in FY 1977. Although the budget is based on achieving this rate, we plan to reevaluate its attainability once 1976 experience is known. The principal factor contributing to this productivity improvement is the continuous growth in the amount of workloads processed by the contractors on new or upgraded automatic data processing systems. By the end of fiscal year 1977, almost 55 percent (as compared to almost 50 percent in 1976) of the Part A contractor (Blue Cross plans, for example) workloads will be processed via automated systems. The Part B contractors (Blue Shield plans, for example) are further ahead in using automated systems, to process claims. It is expected that by the end of 1977 84 percent (an increase of about 5 percent over 1976) of the Part B workloads will be processed by computer systems. Improvements to the bill and claims processing operations also will result in administrative savings. For example, the increased use of cathode ray tube terminals by the contractors to input claims data, eliminates key-punching work. In FY 1977 it is expected that an additional 7 percent of the Part B workloads will be processed by systems using cathode ray terminals. The State health agency personnel are also expected to increase their productivity as they become more experienced and receive better training in methods of inspecting providers of health services.

V. Money Requirements

The cost of administering this activity in 1977 is budgeted to increase by $53,561,000; $38,742,300 of which is for the costs of health insurance contractors, $1,163,000 is for State health agencies, and $13,655,700 is for components of the Social Security Administration. The $38,742,300 net increase in the health insurance contractors is due to the following factors:

Factor	Amount
1. Mandatory increase in salaries	$+29,258,600
2. Increases in the cost of supplies, equipment, postage	+14,584,600
3. Savings due to productivity increase in 1977 (11.8%) exceeding increase in work output (+10.6%)	-5,100,900
Net increase	$+38,742,300

The $13,655,700 increase for the SSA proper includes $1,404,353 in payroll costs and $12,251,347 in other object costs. Virtually all of the payroll cost increase is for annualization of the 1976 pay raise. The increase in other objects costs is due primarily to this activity's share of the significant increase in SSA's telecommunications and computer costs. In the State health agencies, almost all of the $1,163,000 increase in FY 1977 is attributed to increase in the salaries of State personnel.

The table below summarizes the budget estimates for this activity by major component:

	1976 Estimate	1977 Estimate	Change
Social Security Administration			
Personnel compensation and benefits	$130,567,447	$131,971,800	$+1,404,353
Other expenses	60,197,553	72,448,900	+12,251,347
Subtotal	$190,765,000	$204,420,700	$+13,655,700
Medicare Contractors			
Hospital insurance contractors (Part A)	$137,721,000	$149,833,500	$+12,112,500
Provider audit (Part A)	44,153,100	44,656,700	+503,600
Medical insurance contractors (Part B)	302,400,900	328,527,100	+26,126,200
Subtotal	$484,275,000	$523,017,300	$+38,742,300
HI State Agencies	$21,493,000	$22,656,000	$+1,163,000
Total	$696,533,000	$750,094,000	$+53,561,000

Supplemental Security Income Program

	1976 Estimate	1977 Estimate	Increase or Decrease
Supplemental security income program	* $495,787,000	$500,352,000	+$4,565,000
Positions	22,000	22,000	---
Man-years	21,365	20,930	-435

Scope of Program

Funds requested for this activity provide for the administration of the Supplemental Security Income program for the aged, blind, and disabled which became effective January 1, 1974. In addition to Federal administration of the basic SSI program, title XVI of the Social Security Act enables States to enter into agreements with the Secretary of DHEW for Federal administration of State mandatory or mandatory and optional supplementation payments. The Federal government is currently administering the mandatory supplements of 28 States and the District of Columbia and the optional supplements for 17 States. Under terms of the agreements, the Federal government bears the costs of administering these State supplementation payments. All administrative expenses of both the Federal and State supplementation programs are covered by this activity.

Because the administration of this program is integrated with that of the social security insurance programs, the administrative costs of all of these programs are carried in the Salaries and Expenses appropriation which is financed from the trust funds. The Social Security Act authorizes reimbursement to the social security trust funds to pay the administrative costs of the Supplemental Security Income program, as these costs are determined through analysis. Reimbursement to the trust funds is made throughout the fiscal year based on an estimate of the SSI share of the total administrative effort of the agency. Included in the estimate are program direction, central servicing and other across-the-board costs which are allocated to the SSI program as well as to the social security program. Final accounting including any interest due the trust funds, is determined based on actual data after the year is over. A system will be put into effect this year which will make a monthly determination of costs which will replace the use of the estimate mentioned above. Another appropriation account, "Supplemental Security Income Program," includes a request for $500,352,000 to reimburse the social security trust funds in fiscal year 1977 for the administrative expenses of the SSI program.

The funds of this activity in fiscal year 1977 cover the following work: (1) the initial determination of eligibility of persons aged 65 and over and blind and disabled persons regardless of age; (2) reevaluation of determinations to deny or terminate payments when such reevaluation is requested by the claimant; (3) updating the individual's supplemental security record to assure proper and correct payments; and (4) investigation of the recipient's continuing entitlement to payments including periodic redeterminations of eligibility. The administrative costs budgeted for this program also include the cost of paying State agencies for determining the existence and continuance of a disability and the cost of paying State welfare agencies for performing certain income level computations.

Workloads

A. Recipients

The following table displays the annual trend in growth of the supplemental security income recipient population and the benefits paid.

Recipients at End of Fiscal Year
(In Thousands)

Fiscal Year	Aged	Blind and Disabled	Total	Payments made During Year
1974 Actual 1/.....	2,093	1,491	3,584	$2,443,850,000
1975 Actual.....	2,268	1,829	4,096	5,435,055,000
1976 Estimate.....	2,425	2,240	4,665	5,940,000,000
1977 Estimate.....	2,565	2,605	5,170	6,540,000,000

The "payments made during year" column in the table above includes both Federal payments and State funds paid for State supplementary programs administered by the Federal government. The recipients columns include recipients of both Federal and federally administered State supplementation payments.

B. Work Output

1. Social Security Administration

a. Workload Units

A 1.3 percent decrease in workload units is projected in fiscal year 1977 over 1976 for the Social Security Administration proper. The principal indicators of the workload volume in this activity are:

	1976 Estimate	1977 Estimate	Difference 1977 over 1976 Volume of work	Difference 1977 over 1976 % Change
Claims applications from the aged:				
Receipts.....	415,000	410,000	-5,000	-1.2
Processed.....	420,000	411,000	-9,000	-2.1
Claims applications from the blind and disabled:				
Receipts.....	1,200,000	1,060,000	-140,000	-11.7
Processed.....	1,207,000	1,064,000	-143,000	-11.8

1/ SSI program was in effect for only 6 months of this fiscal year.

	1976 Estimate	1977 Estimate	Difference 1977 over 1976 Volume of work	% Change
Average number of Recipients	4,494,000	5,035,000	+541,000	+12.0
Appellate actions 1/	211,160	212,200	+1,040	+.5
Maintenance of the rolls	4,494,000	5,035,000	+541,000	+12.0
Continuing eligibility review 2/	6,684,000	7,406,000	+722,000	+10.8
(Redeterminations included above)	(4,378,000)	(4,665,000)	(+287,000)	(+6.6)

1/ Fiscal year 1976 includes 182,000 interviews on adverse decisions and reconsiderations on disability decisions and 29,160 formal hearings and appeals. The comparable figures for fiscal year 1977 are 176,000 and 36,200.

2/ These include representative payees for SSI recipients, all disabled and blind recipients subject to a review of their continuing disability and all SSI recipients subject to a redetermination of their income and assets and other eligibility factors.

b. Backlog Reduction

The abnormally high backlogs of initial claims built up in the first few months of the program were processed in FY 1975 and since then SSA has been processing current claims. Median processing times are 30 days for an aged claim and 60 days for a disabled claim, compared to median times of 60 and 90 days, respectively, a year ago. The table below illustrates the steady decline in backlogs. By the end of 1977 the backlogs will simply represent normal work in the pipeline at year's end.

End of Year Backlogs

	FY 1975 Actual	FY 1976 Estimate	FY 1977 Estimate
SSI Aged Claims	13,739	8,739	5,739
SSI Blind and Disabled Claims	117,822	83,222	77,122
SSI Hearings	17,041	18,341	4,741
SSI Appeals	1,599	3,139	1,609

c. Qualitative Improvements

Although workload units decrease by 1.3 percent, work output for this activity increases by 6.9 percent, principally because of qualitative improvements in the SSI claims process.

The agency-wide effort to implement the SSI program and bring backlogs under control throughout FY 1974 and 1975 adversely affected the quality of SSA's service to the public and the accuracy of SSA decisions in all programs, especially SSI. This decline in service manifested itself in high error rates which have become the subject of concern to SSA, the Congress and the media. Nearly 1,600 man-years are budgeted in FY 1977 for an effort to improve the quality of SSA's work in the SSI program. This manpower will permit a more careful, thorough and complete recipient interview in both the initial claims and redetermination process including a more complete explanation of the recipient's rights and responsibilities in SSI cases. We expect that these improvements to the interview process will reduce errors and improve processing times.

Extremely high backlogs in SSI claims throughout FY 1974 and much of FY 1975 caused SSA to take extreme shortcuts to get the SSI workloads under control. High levels of overtime were worked and employee training, notably in the SSA field offices, was shortened to get the new employees into the work force faster and to devote more time throughout the working day to processing claims. Now that backlogs are under control attention is focused back on training and a high level of SSI training is planned to continue during FY 1977. 2,510 MY's of training are budgeted for the SSI program in FY 1976 and 2,624 MY's in FY 1977. Training manpower budgeted in FY 1977 will concentrate on strengthening those areas which have been identified as causing erroneous payments.

d. Redeterminations

	FY 1976	FY 1977
Processed workloads		
Converted cases	2,738,000	2,400,000
Federal cases	1,325,000	1,915,000
Unscheduled	315,000	350,000
Total	4,378,000	4,665,000

Derivation of Redeterminations Man-Year Requirements

Man-years used in prior year	2,935	5,349
Changes in Man-Year Requirements Due to:		
Increase in workload units	+2,612	+164
More time spent per redetermination to increase quality	+336	+544
Procedural systems and other processing improvements	-534	-899
Total 1976 and 1977 Man-years budgeted	5,349	5,158

The Social Security Administration plans to make a continuing effort in both 1976 and 1977 to step up the number of redeterminations processed and to improve the accuracy of the redeterminations. This will require additional manpower over that used in 1975 (2,935 man-years) when 2.3 million redeterminations were completed. The budget projects savings in SSI benefit payments of $190 million in 1976 and $345 million in 1977 to result from the redetermination process and other efforts to improve accuracy.

The man-year increases for improvements in quality in 1976 and 1977 are more than offset by improvements in SSI systems and procedures and higher productivity achieved from a better trained, more experienced and more stable staff. One of the procedural changes under consideration for FY 1977 is the mailing of redetermination questionnaires directly to SSI recipients for them to fill out. This could be done only in certain low risk cases where the savings from the redetermination could be expected to be less than the administrative costs of processing the redetermination in the regular manner (through personal contact between SSA district office employees and the recipient).

e. Man-Years

In fiscal year 1977 man-year requirements in SSA for the SSI program decrease by 435 man-years. This decrease is entirely in overtime man-years. The permanent position level remains the same as in 1976 (22,000 permanent positions). This decrease is the net result of a 6.9% increase in work output worth 1,477 man-years, more than offset by a decrease of 1,912 man-years due to improvements in SSI administration. These improvements result from better employee proficiency due to more training and experience with the new program and a more stable work force. The substitution of permanent for term employees will contribute significantly to improved performance. Another reason for increased productivity in this activity relates to improvements in the SSI automated system and claims process which will reduce the amount of manual actions required to place SSI recipients in payment status. The system improvements will enable SSA to handle more cases and more types of claims actions within the automated SSI system. Another procedural change improving productivity in FY 1977 will be the mailing of redeterminations directly to some SSI recipients. This will be done in low-risk cases only where the costs of making the redetermination will exceed the savings to be derived from them.

2. Disability State Agencies

State agencies are under contract to make disability determinations in the SSI program just as they do in the disability insurance program. In fiscal year 1977, the volume of work done by the State agencies is expected to decrease by 10.8 percent. This decline in output is due primarily to a decline in the number of SSI claims to be received by the State agencies in 1977. The SSI workload indicators of the work output volume for State agencies are:

	1976 Estimate	1977 Estimate	Difference 1977 over 1976 Volume of work	Difference 1977 over 1976 % Change
SSI Disability Determinations				
Receipts.....	1,151,400	1,025,100	-126,300	-11.0
Processed.....	1,155,700	1,029,700	-126,000	-10.9

A productivity decrease of 1.7 percent is projected for the State agencies in 1977. This is due to increased training needs for State agency employees which parallel the efforts within SSA to improve employee performance through more training. It is also due to the number of SSI claims which require consultative examinations. While these examinations result in added cost and increased time and effort by State employees they will improve the quality of the disability determination and therefore reduce the number of hearings and appeals. These factors, which tend to decrease 1977 productivity, are partially offset by increased employee efficiency in the processing of SSI claims.

State agency requirements for fiscal year 1977 increase by $560,177. The reduced volume of work decreases needs by $10,100,110. However, additional dollars are needed for: (1) increases in State employee salaries +$3,863,250; (2) increases in the unit cost of medical examinations purchased by the State agencies +$3,615,239; (3) overhead and indirect costs +$963,821; and (4) other objects of expenditure +$623,168. Other increases, related primarily to increased use of consultative medical examinations because of the new reconsideration interview process amount to +$1,594,809.

3. State Welfare Agency Contract Costs

Costs of contracts with State Welfare agencies decrease in FY 1977 compared with FY 1976 as shown in the table below.

Contracts for:	1976 Estimate	1977 Estimate	Change
Adjusted payment Level (APL) Recalculation.....	$2,000,000	---	-$2,000,000
Minimum Income Level Maintenance.....	$5,350,000	$4,500,000	-$850,000
Total.....	$7,350,000	$4,500,000	-$2,850,000

In order to insure that the Federal Government pays the correct amount for "hold harmless" protection, SSA contracted with five States in FY 1975 to recalculate their adjusted payment levels (APL), which are the determinants of "hold harmless" payments. Michigan, New Jersey and Wisconsin completed the recalculations by the end of FY 1975. California and New York expect to complete theirs before June 30, 1976.

Minimum Income Level (MIL) maintenance costs are expected to decline in FY 1977. The MIL is the basis for computing the amount of the mandatory State supplementary payment and is a specific dollar amount established for each eligible individual or couple converted from State assistance to SSI rolls. Since the "MIL" is applicable only to these converted recipients and the number on the rolls is declining due to death and cessation of disability, the administrative costs incurred by the States for this purpose should decline.

Summary of Money Requirements

The budgeted increase of $4,565,000 as shown on the table below is the net effect of: (1) A decrease of $4,141,000 in payroll costs which is the net effect of the 435 man-year decrease mentioned above offset by mandatory changes including annualization of the pay raise and periodic within grade promotions and promotions of employees to journeyman levels; (2) an increase of $10,995,823 in other expenses due principally to increased ADP equipment costs and increased costs resulting from expanding and upgrading SSA's communications capability and increased space costs; (3) an increase of $560,177 for State agencies making determinations of disability primarily due to salary and medical examination cost increases partially offset by a 10.8 percent decrease in work output; and (4) a reduction of $2,850,000 in payments to State Welfare agencies resulting from completion of 100 percent APL recalculation and a declining caseload of converted recipients.

	1976 Estimate	1977 Estimate	Increase or Decrease
SSA Proper			
Personnel compensation and benefits	$307,069,000	$302,928,000	-$4,141,000
Other Expenses	88,087,724	99,083,547	+10,995,823
Subtotal	395,156,724	402,011,547	+6,854,823
Payments to Disability State Agencies	93,280,276	93,840,453	+560,177
Payments to State Welfare Agencies	7,350,000	4,500,000	-2,850,000
Total	$495,787,000	$500,352,000	+$4,565,000

Standard Level User Charge (SSI) and Budget for Facilities

	Obligations (Salaries and Expenses)		
	1976 Estimate	1977 Estimate	Increase
Standard Level User Charge (SSI Program).....	$21,037,000	$23,003,000	+$1,966,000

The Social Security Administration pays Standard Level User Charges (SLUC) only for Federal fund programs. The Salaries and Expenses budget estimates include SLUC for the SSI program only. Trust fund programs pay actual cost of space and services. These estimates are discussed in the following narrative.

Background

The SSA facilities budgets for fiscal years 1976 and 1977 are based on the actions of Congress in past years whenever the Standard Level User Charge (SLUC) budget has been considered--most recently in the Second Supplemental Appropriations Act for 1975, and in the House and Senate action on the 1976 Labor-DHEW Appropriations Act. The key Congressional actions which have molded our facilities budget requests have been:

(1) For trust fund programs, SSA should budget only for the actual cost of space and services furnished by GSA in government or non-government buildings.

(2) Trust fund programs requiring newly constructed facilities should budget for these directly from the trust funds through the Limitation on Construction account.

(3) For the Supplemental Security Income program and other programs which are financed from Federal funds, full SLUC should be paid.

Summary of Facilities Budget

The following table summarizes the SSA budget request for facilities rental and related standard services by program (extra services are performed on a reimbursable basis and estimates are included elsewhere in the budget).

	Obligations (All programs)		
	FY 1976 Estimate	FY 1977 Estimate	Change
SLUC 1/			
SSI Program.....	$21,037,000	$23,003,000	+$1,966,000
Black Lung Program.....	1,310,000	141,000	-1,169,000
Subtotal.....	22,347,000	23,144,000	+$797,000
Actual Cost			
Trust Fund Programs.....	57,959,054	65,593,000	+$7,633,946
Total Payment to GSA.....	$80,306,054	$88,737,000	+$8,430,946

1/ FY 1976 estimates are 90% of full SLUC rate per Congressional action.

Explanation of Change

Increase related to higher rental costs and rate changes	+$4,612,143
Annualization of space acquired in 1976	+1,595,803
Expansion requirements to alleviate overcrowding	+2,223,000
	+$8,430,946

The budget request for construction of facilities is explained in the Limitation on Construction account.

Method of Deriving Estimates

The SSA has encountered great difficulties in arriving at its 1976-1977 estimates for facilities costs. At the time the Congress decided that the trust funds should be billed only for actual costs, the General Services Administration had only one method of billing for space - through the Standard Level User Charge System at full SLUC rates. After negotiation the two agencies agreed that GSA (based on pre-SLUC experience) would provide SSA a ratio of actual cost to total SLUC for SSA to use in making an interim payment for trust fund space. Periodically, GSA agreed to furnish SSA the data on GSA's actual cost of providing space and services for the prior period. SSA would then finalize the payment for that period. A provisional payment of $58,866,910 for trust fund space (in addition to $16,740,090 for full SSI SLUC) has been made to GSA on this basis for FY 1975. We are now waiting for the actual 1975 cost data in order to finalize this payment. GSA is encountering difficulties in coming up with this data. However, GSA has been cooperative and indicated that it will provide the information needed.

For 1976 and 1977 SSA, in arriving at its budget estimates for facilities had no actual 1975 data. Therefore, SSA had no choice but to make use of the same ratio of actual cost to total standard level user charge as used in 1975 for its 1975 interim payment to GSA. The ratio which has not been validated was applied to the cost of space occupied and planned expansion for 1976 and 1977. When actual cost data for 1975 are received from GSA, the ratio will undoubtedly change and the 1976 and 1977 estimates will have to be revised.

Payment for GSA Program Direction

In the negotiations between GSA and SSA on what SSA's "actual" costs were for 1975, GSA asked SSA to pay an appropriate share of GSA "program direction" costs. These are costs related to GSA regional and headquarters staff. The Department agreed that program direction had to be considered as a part of the "actual cost" of providing space. Although funds to cover this were not provided in the fiscal year 1975 appropriation, there were savings in other areas which made it possible for SSA to pay the program direction costs. For fiscal year 1975, SSA has paid GSA an additional $3,279,180 and proposes to reprogram $4,700,000 in the 1976 budget to cover program direction costs in that year. In 1977, SSA has included in the S&E request $5,710,000 to cover GSA program direction in that year.

Change in Budgeting for SLUC for SSI

In this budget submission SSA is proposing a technical change in the approach to budgeting for SLUC for the SSI program. The purpose of the change is to show all SSI administrative costs in one place. The fiscal year 1976 revised request and the fiscal year 1977 budget request include in the Salaries and Expenses account funds to pay the actual cost of space and services for all SSA programs including SSI. The fiscal year 1976 President's budget as acted upon by the House and Senate included funds in the SSI appropriation to reimburse the trust funds for the actual cost of SSI program space and funds in the Payments to Trust and Other Funds account to pay GSA the amounts charged in excess of actual costs for space and services used in the administration of the SSI program. In the fiscal year 1977 budget request we propose to budget for the SSI total standard level user charge in the Salaries and Expenses account and to budget for full reimbursement to the trust funds from the SSI appropriation (in the "administration" activity).

SOCIAL SECURITY AIMINISTRATION

Limitation on Salaries and Expenses

Program Purpose and Accomplishments

Activity: Limitation on Salaries and Expenses (section 201(g)(1) of the Social Security Act)

1976		1977		
			Budget Estimate	
Permanent Positions	Budget Authority	Authorization	Permanent Positions	Budget Authority
77,514	$2,397,719,112 1/	Indefinite	79,499	$2,561,773,000

Purpose: The "Limitation on Salaries and Expenses" is an authorization to the Social Security Administration for obligation of up to a specified sum of money from the social security trust funds for administration of the following: (1) the cash benefit programs of old-age, survivors and disability insurance, (2) the Medicare programs of hospital and supplementary medical insurance, and (3) the Supplemental Security Income (SSI) program for the aged, blind, and disabled.

The old-age, survivors and disability insurance programs and the hospital insurance program are financed by contributions, based on earnings, from employees, employers, and the self-employed in jobs, businesses, and professions covered by social security. Supplementary medical insurance is a voluntary program supported from two sources: (1) premium payments from the aged, certain disabled persons, and persons with chronic kidney disease who elect to participate in the program, and (2) Federal matching payments. The SSI program is fully financed from Federal funds. However, section 305 of the Social Security Amendments of 1972 authorized initial advances from the social security trust funds for the administrative expenses of the SSI program, with full reimbursement (with interest) from Federal funds. The cost of administration of the SSI program is carried in this salaries and expenses request because administration of the program is integrated with that of the social security programs for purposes of economy and efficiency. The reimbursement from Federal funds is requested in the appropriation, "Supplemental Security Income Program."

The "Limitation on Salaries and Expenses" covers the administrative costs of: (1) the components of the Social Security Administration itself; (2) State agencies which perform functions for SSA under the disability, Medicare, and supplemental security income programs; and (3) health insurance contractors (i.e. certain Blue Cross and Blue Shield associations and private health insurance companies) which have been designated to process and pay bills and to perform other functions for SSA under the Medicare program.

The Social Security Administration's administrative costs are for the processing of workloads generated by the statutory provisions of the programs it manages. The size of these workloads depends upon demographic and economic factors such as population growth, level of employment, incidence of illness among the aged and disabled, and mortality rates. Thus, for the most part, the amount of work received is not subject to administrative control.

1/Includes proposed supplemental of $22,597,000 for the October 1975 pay raise and $1,983,500 of comparative transfers (net).

Accomplishments in 1976

Major budget emphases for 1976 are as follows:

1. Begin a 2-year effort to improve payment accuracy, processing times, and quality of service. Key elements of this thrust for 1976 are:

   --Provide more training to SSA operations staffs to enable them to do a better job (5,989 training man-years in 1975; 6,935 man-years in 1976)

   --Concentrate on redeterminations of eligibility and payment accuracy in the SSI program (2,935 man-years in 1975; 5,349 man-years in 1976)

   --Undertake total review of SSA operating systems and processes in order to design new advanced operating systems (71 man-years in 1976)

2. Undertake to accomplish new workloads which stem primarily from legislation enacted by the Congress or decisions of the judicial branch, which were not anticipated when the President's 1976 budget was submitted. Such workloads include those resulting from pension reform and privacy legislation, court decisions on due process, and the launching of the "direct deposit" program (686 man-years in 1975; 1,984 man-years in 1976).

3. Improve the stability of the SSA work force by substituting 6,000 full-time permanent for 6,000 2-year term positions.

4. Install four new computer systems to improve computer capacity, and improve and expand the SSA telecommunication network which links field offices to the central computer complex in Baltimore.

Some of the specific accomplishments scheduled for fiscal year 1976 in the cash benefits and Medicare programs include:

1. Making monthly cash payments to an average of 27,699,000 retirement and survivor beneficiaries and 4,357,000 disability beneficiaries.

2. Taking 4,077,000 new claims for retirement and survivor insurance benefits and 1,872,000 new claims for disability benefits.

3. Making payment to providers for health care services furnished to 5,715,000 individuals under the hospital insurance program, which will involve processing 11,895,500 claims for hospital insurance benefits; and reimbursing providers for services furnished to 13,240,000 individuals under the supplementary medical insurance program, which will involve processing 107,526,600 claims for physicians' and other medical services.

4. Maintaining earnings records for approximately 102,000,000 active workers, as a base for determining eligibility to social security benefits and the benefit amounts. This will involve posting 393,228,000 wage items to the earnings records in fiscal year 1976.

5. Issuing 12,542,100 new social security numbers, including 800,100 for the Internal Revenue Service to enumerate spouses of taxpayers, 5,625,000 to start the enumeration of the "Aid to Families with Dependent Children" rolls and 6,117,000 which is the regular ongoing work.

6. Continuing the conversion of social security number paper files to an electronic record. In addition to the efforts of the Social Security Administration, $14,100,000 is included to reimburse the Internal Revenue Service for its portion of the work connected with the project.

Specific tasks for fiscal year 1976 involved in the Supplemental Security Income program include:

1. Taking claims from 1,615,000 individuals for benefits under the SSI program. This includes claims from 415,000 aged applicants and 1,200,000 blind and disabled applicants.

2. Processing 4,378,000 redeterminations of eligibility and current payment amount for SSI recipients, including approximately 2,700,000 scheduled for beneficiaries converted from State assistance programs and approximately 1,300,000 scheduled redeterminations of new Federal claims taken in 1974 and 1975. The remaining redeterminations budgeted would be non-scheduled ones, undertaken as a result of routine contacts with recipients.

3. Maintaining and servicing the records of an average of 4,495,000 recipients during FY 1976. This includes 4,060,000 recipients of Federal payments and about 435,000 additional persons who receive only a State supplementation payment which is administered by the Social Security Administration.

4. Improving the automated systems for processing SSI work.

The overall work output during 1976 by Social Security Administration personnel is budgeted to increase by 11.7 percent over the prior year. Also in 1976, SSA's productivity is budgeted to increase by 5.6 percent resulting in savings of 4,940 man-years.

The Social Security Administration's obligations in fiscal year 1976 for performing administrative tasks necessary to carry out the social security cash benefit, supplemental security income and Medicare programs is budgeted at $2,372,719,112. (This figure does not include the $25 million contingency reserve; however, it does take comparative transfers into account.) Of this amount, $753,542,000 or 31.8 percent is for third parties. The obligations budgeted for the Social Security Administration proper break down into $1,233,542,000 for personnel compensation and benefits and $385,635,112 for other objects of expense.

Objectives in 1977

Major budget emphases for 1977 are as follows:

1. Continue the 2-year effort begun in 1976 to improve payment accuracy, processing times, and quality of service. Key elements of the thrust for 1977 are:

   --Continue training of SSA operations staffs at high 1976 level (6,977 man-years for 1977)

   --Continue concentration on redetermination of eligibility and payment accuracy in the SSI program (5,158 man-years for 1977)

   --Continue total review of SSA operating systems and processes in order to design new advanced operating systems (214 man-years for 1977)

   --Devote more effort to improve quality of claims and post-entitlement development, especially in SSA's district offices (+1,855 man-years in 1977)

--Extend free telephone service to the approximately 20 percent of the public who presently must pay long distance charges to contact a social security district office ($6,500,000 in 1977).

2. Continue efforts to deal with new workload responsibilities stemming from due process court decisions, the Privacy and Pension Reform Acts, and the "direct deposit" program (1,107 man-years in 1977)

3. Reduce appellate backlog to a more manageable level (reduce social security and SSI hearings backlog from 87,000 on June 30, 1976, to 34,000 on September 30, 1977).

4. Reduce overtime to a level of 5 percent of total man-years in 1977 (6,320 man-years of overtime in 1976 and 4,487 man-years in 1977)

5. Install four new computer systems in 1977 to further improve computer capacity, and improve and expand the SSA telecommunications network which links field offices to the central computer complex in Baltimore.

Some of the specific accomplishments scheduled for 1977 in the cash benefits and Medicare programs are:

1. Making monthly cash payments to an average of 28,564,000 retirement and survivor beneficiaries and 4,713,000 disability beneficiaries.

2. Taking 4,143,000 new claims for retirement and survivor insurance benefits and 1,979,000 new claims for disability benefits.

3. Making payment to providers for health care services furnished to 5,925,000 individuals under the hospital insurance program, which will involve processing 12,718,300 claims for hospital insurance benefits; and reimbursing providers for services furnished to 14,240,000 individuals under the supplementary medical insurance program, which will involve processing 121,383,400 claims for physicians' and other medical services.

4. Maintaining earnings records for approximately 106,000,000 active workers, as a base for determining eligibility for social security benefits and benefit amounts. This will involve posting 414,144,000 wage items to earnings records in fiscal year 1977.

5. Issuing 7,120,000 new social security numbers, including 1,687,000 to continue the enumeration of the "Aid to Families with Dependent Children" rolls and 5,433,000 which is regular ongoing work.

6. Continuing the conversion of the social security number paper files to an electronic record. In addition to the efforts of the Social Security Administration, $21,000,000 is included to reimburse the Internal Revenue Service for its portion of the work connected with the project.

7. Implementing payment of automatic benefit increases in July 1976 (during the transition quarter) and in July 1977, based on increases in the cost-of-living, as required by law.

Specific tasks for fiscal year 1977 involved in the Supplemental Security Income program are:

1. Taking claims from 1,470,000 individuals for SSI benefits, including 410,000 claims from the aged and 1,060,000 from the blind and disabled.

2. Processing 4,665,000 redeterminations of eligibility and current payment amount for SSI recipients.

3. Maintaining and servicing the records of an average of 5,035,000 recipients during FY 1977. Included in this total are 4,510,000 recipients of Federal payments and 525,000 who receive only a State supplementation payment which is administered by the Social Security Administration.

4. Further improving automated systems and procedures for processing SSI claims work and post-entitlement actions.

5. Implementing payment of automatic benefit increases in July 1976 (during the transition quarter) and in July 1977, based on increases in the cost-of-living, as required by law.

Work output of the Social Security Administration, including third parties, is budgeted to increase in fiscal year 1977 by 3.6 percent over fiscal year 1976 levels. SSA's productivity is budgeted to increase by 3.6 percent, resulting in savings of 3,159 man-years. Most of these manpower savings are related to procedural and other changes to improve the current methods of handling workloads. The most significant procedural change is the improvement in the automatic systems SSA uses to process SSI and title II work. Major savings also should result from a more fully trained and experienced staff anticipated during 1977.

The SSA obligations in fiscal year 1977 of performing administrative tasks necessary to carry out the social security cash benefits, supplemental security income and Medicare programs is budgeted at $2,536,773,000. (This figure does not include the $25 million contingency reserve.) Of this amount, $811,722,000 or approximately 32 percent is for third parties. The obligations budgeted for SSA-proper break down into $1,255,716,000 for personnel compensation and benefits and $469,335,000 for other objects of expense.

Transition Quarter Analysis

	Obligations by Activity	
	1976 Estimate	Transition Quarter
1. Old-age and survivors insurance:	$716,815,112	$187,343,811
2. Disability Insurance	$463,584,000	$121,175,041
3. Health Insurance:		
a. Hospital insurance:	$199,208,000	$ 52,091,623
b. Supplementary medical insurance:	$497,325,000	$129,981,006
4. Supplemental security income:	$495,787,000	$129,608,922
Total Obligations.....	$2,372,719,112	$620,200,403
Plus: Contingency reserve.....	+25,000,000	+25,000,000
Total Budget Authority[1/].....	$2,373,133,612	$629,900,403

Explanation

The transition quarter request is to enable the Social Security Administration to continue carrying out the social security programs during the 3 month transition period. The total budget authority is based on the assumptions that no program expansions or new program initiatives will take place during the transition quarter. Generally, workloads in this summer period are lower; but the use of manpower is higher, because SSA makes heavy use of summer programs for disadvantaged youth to fill in for employees on summer vacation. Also, beginning in the transition quarter, the budget request includes a proposal to enable SSA to increase its full time permanent staff by 1,985 authorized positions by the end of the transition period. The purpose of this increase is to enable SSA to achieve the maximum amount of permanent position man-years in 1977. The end-of-year permanent employment budgeted is about the same for September 30, 1977 as it is for June 30, 1976.

1/ Includes supplementals for October, 1975 pay raise of $22,597,000 for 1976 and $15,300,000 for the transition quarter. The 1976 column also includes comparative transfers of $1,988,500.

LIMITATION ON CONSTRUCTION (TRUST FUND)

WEDNESDAY, MARCH 17, 1976.

WITNESSES

FRANCIS DeGEORGE, ASSOCIATE COMMISSIONER
FRED SCHUTZMAN, DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
PHILIP A. O'BRIEN, ACTING BUDGET OFFICER, OFFICE OF FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND ADMINISTRATION
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER

Mr. NATCHER. We now turn to the final social security account, "Limits on construction." The presentation is to be made by Mr. Frank DeGeorge. Mr. DeGeorge, we have examined your statement and we will insert it in the record at this point along with your biographical sketch and proceed with the questions.

[The statement follows:]

BIOGRAPHICAL SKETCH OF FRANCIS D. DEGEORGE

Position: Acting Associate Commissioner for Management and Administration, Social Security Administration, Department of Health, Education, and Welfare since January, 1975.

Former Positions: Assistant Commissioner for Administration, Social Security Administration, December 1973–December 1974; Associate Administrator for Management, Social and Rehabilitation Service, December 1972–December 1973; Assistant Administrator for Financial Management, Social and Rehabilitation Service, March 1971–December 1972; Treasurer, Systematics General Corp., McLean, Va., 1969–1970; Vice President, Alloys Unlimited, New York, N.Y., 1968–1969; Vice President, Amecom Division, Litton Industries, College Park, Maryland, 1966–1968; Vice President, Finance, Education Group, Litton Industries, White Plains, N.Y., 1965–1966. Other positions in Litton Industries and E. I. DuPont, 1953–1965; Military Service—U.S. Marine Corps: 1951–1953, First Lieutenant, Lieutenant Colonel, USMCR.

Education: LaSalle College, Philadelphia, Pa., BS—Accounting, 1951; University of Delaware, Newark, Delaware, MBA—Business Administration, 1956.

Affiliations: American Management Association; Institute of Electrical and Electronic Engineers, Inc.; Chairman of the HEW Board of Grant Appeals; Member of the Educational and Rehabilitation Advisory Committee of the Veterans Administration.

Awards: The Secretary's Special Citation for service performed as Chairman of DHEW's Department Grant Appeals Board, 1974.

The Social Security Administration is requesting $14,400,000 in budget authority from the social security trust funds for fiscal year 1977 to make purchase contract payments on three new program center buildings. Also, we are seeking permission to use in fiscal year 1976, $3,767,326 or previously authorized district office funds for other construction purposes which I will discuss later. Similar requests were approved by the Congress in the past 2 years.

As directed by the Congress, the Social Security Administration continues to budget for construction needs in this separate social security trust fund construction account rather than through the Federal Buildings Fund of the General Services Administration.

REVIEW OF CONSTRUCTION

Construction at the headquarters complex in the Baltimore metropolitan area is to provide adequate and appropriate facilities to house the personnel and equipment required to administer and support the social security programs. In fiscal year 1976, we plan to obligate about $2 million to complete land purchase for headquarters projects and to construct an access road from the Social Security Administration parking area to route I–70.

In June 1975, the Congress approved plans for a computer center building at the headquarters complex in Woodlawn, Md. and a new building in downtown Baltimore to consolidate operations now housed in three leased facilities in the city. These projects were authorized through the purchase contract method of construction so no funds are included in this request for this construction. However, we request permission to use $2,100,000 of funds previously authorized for district office construction to finance the General Services Administration project management costs for the construction phase of these two headquarters projects. Of this amount, approximately $1 million is for 1976 and the remainder for subsequent years.

DISTRICT OFFICE CONSTRUCTION

Our policy is to construct district offices in locations where federally owned or commercial space is not available or is not suitable for our program needs. To date, we have constructed 76 offices under this policy. Currently, we are planning the expansion of 26 of these offices and the budget earmarks $1,700,000 in 1976 for this purpose out of previously authorized funds.

No new budget authority for district office construction is requested for fiscal year 1977 because about $20 million still remains available from previous appropriations. New starts in the construction of district office buildings have lagged in recent years because the new supplemental security income program changed the workload patterns and introduced a greater element of uncertainty in planning for district office space needs. Further, due to rapid expansion of field facilities to meet the immediate needs of the SSI program, SSA had to acquire space quickly through lease rather than the longer time frame required for construction. We now plan to resume the district office construction program and we are working on procedures to shorten the time involved in site selection and construction. We will continue to keep the committee informed of our plans.

PROGRAM CENTER CONSTRUCTION

Three new program center facilities have been under construction and SSA moved into the Richmond, Calif. and Philadelphia, Pa. facilities in the first quarter of the fiscal year. Occupancy of the new facility in Chicago is scheduled for the April–June quarter of this year. The completion of this building was delayed by early problems with the foundation and strikes. These facilities were constructed under the purcase contract granted in the Public Building Amendments of 1972. This authority expired on June 30, 1975. We will obligate $10,320,250 in 1976 and $5,932,200 in the transition quarter for the purchase contract payments on these buildings. These amounts are higher than our previous estimates because we underestimated the amount of the local tax liability. We plan to fund these higher amounts with the permission of the committee, by reprograming $1,667,326 of district office funds and through the use of the remaining $1,085,124 of the funds appropriated in 1972 for payment center site and design. In fiscal year 1977, the budget projects the full annual payment of $14,400,000 on these three buildings.

UNOBLIGATED BALANCES

Mr. NATCHER. Last year, you told us there would be an unobligated balance at the end of 1976 of $1.5 million. Now you show $15 million. Have your plans changed that much, Mr. DeGeorge?

Mr. DEGEORGE. No, our plans haven't changed. It's just that we didn't obligate as much from our district office account as planned during 1975. I would guess that $15 million is a more accurate estimate.

HEADQUARTERS CONSTRUCTION

Mr. NATCHER. What is the current status of your headquarters construction projects? Some of them were started, I believe, 10 years ago. Why the long delay now?

Mr. DEGEORGE. Actually, Mr. Chairman, all the present buildings which were built using direct construction funds are complete. We are completing an access road, some land purchases and we have requested the permission of this committee to reprogram funds from the district office activity to the headquarters activity essentially in order to start the necessary project management and direction for the two new headquarters buildings which are being built in the Baltimore area.

We have received permission from both the Appropriations Committee and Public Works Committee to build a new computer facility at a cost of $68 million in the Woodlawn facility and second, a large office building in downtown Baltimore, at about $98 million, which will replace several substandard buildings we lease in Baltimore.

Mr. NATCHER. You have a reprograming request of $2.9 million for headquarters projects in 1976.

Mr. DEGEORGE. The reprograming request is for $2.1 million. We also plan to obligate some funds remaining from prior years' appropriations.

Mr. NATCHER. Briefly, what is this, Mr. DeGeorge?

Mr. DEGEORGE. The obligations from prior appropriations are for an access road leading from the new I–70 route to our parking lot in order to avoid a great deal of our traffic problems. The reprograming is to cover GSA project management costs for the two new buildings I just mentioned, Mr. Chairman. It is in order to get ahead.

NEW COMPUTERS

Mr. NATCHER. You are planning a major expansion of your computer system. Give us an idea of the cost and what you need.

Mr. DEGEORGE. We feel now is the time to take a leap forward in our computer technology. We feel it is a once-in-a-lifetime opportunity to review the SSA operating systems and processes and replace our existing processes with the new ones that will be more efficient and more responsive to the public's needs. This will coincide with our move into the new computer building. We discussed this 2 years ago and the building has finally been authorized, at a cost of $68 million. This is essentially to build a specifically designed computer facility onsite since we do have to have increased space.

DISTRICT OFFICE CONSTRUCTION

Mr. NATCHER. What is the current situation concerning district office construction and tell us if it has stopped at this time?

Mr. DEGEORGE. It has momentarily stopped. Mr. Bynum and myself have worked with GSA and have reached a verbal agreement with General Services, to reinstitute direct construction of district offices with trust fund money.

Mr. NATCHER. Do you see much expansion of district offices needed over the next 5-year period?

Mr. DeGeorge. I will turn that one over to Mr. Bynum.

Mr. Bynum. We are pretty much on a hold right now. I think barring major program changes, there won't be much over the next 5 years.

Mr. Natcher. Do you think it more economical to rent space or construct your own space?

Mr. DeGeorge. Generally, I think it is more economical to build.

Mr. Natcher. What is your opinion as to the purchase contract method of construction?

Mr. DeGeorge. It has the advantage of not calling for very large outlays of trust fund moneys or revenues in 1 year. From the economic analysis which OMB and GSA have worked out it shows long-term costs equivalent. I don't consider myself an expert in this area.

PROGRAM CENTERS

Mr. Natcher. How many program centers do you have at the present time?

Mr. DeGeorge. We have six. I believe four of those are new.

Mr. Natcher. Are you going to need more in the next 5 years?

Mr. DeGeorge. I would say that is sort of a two-pronged question. That would depend on what our ultimate system processes and configuration may be and what methodology we employ for claims adjudication. We frankly don't know at this point, sir.

TRANSFER OF FUNDS

Mr. Natcher. Mr. Early.

Mr. Early. Can you transfer moneys.

Mr. DeGeorge We can transfer with the permission of this committee; yes, sir.

Mr. Miller. It is not between appropriations, Mr. Early. It is not a transfer of appropriations.

Mr. Early. What was this $2.1 million transfer used for?

Mr. DeGeorge. As I said before, this is for GSA project management costs for the two new headquarters buildings.

DISTRICT OFFICES

Mr. Early. How many district offices do we have?

Mr. DeGeorge. 1,300, district and branch offices.

Mr. Early. How much property do we own?

Mr. DeGeorge. We own 76 district offices, also the headquarters in Woodlawn.

Mr. Early. Would you know offhand what type of bonds you use for that?

Mr. DeGeorge. For the purchase of the buildings?

Mr. Early. No; construction.

Mr. DeGeorge. Trust funds.

Mr. Early. And you don't bond?

Mr. DeGeorge. No, sir.

Mr. Early. So, you have no mortgage on those?

Mr. DeGeorge. No.

ASSESSED VALUE OF BUILDINGS

Mr. EARLY. When we actually say to Mr. Michel that we have a deficit of $2½ billion, is the assessed value taken into consideration?

Mr. DEGEORGE. No, sir. Generally when showing the operations and financial status of any Government fund, we are primarily interested in those assets that represent undisbursed funds and are relevant to the actuarial status of the funds. Since fixed capital assets are not available for benefit payments, they are not relevant to the actuarial status of the trust funds.

Mr. EARLY. I think we might be wrong in not considering them as investments.

Would you supply a record of assessed valuation?

Mr. DEGEORGE. There used to be a Treasury bulletin which reported on financial operations of the Government and included capital assets, In recent months they have changed to showing cash transactions.

Mr. EARLY. Fine. Will you supply this for the record?

Mr. DEGEORGE. Yes. I will submit a copy of the pages from the February 1975 Treasury Bulletin.

[The information follows:]

Section I - Financial Statements of Government Agencies and Funds

Table GA-I-1. - Statements of Financial Condition, June 30, 1974—Continued

(In thousands of dollars)

Account	Health, Education, and Welfare Department - Continued						
	Educ. Division - Continued	Social and Rehabilitation Service			Social Security Administration		
	Office of Asst. Secretary for Educ. - Cont.		Memo:			General Funds	
	Memo:	Total	Funds transferred from others	Funds transferred to others	Total	Total	Memo: Funds transferred to others
	Funds transferred from others						
ASSETS							
Selected current assets:							
Fund balances with Treasury:							
Budget funds	3,351	3,957,229	15,034	144,821	409,751	95,165	11,437
Budget clearing accounts	-	*	-	-	*	-	-
Deposit funds	-	*	-	-	684	584	-
Foreign currency funds	-	-	-	-	-	-	-
Allowances, foreign currency funds[-]	-	-	-	-	-	-	-
Federal security holdings (at par)	-	-	-	-	55,006,892	-	-
Accounts receivable:							
Government agencies	-	6,998	-	-	-10,5[illegible]	68	-
The public	-	672	-	-	82,624	81,864	-
Allowances (-)	-	-	-	-	-	-	-
Advances to:							
Government agencies	-	697	-	-	9,924	1,000	-
The public	-	985	-	-	55,304	2	-
Total selected current assets	3,351	3,961,341	15,034	144,821	55,570,683	178,683	11,437
Loans receivable:							
Repayable in dollars	-	29,933	-	-	-	-	-
Repayable in foreign currencies	-	-	-	-	-	-	-
Allowances (-)	-	-56	-	-	-	-	-
Inventories:							
Items for sale	-	-	-	-	-	-	-
Work-in-process	-	-	-	-	-	-	-
Raw materials and inventories	-	-	-	-	-	-	-
Stockpile materials and commodities	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Real property and equipment:							
Land	-	-	-	-	5,[illegible]	-	-
Structures and facilities	-	2,086	-	-	63,[illegible]	-	-
Equipment	-	-	-	-	47,677	307	-
Leasehold improvements	-	-	-	-	-	-	-
Acquired security, pending disposition	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-3[illegible],411	-	-
Other assets:							
Work-in-process, contractors	-	-	-	-	22,[illegible]	-	-
Materials and supplies--other	-	-	-	-	5,062	-	-
Other	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Total assets	3,351	3,993,244	15,034	144,821	55,676,780	178,990	11,437
LIABILITIES							
Selected current liabilities:							
Accounts payable:							
Government agencies	-	4,569	-	-	24,935	13,956	-
The public	948	367,972	-	28,614	9,273,489	80,100	11
Advances from:							
Government agencies	-	-	-	-	-	-	-
The public	-	-	-	-	-	-	-
Total selected current liabilities	948	372,541	-	28,614	9,298,424	94,056	11
Deposit fund liabilities	-	*	-	-	684	584	-
Unfunded liabilities:							
Accrued annual leave	-	-	-	-	58,468	281	-
Other	-	-	-	-	-	-	-
Debt issued under borrowing authority:							
Borrowings from Treasury	-	-	-	-	-	-	-
Agency securities outstanding	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Total liabilities	948	372,541	-	28,614	9,357,577	94,921	11
GOVERNMENT EQUITY							
Unexpended budget authority:							
Unobligated	-	-13,739	-20,898	-	50,181,514	81,864	-
Undelivered orders	2,403	3,452,739	39,931	124,207	70,052	2,180	11,406
Unfinanced budget authority (-):							
Unfilled customer orders	-	-	-	-	-	-	-
Contract authority	-	-	-	-	-	-	-
Borrowing authority	-	-	-	-	-	-	-
Invested capital	-	31,903	-	-	67,128	26	-
Other equity:							
Receipt account equity	-	*	-	-	8	-	-
Unappropriated receipts (-)	-	-	-	-	-	-	-
Foreign currency fund equity	-	-	-	-	-	-	-
Total Government equity	2,403	3,470,904	19,034	124,207	50,318,703	84,069	11,406
Total liabilities and Government equity	3,351	3,993,244	19,034	144,821	55,676,280	178,990	11,437

Footnotes at end of section.

FINANCIAL OPERATIONS OF GOVERNMENT AGENCIES AND FUNDS

Section I - Financial Statements of Government Agencies and Funds

Table GA-I-1. - Statements of Financial Condition, June 30, 1974--Continued

(In thousands of dollars)

Account	Health, Education, and Welfare Department - Continued						
	Social Security Administration - Continued						
	Trust funds		Federal old-age and survivors insurance trust fund		Federal disability insurance trust fund		Federal hospital insurance trust fund 2/
	Total	Memo: Funds transferred to others	Total 2/	Memo: Funds transferred to others	Total 2/	Memo: Funds transferred to others	
ASSETS							
Selected current assets:							
Fund balances with Treasury:							
Budget funds	31,318	1,832	130,289	149	58,142	2,110	47,344
Budget clearing accounts	8	-	-	-	-	-	-
Deposit funds	104	-	-	-	-	-	-
Foreign currency funds	-	-	-	-	-	-	-
Allowances, foreign currency funds (-)	-	-	-	-	-	-	-
Federal security holdings (at par)	-	-	37,717,264	-	8,194,588	-	7,864,355
Accounts receivable:							
Government agencies	5,194	-	-13,845	-	-1,975	-	-
The public	761	*	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Advances to:							
Government agencies	8,924	-	-	-	-	-	-
The public	55,351	1	-	-	-	-	-
Total selected current assets	101,660	1,833	37,833,709	149	8,250,755	2,110	7,913,699
Loans receivable:							
Repayable in dollars	-	-	-	-	-	-	-
Repayable in foreign currencies	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Inventories:							
Items for sale	-	-	-	-	-	-	-
Work-in-process	-	-	-	-	-	-	-
Raw materials and inventories	-	-	-	-	-	-	-
Stockpile materials and commodities	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Real property and equipment:							
Land	5,584	1,793	-	-	-	-	-
Structures and facilities	63,306	-	-	-	-	-	-
Equipment	67,366	-	-	-	-	-	5
Leasehold improvements	-	-	-	-	-	-	-
Acquired security, pending disposition	-	-	-	-	-	-	-
Allowances (-)	-38,411	-	-	-	-	-	-
Other assets:							
Work-in-process, contractors	22,377	36,645	-	-	-	-	-
Materials and supplies--other	5,062	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Total assets	226,945	40,272	37,833,709	149	8,250,755	2,110	7,913,703
LIABILITIES							
Selected current liabilities:							
Accounts payable:							
Government agencies	10,979	-	4,281,737	-	-	-	126,339
The public	171,218	54	-	-	546,298	-	-
Advances from:							
Government agencies	-	-	-	-	-	-	-
The public	-	-	-	-	-	-	-
Total selected current liabilities	182,198	54	4,281,737	-	546,298	-	126,339
Deposit fund liabilities	104	-	-	-	-	-	-
Unfunded liabilities:							
Accrued annual leave	58,187	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Debt issued under borrowing authority:							
Borrowings from Treasury	-	-	-	-	-	-	-
Agency securities outstanding	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Total liabilities	240,488	54	4,281,737	-	546,298	-	126,339
GOVERNMENT EQUITY							
Unexpended budget authority:							
Unobligated	-143,608	11,315	33,551,972	-1,318	7,704,457	-19,579	7,780,972
Undelivered orders	60,999	1,056	-	1,468	-	21,689	6,406
Unfinanced budget authority (-):							
Unfilled customer orders	-	-	-	-	-	-	-
Contract authority	-	-10,991	-	-	-	-	-
Borrowing authority	-	-	-	-	-	-	-
Invested capital	67,098	38,438	-	-	-	-	5
Other equity:							
Receipt account equity	8	-	-	-	-	-	-
Unappropriated receipts (-)	-	-	-	-	-	-	-
Foreign currency fund equity	-	-	-	-	-	-	-
Total Government equity	-14,543	40,218	33,551,972	149	7,704,457	2,110	7,787,383
Total liabilities and Government equity	226,945	40,272	37,833,709	149	8,250,755	2,110	7,913,703

Footnotes at end of section.

Section 1 - Financial Statements of Government Agencies and Funds

Table GA-1-1. - Statements of Financial Condition, June 30, 1974--Continued

(In thousands of dollars)

Account	Health, Education, and Welfare Department - Continued						
	Soc. Security Adm. - Cont.		Office of the Secretary				
				Revolving fund		Memo:	
	Federal supplementary insurance trust fund 29/	Assistant Secretary for human development	Total	Working capital fund (IR)	All other	Funds transferred from others	Funds transferred to others
ASSETS							
Selected current assets:							
Fund balances with Treasury:							
Budget funds	41,492	221,505	266,806	16,532	250,275	143,347	7,153
Budget clearing accounts	-	-	-119	-	-119	-	-
Deposit funds	-	-	27,642	-	27,642	-	-
Foreign currency funds	-	-	1	-	1	-	-
Allowances, foreign currency funds (-)	-	-	-	-	-	-	-
Federal security holdings (at par)	1,230,685	-	-	-	-	-	-
Accounts receivable:							
Government agencies	-	3,938	5,149	2,755	2,394	629	-
The public	-	487	18,694	107	18,587	17,978	-
Allowances (-)	-	-	-	-	-	-	-
Advances to:							
Government agencies	-	953	113	-	113	1	-
The public	-	243,733	40,980	60	40,920	24,640	-
Total selected current assets	1,272,177	470,675	359,266	19,454	339,813	186,595	7,153
Loans receivable:							
Repayable in dollars	-	-	-	-	-	-	-
Repayable in foreign currencies	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Inventories:							
Items for sale	-	-	545	545	-	-	-
Work-in-process	-	-	31	31	-	-	-
Raw materials and inventories	-	-	53	53	-	-	-
Stockpile materials and commodities	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Real property and equipment:							
Land	-	-	-	-	-	-	-
Structures and facilities	-	-	-	-	4,991	-	-
Equipment	-	-	8,803	3,812	-	9	-
Leasehold improvements	-	-	-	-	-	-	-
Acquired security, pending disposition	-	-	-	-	-	-	-
Allowances (-)	-	-	-1,499	-1,499	-	-	-
Other assets:							
Work-in-process, contractors	-	-	-	-	-	-	42,088
Materials and supplies--other	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Allowances (-)	-	-	-	-	-	-	-
Total assets	1,272,177	470,675	367,200	22,397	344,804	186,604	49,240
LIABILITIES							
Selected current liabilities:							
Accounts payable:							
Government agencies	-	199	2,409	1,052	1,357	6	-
The public	67,812	976	38,464	4,877	33,624	24,871	1,922
Advances from:							
Government agencies	-	-	5,623	5,623	-	-	-
The public	-	-	-	-	-	-	-
Total selected current liabilities	67,812	1,175	46,496	11,514	34,981	24,877	1,922
Deposit fund liabilities	-	-	27,642	-	27,642	-	-
Unfunded liabilities:							
Accrued annual leave	-	-	7,113	-	7,113	-	-
Other	-	-	-	-	-	4	-
Debt issued under borrowing authority:							
Borrowings from Treasury	-	-	-	-	-	-	-
Agency securities outstanding	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-4	-
Total liabilities	67,812	1,175	81,250	11,514	69,736	24,880	1,922
GOVERNMENT EQUITY							
Unexpended budget authority:							
Unobligated	1,203,897	13,520	25,810	4,839	20,971	2,444	1,783
Undelivered orders	308	455,980	297,437	3,100	294,336	158,875	3,448
Unfinanced budget authority (-):							
Unfilled customer orders	-	-	-4	-	-4	-4	-
Contract authority	-	-	-	-	-	-	-
Borrowing authority	-	-	-	-	-	-	-
Invested capital	-	-	829	2,943	-2,118	9	42,083
Other equity:							
Receipt account equity	-	-	-119	-	-119	-	-
Unappropriated receipts (-)	-	-	-	-	-	-	-
Foreign currency fund equity	-	-	1	-	1	-	-
Total Government equity	1,204,365	469,500	285,951	10,883	275,068	161,324	47,314
Total liabilities and Government equity	1,272,177	470,675	367,200	22,397	344,804	186,204	49,240

Footnotes at end of section.

Mr. MICHEL. Your budget request of $14.4 million is substantially above the $6.3 million requested and appropriated last year. Why is that? Is the construction program being stepped up?

Mr. DEGEORGE. All of the $14.4 million requested this year is for purchase contract payments on the three new program center buildings. This is our current estimate of the full annual payment, although the payment may vary from year to year because of changes in the local taxes. We requested $3.6 million in fiscal year 1975 to begin these purchase contract payments as of April 1975—the planned date of occupancy. This date was missed so we did not use those funds in 1975. We requested $6.3 million in fiscal year 1976. This, added to the $3.6 million, is for the purchase contract payments in 1976. This has no effect on the direct construction program.

Mr. MICHEL. What is the total cost of each of the three new program centers which have just been completed?

Mr. DEGEORGE. The total cost of the Richmond program center was $40,200,000, Philadelphia was $34,149,000, and Chicago was $57,492,000.

Mr. MICHEL. What portion of that cost is due to increases resulting from strikes?

Mr. DEGEORGE. As I understand it, there were a few minor strikes, but the cost was within the estimate and these strikes did not increase it.

Mr. MICHEL. Since these facilities were constructed under the purchase contract method, what will the annual contract payments be? How long of a period will they run, and what will the total cost to the Government be at the end of this period?

Mr. DEGEORGE. The annual purchase contract payments will be about $14,400,000. The total cost of these buildings was $132,100,000. Of that amount, $6.1 million, appropriated directly out of the trust funds, was used for preliminary design and GSA project management costs. The remaining $126 million was obtained through the sale of participation certificates. These participation certificates are to be paid off over a 20- to 30-year period very similar to a home mortgage. The 1977 payment includes 1.25 percent of the purchase price, interest at 7½ percent per annum on the unpaid principal, taxes owed the local jurisdiction and administrative costs related to the participation certificates. As with any type of mortgage the portion of the payment going to reduce the principal owed will increase each year and the portion for interest will decrease. The total payment of principal and interest over the life of the "mortgage" is about $285 million. The taxes are determined by the local jurisdiction.

Mr. MICHEL. You mention in your statement that because of the immediate needs of the SSI program, you have had to lease space rather than wait for the construction of new facilities. Is it cheaper to lease or to construct?

Mr. DEGEORGE. That is a difficult question to answer as there are so many variables involved. If an office will be in a location for a long, stable period—say 15 to 20 years—with relatively few changes, it's

more economical to construct. In an area where there may be population shifts and space needs change frequently, it's probably more economical to lease.

Mr. MICHEL. What is the current average time period involved in construction, from site selection to completion, and to what extent do you hope to shorten it?

Mr. DEGEORGE. In our district office construction program, on the average, 3 to 5 years elapse from the start of a project until occupancy. We hope to shorten that to 2 years from project approval to occupancy.

Mr. MICHEL. How many district offices do you have, how many represent your own facilities, and how many are leased?

Mr. DEGEORGE. We currently have 633 district offices, and 668 branch offices. We have built 76 of these and the rest are in leased or Federal office building space.

Mr. MICHEL. In how many of the cases where the facilities are leased do you hope to construct new facilities?

Mr. DEGEORGE. We have not decided on a specific number yet. We are now developing the procedures with GSA to move ahead with the district office construction program and we are beginning to work on site selection. Once we have valid cost estimates and evaluate appropriate sites, we will determine the number to construct with available funds. We hope this will be as many as 10 to 20 offices a year.

Mr. MICHEL. Mr. Cardwell, have you ever calculated what the demand for increased facilities would be if you were given responsibility for administering a totally nationalized cradle to grave national health insurance program?

Mr. DEGEORGE. No, we have not. But here again a great deal depends on the characteristics of the program enacted and the extent, if any, of State and private sector involvement.

Mr. NATCHER. We want to thank you and the other gentlemen who have appeared before the committee today in behalf of the request for the SSI system.

The committee will be adjourned until 10 in the morning.

JUSTIFICATION OF THE BUDGET ESTIMATES

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

LIMITATION ON CONSTRUCTION

For acquisition of sites, construction and equipment of facilities and for payments of principal interest, taxes, and any other obligations under contracts entered into pursuant to the Public Buildings Purchase Contract Act of 1954 and the Public Buildings Amendments of 1972, [$6,300,000] *$14,400,000* to be expended authorized by section 201(g)(1) of the Social Security Act, from any one or all of the trust funds referred to therein, and to remain available until expended.

LANGUAGE ANALYSIS

LANGUAGE PROVISION

For payments of principal, interest, taxes, and any other obligations under contracts entered into pursuant to the Public Buildings Purchase Contract Act of 1954 and the Public Buildings Amendments of 1972.

EXPLANATION

This provision allows the Social Security Administration to transfer to the General Services Administration, out of the Limitation on Construction account, funds to cover payments on projects funded through purchase contract arrangements as well as funds for direct construction projects. Although the authority to enter into purchase contract arrangements expired June 30, 1975, it is necessary for the government to meet its obligations on purchase contract projects begun before the expiration date.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL SECURITY ADMINISTRATION

Limitation on Construction (Trust Fund)

Amounts Available for Obligation

	1976	1977
Appropriation	$6,300,000	$14,400,000
Unobligated balance, start of year	34,172,131	12,667,681
Unobligated balance, end of year	-15,098,131	-4,267,681
Total, obligations	$25,374,000	$22,800,000

Summary of Changes

1976 Budget Authority	$6,300,000
1977 Budget Authority	$14,400,000
Net change	$8,100,000

	1976 Base	Change from Base
Increases:		
A. Program:		
1. Annualize purchase contract payments on three program centers	$6,300,000	+$8,100,000

Obligations by Activity

Page Ref.		1976 Estimate	1977 Estimate	Increase or Decrease
152	Headquarters	$2,913,426	$525,000	-$2,388,426
154	District Offices	11,427,202	7,875,000	-3,552,202
157	Program Centers	11,033,372	14,400,000	+3,366,628
	Total Obligations	$25,374,000	$22,800,000	-$2,574,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Other services	$10,602,619	$9,886,487	-$716,132
Lands and structures	14,238,228	12,231,294	-2,006,934
Interests and dividends	533,153	682,219	+149,066
Total obligations by object	$25,374,000	$22,800,000	-$2,574,000

Significant Items in House and Senate Appropriations Committee Reports

Item	Action taken or to be taken
1976 Senate Report	
1. The Committee continues to believe that the social security trust fund programs should not participate in the financial support of a general buildings fund having no relationship to trust fund operations. Facilities required for social security trust fund programs should be financed directly from the trust funds, as in previous years (page 82).	1. SSA is continuing to budget for construction of facilities directly from the trust funds.

Authorizing Legislation

	Amount Authorized	1977 Budget Request
Limitation on Construction		
Title II, Section 201(g)(1) of the Social Security Act.....	Indefinite	$14,400,000

Limitation on Construction (Trust Fund)

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1967	$26,250,000	$26,250,000	$43,189,000	$43,189,000
1968	--	--	--	--
1969	--	--	--	--
1970	--	--	--	--
1971	2,800,000	2,800,000	2,800,000	2,800,000
1972	18,194,000	18,194,000	18,194,000	18,194,000
1973	1,000,000	1,000,000	1,000,000	1,000,000
1974	--	--	--	--
1975	8,232,000	8,232,000	8,232,000	8,232,000
1976	6,300,000	6,300,000	6,300,000	6,300,000
1977	14,400,000			

Justification

Limitation on Construction (Trust Fund)

	1976 Estimate	1977 Estimate	Increase or Decrease
Obligations.....	$25,374,000	$22,800,000	-$2,574,000

General Statement

The purpose of this appropriation is to provide funds to meet the construction needs of the social security program. In its action on both the fiscal year 1975 and 1976 budget request the Congress has determined that these needs should continue to be budgeted in a separate social security trust fund construction account rather than through the system of standard level user charges paid into the Federal Buildings Fund of the General Services Administration. The fiscal year 1977 budget request is based on this policy established by the Congress.

Construction funds appropriated are used for projects at SSA headquarters (in Woodlawn or Baltimore, Maryland), for program centers, and district offices. Funds for the rental and maintenance of offices are budgeted in the Salaries and Expenses appropriation. Most district offices are housed in rented space, and the space needs of some headquarters and program center facilities are also met in this way. The decision on whether to construct or rent is based on considerations of economy, efficiency and service to the public.

The following are the largest projects underway:

-- New program centers in Chicago, Illinois; Philadelphia, Pennsylvania; and Richmond, California

-- New computer operations building at social security headquarters in Woodlawn, Maryland

-- New building in downtown Baltimore to consolidate operations now housed in three separate leased facilities in the city.

All of these projects were undertaken through the purchase contract method of construction authorized by the Public Buildings Amendments of 1972 (Public Law 92-313). Under this method of construction, a private company constructs a building for government use, and the government pays for the building by annual payments for a period of up to 30 years, after which the government owns the building. Since this authority has expired, no new purchase contract projects are being undertaken. However, where applicable, funds for purchase contract payments for those projects, which were begun prior to expiration of the purchase contract authority (June 30, 1975), are included in this budget request. This is the case with the three program centers. Purchase contract payments for the headquarters projects will be included in subsequent budget requests after the construction of these buildings has been completed. This appropriation is being used to finance the GSA project management costs of the headquarters projects for 1976 and 1977.

Reprogramming Request

The Social Security Administration wishes to call to the attention of the Committees on Appropriations proposed changes in the schedule of obligations for FY 1976 and the transition period presented to the Committee last year. The changes in obligations are shown below:

Obligations

	FY 1976			Transition Period		
	Previous Estimate	Revised Estimate	Difference	Previous Estimate	Revised Estimate	Difference
Headquarters.	--	$2,913,426	+2,913,426	--	$131,250	+131,250
District Offices..	$15,474,000	11,427,202	-4,046,798	33,000	--	-33,000
Program Centers..	9,900,000	11,033,372	+1,133,372	3,600,000	5,932,200	+2,332,200
Total..	$25,374,000	$25,374,000	--	$3,633,000	$6,063,450	+2,430,450

These changes in obligations also necessitate changes in the distribution of budget authority between the three activities. We are requesting authorization to reprogram $2,100,000 in budget authority from the 1974 district office activity to the headquarters activity for the financing of General Services Administration project management costs associated with the construction stage of the new headquarters buildings in Woodlawn and downtown Baltimore, Maryland. We are also requesting authorization during the transition quarter to reprogram $1,535,326 from the 1971 district office program and $132,000 originally authorized for purchase contract payments on four district offices which were not constructed. These funds will be used to complete the full purchase contract payments due on the program centers. Because the district office construction program is undergoing re-evaluation (see justification for Activity 2), some of the funds previously authorized for this activity can be diverted to the program center and headquarters activities without causing delays in district office projects underway.

Activity 1 - Headquarters

	1976 Estimate	1977 Estimate	Increase or Decrease
Obligations.....	$2,913,426	$525,000	-$2,388,426

Explanation of Estimated Obligations

The current 1976 and the 1977 estimate of obligations reflect progress on projects funded from prior years' appropriations. The 1976 and 1977 estimates of obligations are:

	1976 Estimate	1977 Estimate
Completion of West Building.....	$90,288	--
Land Purchase - Colonial Park Estates...	866,333	--
Construction of an access road to I-70..	1,009,289	--
Planning, designing, and project management of additional facilities..	947,516	$525,000
Total.....	$2,913,426	$525,000

A description of current projects follows:

1. The remaining obligations for fiscal year 1976 for the West Building were expected to be obligated during fiscal year 1975 but were delayed. These funds are for the final settlement of a claim by the Henry Knott Co., contractors for the West Building. This claim was for additional costs incurred due to implementation of change orders, landscaping and other contingencies which delayed the completion of other essential work.

Fiscal Year	Obligations
1967 - 1975.....	$13,454,812
1976 Estimate.....	90,288
Total project to date.....	$13,545,100

2. The second project is the completion of the purchase of additional land in Colonial Park Estates, adjacent to the headquarters site, as well as payment of relocation costs (under title II of Public Law 91-646 - Uniform Relocation Assistance Act). SSA has made a commitment to purchase any property in this area if the owner desires to sell. This commitment was necessary to deal fairly with property owners in Colonial Park Estates who have been impacted by SSA headquarters expansion and operations plans. Funds previously appropriated will be used.

Fiscal Year	Obligations
1966 - 1975.....	$1,508,667
1976 Estimate.....	866,333
Total project funding to date.....	$2,375,000

3. The third project is the completion of construction on the access road from the SSA parking area to Interstate Highway 70 to enable employees to bypass local traffic. The access road to I-70 is expected to be completed by the end of FY 1976. The current estimated obligations include $1,009,289 to complete

this construction. The project has been delayed due to an unanticipated gas line relocation. Funds previously appropriated will be used to finance this project.

Fiscal Year	Obligations
1973 - 1975.....	$345,611
1976 Estimate.....	1,009,289
Total project to date.....	$1,354,900

4. The fourth project is for the planning, design and project management of additional facilities. The 1976 revised estimate includes $947,516 for obligations and the 1977 estimate includes $525,000. Current plans call for the construction of two facilities, one at Woodlawn and one in downtown Baltimore. Both are being financed through purchase contracts. The Woodlawn building is to provide efficient facilities for the large central computer operations of the Social Security Administration, while the Baltimore building is to consolidate operations now housed in three separate leased facilities in the city and to provide for expansion. The first stage of project design (preliminary planning stage) is complete for the new headquarter's buildings (both Woodlawn and Baltimore City) and the prospectuses were approved by Committees on Public Works of the House of Representatives and the Senate in June 1975. The participation certificates to obtain financing were sold soon thereafter. System design contracts for lighting, air conditioning, etc. should be awarded in April 1976 with construction contracts awarded soon thereafter. Purchase contract payments will be made annually on these two buildings beginning in 1979.

In FY 1972, we received approval from Congress to use $3,500,000 in budget authority to begin planning and design of these additional headquarters facilities. When the decision was made to use the purchase contract method of funding for these projects, these funds plus $190,658 left from other headquarters projects were used to complete preliminary design and cover review, management and inspection costs of General Services Administration project management. All of these funds will be obligated by mid fiscal year 1976. An additional $2,100,000 is needed to pay these GSA project management costs through the completion of the buildings. We are requesting authorization in FY 1976 to reprogram $2,100,000 from the district office program for this purpose. $947,516 will be obligated during FY 1976 and $525,000 during FY 1977 for project management and obligations will continue until the completion of construction. Normally such costs are paid from GSA's Federal Buildings Fund and recovered by GSA through the Standard Level User Charge. However, since the Congress has indicated that SSA should pay only actual costs under the current standard level user charge system for trust fund programs, SSA is being billed directly for these obligations incurred by GSA.

Fiscal Year	Obligations
1972 - 1975.....	$3,268,142
1976 Estimate.....	947,516
Transition Quarter Estimate...	131,250
1977 Estimate.....	525,000
Total project to date.....	$4,871,908

Activity 2 - District Offices

	1976 Estimate	1977 Estimate	Increase or Decrease
Obligations.....	$11,427,202	$7,875,000	-$3,552,202

Status of District Office Construction Program

During a hearing on November 4, 1975, before the Senate Committee on Appropriations on SSA's construction deferral request, the agency advised the Committee that it needed to do some re-thinking about the viability of and approach to the district office construction program. For this reason, we are not asking for new budget authority for this activity until we know the way we want to go and have discussed this with the Committees. Obligations from prior year budget authority are estimated on the basis of what SSA believes it could accomplish in 1976 and 1977 if the district office construction program is continued.

Some background on why SSA is re-thinking this program is necessary. Most district office space needs have always been met through rental of space. At the present time there are only 75 district offices which occupy buildings constructed through the district office construction program. The total number of district offices is 633; there are also 661 branch offices at present. The policy followed in the past was to construct district offices only in those instances where Federally owned or commercial space was not available, or where it was unsuitable for social security purposes--for example, where the space was not at ground level so that aged and disabled recipients would have difficulty in conducting their business with the SSA, or where no parking was available.

We are currently reviewing this policy because a number of new developments have occurred to warrant this review. One of these is the introduction of the system of smaller branch offices which are satellites to larger district offices. These have provided better service to the public since they are closer to where people live. Since branch offices are very small (i.e. they usually house from 8 to 30 employees) it is uneconomical to construct buildings to serve this purpose.

Another development has been the initiation of the Supplemental Security Income program. SSI claims, post entitlement and redetermination work, which are handled by district offices have changed the previous workload patterns and introduced a greater element of uncertainty into planning for district office space needs through the construction of permanent facilities. Also, due to the necessity for rapid expansion of field facilities to meet the immediate requirements of the SSI program, SSA had to acquire new space quickly through lease rather than the longer time frame required for construction.

A third development has been the concern of many district office managers that the construction process was too lengthy and left those who undertook it in the position of living in inadequate space for long periods of time while site negotiations and construction work took place.

As a result of these factors, SSA has not fully utilized funds appropriated by the Congress for district office construction. Therefore, SSA is looking at the entire program and will advise the Congress of the direction we plan to go as soon as possible.

Historical Summary of the District Office Construction Program

Funds totaling $33,992,000 were provided in the 1965, 1966, and 1967 appropriation for the acquisition of sites, the design and construction of 107 district office buildings. The 1971 appropriation and the 1974 transfer of funds from the program center activity (with permission of the Appropriations Committees) provided an additional $6,865,000 for the acquisition of sites and the design of buildings at 60 locations. Since the authorization was received, inflation has reduced the site and design possibility to only 52 locations. The 1975 appropriation of $4,500,000 provided for the acquisition of sites and the design of buildings at another 30 locations. A summary of where we stand on the district office construction program is shown below:

	Number of Offices Authorized	
	Site and Design	Construction
Completed	76	75
In Progress	0	1
Not Started	113	31
Total	189	107

1976-1977 Program

All work budgeted in 1976-1977 is to be accomplished by use of obligational authority given in prior years. At the end of FY 1975, 75 offices had been constructed and occupied. These were from the 1965, 1966 and 1967 programs. In FY 1976, SSA had budgeted $419,823 to complete direct construction of one additional office and add some finishing touches to some of those already occupied. We also plan to obligate $7,102,615 in FY 1976 for site acquisition, design and construction of additional offices.

As a result of added work resulting from the Social Security Amendments of 1972, 36 trust fund district offices are being expanded. We have budgeted $1,700,000 in FY 1976 obligations to complete this project.

An additional $2,204,764 from the 1971, 1974 and 1975 district office programs is budgeted to acquire sites, design and construct district offices as required in FY 1976. In FY 1977, $7,875,000 is budgeted for obligations for this purpose.

District Office Financing Summary

	Budget Authority
1965 appropriation	$5,300,000
1966 appropriation	3,131,000
	8,431,000
1966 supplemental appropriation	938,000
	9,369,000
1967 appropriation	24,623,000
	33,992,000
1971 appropriation	2,800,000
	36,792,000
1974 transfer of unused program center money	4,065,000
	40,857,000
1975 transfer of unused program center money	5,796,000
	46,653,000
1975 appropriation	4,632,000
	51,285,000
Proposed 1976 Reprogramming to Headquarters Project	-2,100,000
Proposed Transition Quarter Reprogramming to Program Centers	-1,667,376
Total district office budget authority	$47,517,674
Total obligations as of 9/30/76	36,326,743
Remaining district office budget authority available start of FY 1977	$11,190,931

Activity 3 - Program Centers

	1976 Estimate	1977 Estimate	Increase or Decrease
Obligations.....	$11,033,372	$14,400,000	+$3,366,628

The 1972 appropriation provided budget authority of $18,194,000 for the acquisition of sites and the design of four buildings to house the Social Security Administration's program center operations in Birmingham, Alabama; Philadelphia, Pennsylvania; Chicago, Illinois; and Richmond, California. As previously reported to the Committees, the space needs of the Birmingham, Alabama program center were met through lease rather than direct construction. Also, as previously reported, the remaining three centers are being financed through purchase contract arrangements, although $6,100,000 of the 1972 appropriation has been used for design and GSA project management costs not covered by these arrangements.

The fiscal year 1976 estimate of $11,033,372 in obligations consists of the following: (1) $713,122 for GSA project management costs, and (2) $10,320,250 in purchase contract payments. The fiscal year 1977 estimate of $14,400,000 is entirely for purchase contract payments and represents the annual amount the agency will need for this purpose each year for a period of 30 years except for possible changes in taxes.

The status of construction is as follows: (1) the Philadelphia and Richmond, California program centers were occupied by SSA staff in July 1975; (2) the Chicago program center will be completed before the end of FY 1976.

Last year during appropriations hearings SSA estimated its purchase contract payment needs for FY 1976 at $9,900,000 and for the transition quarter at $3,600,000. The $9,900,000 was to come from $3,600,000 appropriated in FY 1975 for this purpose and $6,300,000 in new budget authority requested for FY 1976. The revised estimates of needs for purchase contract payments are $10,320,250 for FY 1976 and $5,932,200 for the transition quarter. The reason for the change in these estimates relates to State and local taxes. Such taxes are paid until the Federal Government obtains title to the buildings--at the end of the 30-year purchase contract period. SSA's previous estimate of the tax liability for the program centers were understated, primarily because the previous estimate assumed that the tax liability would begin with occupancy rather than when billed by the locality. GSA has notified SSA that because SSA makes no standard level user charge payments, SSA must cover the full tax liability in its request to the Committees on Appropriations.

In order to cover the purchase contract payments for the program centers SSA requests permission to reprogram funds from the district office activity and to use the balance of the $18,194,000 previously appropriated for program center site and design. The table below shows the present estimates for purchase contract financing of the program centers and indicates where SSA proposes to obtain the funds to meet the government's contractual obligations.

Summary of Purchase Contract Financing for Program Centers

	Obligations		
	FY 1976	Transition Quarter	FY 1977
Funds now needed for purchase contract payments			
Principal and Interest.....	$8,387,450	$4,725,000	$12,053,000
Taxes.....	1,932,800	1,207,200	2,347,000
Total payment.....	$10,320,250	$5,932,200	$14,400,000
Origin of Funding			
A. Appropriation for program center purchase contract payments.....	$9,900,000	$3,600,000	$14,400,000
B. Reprogramming of 1972 appropriation for program center site and design (not needed for this purpose).....	420,250	664,874	--
C. Reprogramming of DO construction funds.....	--	1,667,326	--

The table below shows how the original appropriation for program center site and design has been used.

1972 Payment Center Appropriation		$18,194,000
Used for PC design and GSA project management	-6,100,000	
	12,094,000	
1974 Transfer to the DO program approved by OMB and Congress	-4,065,000	
	8,029,000	
1975 Transfer to the DO program approved by OMB and Congress	-5,796,000	
	2,233,000	
1976 Transfer for HQ projects approved by OMB and Congress	-1,147,876	
	1,085,124	
Proposed use for purchase contract payments on PCs in 1976	-420,250	
	664,874	
Proposed use for purchase contract payments on PCs in transition period	-664,874	
	-0-	

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SOCIAL SECURITY ADMINISTRATION

Limitation on Construction

Program Purpose and Accomplishments

Activity: Limitation on Construction (Section 201(g)(1) of the Social Security Act)

1976	1977	
Appropriation	Authorization	Budget Estimate
$6,300,000	Indefinite	$14,400,000

Purpose: This appropriation finances the construction needs of the social security program. It provides for construction of projects at SSA headquarters, for program centers and for district offices. It covers obligations incurred both through direct construction and purchase contracting. Although the authority to enter into new purchase contracting has expired it is necessary to meet Federal obligations for purchase contracting accomplished in prior years.

Accomplishments, 1976: During fiscal year 1976, SSA has budgeted to obligate $19,074,000 from construction appropriations already enacted and $6,300,000 from the 1976 appropriation. These obligations will provide for (1) expansion at headquarters ($2,913,426), (2) the site, design, and construction of additional district offices ($11,427,202), and (3) completion of GSA management overhead for the three program centers and beginning of purchase contract payments ($11,033,372).

SSA plans at headquarters include the final obligation of funds due to the additional contractor cost incurred in construction of the West Building. The remaining obligations were expected to be obligated for change orders, landscaping and other contingencies during FY 1975, but were delayed. Other plans at headquarters are to complete acquisition of all authorized land parcels, to construct an access road across the back of the headquarters site to Interstate Highway I-70, and to continue to work on the plans and preliminary design for expanding headquarters facilities at Woodlawn and Baltimore, Maryland. The objective of these new facilities is to consolidate operations which are now scattered in rented facilities around downtown Baltimore and the Woodlawn site as well as to meet increased space needs primarily for computer operations.

In the district office program, SSA has budgeted to complete direct construction of an additional 2 offices begun in 1974 ($400,000) and obligate funds for site acquisition, design and construction of additional offices ($7,102,615). SSA has also budgeted to expand 36 offices already constructed to meet increased space demands made by the SSI program ($1,700,000).

The budget request provides $11,033,372 in 1976 obligations for the program center activity. Of this total $10,320,250 is for purchase contract payments on three program centers and $713,122 is for GSA project management costs. Two of the three program centers being constructed by the purchase contract method are occupied and the third will be occupied before the close of 1976.

Objectives, 1977: For 1977, SSA seeks new budget authority of $14,400,000. With this authority plus carry over from prior years appropriations, SSA has budgeted to obligate $22,800,000. These obligations include (1) $525,000 for expansion at headquarters, (2) $7,875,000 for site acquisition, design and construction of additional district offices and (3) $14,400,000 for purchase contract payments on 3 program centers. SSA plans at headquarters are for the continuation of the development of plans, designs, and project management for the new facilities, one in downtown Baltimore and the other at Woodlawn. The district office plans

include obligation of additional funds to acquire sites, design and construct district offices.

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Estimate	Transition Quarter
1. Headquarters	--	--
2. District Offices	--	$33,000
3. Program Centers	$6,300,000	$3,600,000
Total	$6,300,000	$3,633,000

	Obligations by Activity	
	1976 Estimate	Transition Quarter
1. Headquarters	$2,913,426	$131,250
2. District Offices	11,427,202	--
3. Program Centers	11,033,372	5,932,200
Total	$25,374,000	$6,063,450

The Social Security Administration wants to point out to the Committees proposed changes in obligation for the transition quarter. These changes are shown below:

	Transition Quarter Obligations		
	Previous Estimate	Revised Estimate	Difference
1. Headquarters	--	$131,250	+$131,250
2. District Offices	$33,000	--	-33,000
3. Program Centers	3,600,000	5,932,200	+2,332,200
Total	$3,633,000	$6,063,450	+$2,430,450

The additional funds for the headquarters activity are needed to finance GSA project management costs for the two large headquarters projects at Woodlawn and Baltimore, Maryland. The increased requirements for the program center activity are for purchase contract payments. The previous estimate for these payments was understated in the area of State and local taxes.

We are requesting authorization during the transition quarter to reprogram $1,535,326 from the 1971 district office program and $132,000 originally authorized for purchase contract payments on four district offices which were not constructed. These funds will be used to complete the full purchase contract payments due on the program centers.

THURSDAY, MARCH, 18, 1976.

AMERICAN PRINTING HOUSE FOR THE BLIND

EDUCATION OF THE BLIND

WITNESSES

FINIS E. DAVIS, VICE PRESIDENT AND GENERAL MANAGER
CARSON Y. NOLAN, DIRECTOR OF EDUCATIONAL RESEARCH
WILFORD FORBUSH, DEPUTY ASSISTANT SECRETARY, BUDGET

Mr. FLOOD. We will now take the American Printing House for the Blind. The presentation will be made by Finis E. Davis, the vice president and general manager. We have a biographical sketch of you, Mr. Davis, which we will place in the record at this point.

Name: Finis E. Davis.

Position: Vice president and general manager, American Printing House for the Blind.

Birthplace and date: Lead Hill, Ark., August 29, 1911.

Education: Arkansas Polytechnic College; University of Arkansas—B.S.E.

Experience 1947 to present: Vice president and general manager, American Printing House for the Blind, Louisville, Ky.; 1939—47, superintendent, Arknasas School for the Blind,, Little Rock, Ark.; 1933–39, teacher, Arknasas School for the Blind, Little Rock, Ark.; 1930–33, public school teacher.

Association memberships: Association for Education of the Visually Handicapped; American Association of Workers for the Blind; International Conference of Education of the Blind; past international president, Lions International.

Board memberships: Board of directors, American Foundation for Overseas Blind; board of directors, National Society for the Prevention of Blindness; board of directors, Kentuck Society for the Prevention of Blindness; board of directors, Arkansas Enterprises for the blind; board of directors, International Center, University of Louisville; board of directors, Louisville Presbyterian Seminary; advisory board, Kentuckiana Metroversity.

Publications: Various professional journals.

Mr. FLOOD. You have some one with you?

Mr. DAVIS. Yes, Dr. Nolan, director of research.

Mr. FLOOD. I see you have a prepared statement. How do you want to handle that, Mr. Davis?

Mr. DAVIS. Mr. Chairman, it is very brief, but basic. Perhaps it would be well if we insert it for the record and paraphrased it. I would like to have an opportunity to answer any questions that might be asked.

Mr. FLOOD. We will have some questions. Without objection we can place this in the record.

[The statement follows:]

EDUCATIONAL MATERIALS

Mr. Chairman and members of the committee: The request of $2,682,000 is an increase of $354,000 over 1976 and when taken together with the $10,000 permanent appropriation will supply an estimated additional 1,500 blind students and all 1976 base pupils (27,302) with educational materials. The estimated 1977 per capita rate of $93.40 is an increase of approximately 9 percent over that requested for 1976 and the estimated additional eligible students to be registered will represent an increase about 6 percent. It is estimated that 28,820 students will be served in 1977.

ADVISORY COMMITTEES

The request of $80,000 for expenses to advisory committees and field representatives is the same amount requested for 1976 and will make it possible for these committees to continue to evaluate and recommend to the board of trustees, for approval on an annual basis, the necessary educational materials and aids to be produced. It will also make it possible for APH field representatives to continue to assist teachers in the various educational settings throughout the country in the use of the aids and materials available under the act.

We are serving a more complex group of children than ever before. In January 1975, 17,424 children were registered through State departments; 6,773 in residential schools; 1,049 in commissions for the blind; 1,029 in private nonprofit schools; 662 in rehabilitation centers and 383 in State hospital programs. This requires the production and distribution of a wide variety of educational materials and aids in different forms.

Several progressive steps have been taken during this year's work at the Printing House which will have quite an impact on education of the blind for many years to come.

(1) We are working with IBM toward the installation of a 360–65 computer to replace the 7040 now in use for the braille translation program. This will increase the speed and capacity for the production of educational materials in braille.

(2) An automated braille collator, built to Printing House specifications, the first of its kind in the Nation was put into operation in August and indications are it will provide some savings in braille magazine production.

(3) A new cassette recorder/player featuring four-track playback, two-track recorder, built-in microphone, two speeds, automatic shut-off and rechargeable battery is now in stock. The design of this recorder includes many features requested by blind users.

(4) In January 1976 the Printing House started distribution of the new APH variable speech control module which allows recorded speech to be increased without pitch distortion. Without variable speech control, speech at increased speeds sounds like Donald Duck. Thus, the speaker's normal rate of delivery, around 150 words per minute, can be increased during playback from normal (150 words per minute) to 2.5 times normal (375 words per minute). The variable speech control module has been designed to be used in conjunction with the following APH-modified variable speed machines: cassette recorder, talking book reproducer and the modified Sony open reel tape recorder.

I am leaving with the committee catalogs and copies of the American Printing House for the Blind annual report for the fiscal year ending June 30, 1975, which gives a complete report of Printing House activities as well as work of the advisory committees.

In closing, I extend sincere thanks to the Appropriations Committee and the Congress for their continued interest in the education of the blind.

NUMBER OF BLIND PRE-COLLEGE AGE STUDENTS IN UNITED STATES

Mr. FLOOD. Now, this is the kind of question we get quite regularly; I guess you do, too.

How many blind, elementary and secondary students are there in the United States today?

Mr. DAVIS. Mr. Chairman, we have about 27,000 registered as of this time, a little more than 27,000, and next year about 28,000 in the educational program of less than college level.

Mr. FLOOD. What portion of these receive direct service from the Printing House?

Mr. DAVIS. All of these children receive direct service.

MATERIALS FOR PRE-SCHOOL CHILDREN

Mr. FLOOD. Do you develop materials for blind pre-school children?

Mr. DAVIS. Yes.

Mr. FLOOD. Does the Printing House have educational toys?

Mr. DAVIS. Very limited. We haven't gone into toys. We do have some that would be educational type toys, Mr. Chairman.

COST OF AIDS

Mr. FLOOD. Have you had any complaints about the cost of the aids for the pre-school children? We understand that some of these aids are pretty expensive.

Mr. DAVIS. No, sir. I don't believe I have had any comment on it. Perhaps this is because we had to produce them in such limited quantities to serve the need. All of our materials basically are produced on a very small quantity basis on account of the numbers required.

SAFETY OF AIDS

Mr. FLOOD. Have you had any problems with the safety of these aids?

Mr. DAVIS. No, sir, I don't believe we have. I do recall one safety problem. I believe, it may have been in Washington State, of a cassette or something that had a problem that we were not aware of. That is the only one we have ever had that I know of that has ever been called to my attention.

MATERIALS FOR POSTSECONDARY STUDENTS

Mr. FLOOD. Who supplies the materials for the postsecondary students and also the public at large?

Mr. DAVIS. Beyond the secondary school level?

Mr. FLOOD. Yes, postsecondary.

Mr. DAVIS. I would say there is no source of supply. In blind people it is felt and has been for many years that blind people attend regular sighted schools, higher institutions of learning; and basic materials that are required come through the Department of Rehabilitation. If they need a braille writer, a talking book, or if they need special materials, it comes through the rehabilitation program. We do not go beyond the secondary school level.

Mr. FLOOD. Are there fees associated with all of the materials distributed by you?

Mr. DAVIS. Fees?

Mr. FLOOD. Yes.

Mr. DAVIS. I would say not fees as such. We do produce the materials, and then the materials that are ordered by the schools for the blind, and the State Department of Education for children in public and private schools, are charged to their quota allocation on a per capita basis. We do sell direct to individual blind people if they wish to have a braille slate or a braille writer or talking book machine of their own, but not on quota. The quota is for school people and education of children in the schools and public schools and private, nonprofit schools.

THE 1977 BUDGET INCREASE

Mr. FLOOD. You are asking here for an increase of $354,000 for fiscal year 1977.

Mr. DAVIS. Yes, sir.

Mr. FLOOD. We notice that part of that increase is based on a 9-percent per capita cost. That is the increase. How did you arrive at the 9 percent?

Mr. DAVIS. Mr. Chairman, we do have an increase in cost of number of children as well.

Mr. FLOOD. You have 9 percent here. You base your request upon 9-percent per capita cost?

Mr. DAVIS. That is in labor and materials.

Mr. FLOOD. How did you arrive at the 9 percent? Why 9 percent?

Mr. DAVIS. Basically, our projected increase in cost of labor would be about 5.5 percent—in that neighborhood—and the remainder is in increase in cost of materials.

Mr. FLOOD. You also show there an additional 1,500 eligible blind children.

Mr. DAVIS. Yes.

Mr. FLOOD. Is that a normal rate of growth for 1 year?

Mr. DAVIS. Yes, sir. Last year we projected 1,500. I believe we had about 1,510 or something like that. We were very, very close to it.

THE DEVELOPMENT AND PRODUCTION OF MATERIALS

Mr. FLOOD. Will you describe for us how you determine what materials to develop and what materials to produce?

Mr. DAVIS. Yes, sir. I shall be glad to.

Basically, suppose we talk about publications first. We have a publications committee of five people elected at our annual meeting, and these men or women are ex officio trustees of the Printing House under the act and their superintendents of school are representatives of State Departments of Education.

EX OFFICIO TRUSTEES

Mr. FLOOD. We note that all State superintendents of public instruction are ex officio trustees.

Mr. DAVIS. Right, and only five make up this particular committee.

Mr. FLOOD. How significant a role do these people play in your planning process?

Mr. DAVIS. I would say they play a very important part. In addition to our field representatives and our Department of Educational Research in materials, we have a consultant in publications, and textbook consultant. We cannot do all of the books for all of the children, but we think we do the most popular books used across the Nation. We will have a choice of maybe three in different phases of the course of study, and we present them from our editorial department at the Printing House, in cooperation with our consultant, textbook consultant and present it to the Publications Committee. From time to time we circulate to the schools and ask them to make recommendations on materials that they want. We have an Aid Committee. We do the same phase of work with an Aid Committee, and research likewise.

Then we use consultants, specialists in primary, preschool, secondary school level, mathematics, and science. We have access to all of that. That helps us to determine the people we actually serve. Mr.

Chairman the thing that is very satisfying to me is the fact that what we do in research and what we do in development of new aids and materials, is that they reach the children whom we serve, and it is not long reaching them because we put it right in line of production and dissemination or distribution to serve these children.

ADDITIONAL FUNDING

Mr. FLOOD. Other than this appropriation itself, what other funds does the Printing House receive? Do you receive other funds for research?

Mr. DAVIS. Yes, sir. We do not receive any in our appropriation for research or development of materials at all. Just briefly, the Printing House has always been in the development of new materials on a limited basis.

In 1954, we established a Department of Research and Development of new materials but it was about the mid-1960's when the U.S. Office of Education was in position to allocate grants for research and development of special materials. This is where we were able to get some grant programs, but in that particular case, we were able to make our determination through our school people whom we serve and work with. These specialists in the primary, secondary and various levels of education told us what their needs were with our research people and our field representatives and we could request money, and grants, to meet our needs under the Act in developing new materials. That was great because we knew what we wanted and what we could do.

Mr. FLOOD. What other funds does the Printing House receive?

Mr. DAVIS. Basically, right now we receive about $400,000 in grant money for development and research. We have a special grant from the U.S. Office of Education.

Mr. FLOOD. Is that the only source?

Mr. DAVIS. We do get funds from time to time maybe from a private source. I have gotten some funds from the Reader's Digest and anywhere else I can get funds. We raise funds all the time for something in our work.

RESEARCH BUDGET

Mr. FLOOD. We have received some correspondence lately urging the Printing House should have its own research budget. Do you know about that?

Mr. DAVIS. Yes, sir.

Mr. FLOOD. What would be achieved by this approach that can't be done with the present setup?

Mr. DAVIS. Mr. Chairman, the present department grant program is restricted in large measure.

I believe they have about $6 million this year that will be open to grant proposals, and I think they will probably have around 500 proposals and we cannot expect to get more than one or so of those. It is limited. It used to be unlimited. They have their goals and objectives in the U.S. Office. That is great. We are interested in those goals and objectives, but basically our responsibility is to do development work for educational materials for blind children who we serve

under the act and sometimes their goals and objectives are not compatible with the Printing House goals and objectives. That is our problem actually, and really, we are just not as efficient as we ought to be in our development program because we cannot get funds to do the things that we know ought to be done under our act. Our responsibility, and Office of Education's responsibility is not the same responsibility that we have, because we have the responsibility of developing materials for education of blind children. In other words, it is just not compatible, sometimes. Sometimes we do have programs. We work beautifully with the department, but I am interested in the children we serve.

Mr. FLOOD. We are just wondering about this mail, all of a sudden for a separate line item in your budget for this kind of thing?

Mr. DAVIS. We could do a far more efficient job and we could do a far more timely job if we did have it because it isn't unusual. We may spend 25 percent of some of our research people's time preparing a proposal and then the proposal isn't granted. We have research personnel with no funds to pay them. Maybe it is granted. That is great. It may be granted late. If it is granted late, that is difficult for me in administration to find money to pay an experienced group of research people in our operation. We are interested in what the U.S. office is doing, because it is in special education. That is part of our work, but we know we could do a more efficient job under the act to meet the needs of these special children that we have direct responsibility for if it were coming direct to us. We are not looking for all of the research money.

We are looking for a base. I am not expecting this to increase greatly over the years, Mr. Chairman, but if we have this base of stability and continuity where we can do the things that needs to be done under the act. Sometimes we need to do a little basic research, but we haven't been able to get funds for basic. In other words, when you are talking about mentally retarded children, preparing special materials for them, sometimes you don't know exactly what to prepare until you do a little research to determine whether this will do this particular thing that these teachers in the programs feel ought to be done, so we need that and measurements. In other words, there are phases of our work. The act is different from the U.S. Office of Education program, but our responsibility is the act, and what we are trying to do is to get a base under the act so we can function with a base and then we will go to the Department for other things to help them and to help our program. It would make a very meaningful approach.

360–5 COMPUTER

Mr. FLOOD. You also indicate that you are installing a new 360–5 computer in conjunction with IBM?

Mr. DAVIS. Yes, sir.

Mr. FLOOD. Do you have some special contractual arrangement with the International Business Machine people or is this a straight purchase?

Mr. DAVIS. No, sir. Mr. Chairman, we do have consideration from IBM. In other words, when computerized braille came into being, IBM did some research without cost to the Printing House in the translation program. We in our research and production department built the

automated machines, therefore we had a joint effort and we brought it together in about 1959 in their computer translation of ink print into braille. In the interest of the blind, this is probably not for publication, but this does not cost the Printing House. It is presented in the interest of producing materials for the blind of America without cost to the Printing House. If we had to pay for it I am not sure that the translation program would be practical, Mr. Chairman.

NEW MATERIALS FOR 1977

Mr. FLOOD. What new materials do you have in mind for next year?

Mr. DAVIS. Well, Mr. Chairman, in the fall, is our annual meeting. New materials will be adopted here. We will have it already for next September. This past October we had about 175 or 180 people across America, come into the Printing House to see what we are doing and it is one of the most professional meetings held in America.

Mr. FLOOD. What new materials do you have in mind?

Mr. DAVIS. Are you talking about research or are you talking about production of materials?

Mr. FLOOD. Production of materials.

Mr. DAVIS. We evaluate our catalogs and the materials with our textbook consultant and also with publications committee and make recommendations. We evaluate that. The evaluations will be made in November at the annual meeting. That is in process at this time. What was approved last November is in production. I checked our production just recently. We are on schedule in producing the materials that were approved last year.

Mr. FLOOD. As of now you have nothing to report on new materials?

Mr. DAVIS. As far as textbooks are concerned. We have some research in things that we hope to accomplish, et cetera, but we haven't moved. In other words, we go from year to year with the help of the school people whom we serve that work directly with these children.

NUMBER OF BLIND STUDENTS SERVED

Mr. MICHEL. Does the number of blind students you are serving, 28,820, represent all the blind children in school below college level or are there others not being served?

Mr. DAVIS. Basically, the approximately 28,800 blind children represents all of the blind students in school under the act, "To Promote the Education of the Blind." However, it is possible that a limited number of students are not registered by the schools State departments of education, and rehabilitation centers as required under the act. The act certainly includes all blind students of less than college grade and I believe, in large measure, all students are being registered as required.

MATERIALS DEMAND

Mr. MICHEL. What kinds of materials that you produce are in the most demand?

Mr. DAVIS. Braille materials, large type textbooks, educational aids and recorded materials, including cassettes.

Mr. MICHEL. Have your materials become more helpful and beneficial to blind children down through the years, as you have developed and refined them?

Mr. DAVIS. Yes. We are not only serving a more complex group of children, but through development and associated research we are providing a greater variety and more meaningful materials than ever before. Please refer to Printing House catalogs and recent educational aids listing of materials developed which were left for committee use.

360–65 COMPUTER

Mr. MICHEL. How much faster will the new computer you are installing permit you to produce educational materials in braille?

Mr. DAVIS. It is difficult to say just how much faster the 360–65 will be in the production of braille than the 7040, now in use, because we have not actually had experience in using the 360–65. However, the 360–65 is more in the mainstream of computers today, is faster and does not require any changes in our programing to put this updated unit into production. Actually, our computer translation program is not a limiting factor in our production of braille. The problem arises in the practicality in limited quantities.

Mr. MICHEL. How many more materials will you be able to produce?

Mr. DAVIS. We have the computer capacity to meet the needs of the Nation and even more. The problem arises where only a very limited number are required; therefore, the value of a central source of supply.

BACKORDERS ON MATERIALS

Mr. MICHEL. Is there any kind of backlog for meeting demand for your materials, or is supply keeping up with demand?

Mr. DAVIS. Yes; we do have some back orders on our books even though we maintain a finished goods inventory of about $1,500,000 to meet the demands on a current order basis. However, in producing the new materials approved by the various committees, and reprints and new lots of aids, to maintain a stock on every item is almost impossible. However, when new materials and aids are approved at the annual meeting in October or November each year, the Printing House makes a commitment to have these new materials produced and ready for distribution at the beginning of the new school year the following September, as well as make the necessary reprints and production of stock items during the year. We ask for annual orders in the spring of each year and on orders received by June 1, we make a commitment to the schools that these materials will be ready for the new school year in September.

NUMBER OF BLIND STUDENTS IN 1977

Mr. CONTE. How many blind students do you expect to reach this year?

Mr. DAVIS. Approximately 28,800.

EDUCATIONAL MATERIALS

Mr. CONTE. What types of educational material do you provide?

Mr. DAVIS. Materials in braille, large type, educational aids and recorded materials.

Mr. CONTE. Is any cost to the student involved?

Mr. DAVIS. There is no cost to the student for materials provided under the act "To Promote the Education of the Blind."

REGISTERED STUDENTS INCREASE

Mr. CONTE. Has there been a steady increase in the number of registered students?

Mr. DAVIS. Yes, we have experienced an increase in the registration of blind children of approximately 1,200–1,500 students annually for the past few years.

ADVISORY COMMITTEE STAFF

Mr. CONTE. How large a staff is involved in the three advisory committees?

Mr. DAVIS. There are five ex officio trustees on each of the three advisory committees consisting of superintendents of schools for the blind, State departments of education or rehabilitation centers. Their recommendations are approved at the annual meeting each year where a large portion of the ex officio trustees are in attendance and actively participate in the committee meetings.

ADVISORY COMMITTEES ACCOMPLISHMENTS

Mr. CONTE. What have these committees accomplished this year?

Mr. DAVIS. The committees met in connection with the annual meeting of the board of trustees of the Printing House and recommended new materials and aids to be manufactured by opening of the new school year and recommended research to be undertaken in the research department which was approved at the annual meeting. See the committee reports which are included in the annual report provided the committee at the committee hearings. The committees are subject to call as needed during the year.

360–65 COMPUTER

Mr. CONTE. How will the 360–65 computer improve the production of braille material over the 7040 computer now in use?

Mr. DAVIS. The 360–65 computer will not improve the quality of braille produced because we will be using the same computer program for the translation and production of grade 2 braille, but it will update the computer program with a faster and more efficient unit.

ROLE OF FIELD REPRESENTATIVES

Mr. CONTE. What role does the APH field representatives play?

Mr. DAVIS. The Printing House field representatives visit schools for the blind, children being educated in public and private nonprofit schools and also visit higher institutions of learning where teacher training programs are conducted in special education. The field representatives meet with various members of the teaching staff, demonstrate the use of educational materials and aids and inform school personnel with regard to services provided for education of the blind under the act "To Promote the Education of the Blind."

SPEECH MODULE

Mr. CONTE. What application does a variable speech module have in education of the blind?

Mr. DAVIS. The variable speech module is an accessory which can be used with the talking book machine we manufacture, the open reel tape machine and the cassette unit. It permits a student to speed up listening without distortion of the sound of the recording. It also permits reading at a slower speed, if necessary, for those who wish to read more slowly while taking notes, et cetera. This unit will not only be very meaningful in education of blind children under the act, but it will meet a great need of blind students in attendance at higher institutions of learning by being able to read a great deal faster than the usual recorded speed.

EDUCATIONAL MATERIALS

Mr. ROYBAL. You indicate that you produce a wide variety of educational materials. Would you review what materials are produced?

Mr. DAVIS. We produce basic textbooks in braille, large type, and in recorded form and manufacture a great variety of educational aids for the education of the blind, in addition to a great variety of supplementary materials. We maintain complete catalogs of all the materials which we manufacture and maintain a finished stock inventory in order to supply materials on a current basis. Copies of our various catalogs were left at the committee hearing for your review.

DISTRIBUTION OF MATERIALS

Mr. ROYBAL. How are these materials distributed to students who need them?

Mr. DAVIS. The Federal appropriation under the act, "To Promote the Education of the Blind" is allocated to the schools for the blind, State departments of education and rehabilitation centers on a per capita basis. The heads of schools for the blind and State departments of education are ex officio trustees of the Printing House and assume the responsibility of registering the children in attendance at the schools on the first Monday of January each year. Also, the heads of rehabilitation centers register the people whom they have in training of less than college grade. Likewise, the superintendents of schools, State departments of education and heads of rehabilitation centers order the materials for the blind individuals whom they serve charged to their quota allocation at the Printing House.

Mr. ROYBAL. How do you identify students who need your materials?

Mr. DAVIS. It is the responsibility of schools for the blind, State departments of education and rehabilitation centers to register students who qualify under the act and order the necessary materials which are produced at the Printing House for their education.

PERCENTAGE OF BLIND STUDENTS SERVED

Mr. ROYBAL. You indicate that approximately 28,000 students will be served by this appropriation. Estimate the percentage of blind students that this represents in the country.

Mr. DAVIS. The act, "To Promote the Education of the Blind" includes all blind students in educational programs throughout the United States in attendance in educational programs on the first Monday of January each year, and it is my feeling that the schools for the blind, rehabilitation centers and State departments of education make a very fine and dedicated effort to register all blind students for participation. However, it is possible, of course, particularly in State departments where they have responsibility for registering all blind children in the public and private schools, may well not be 100 percent in finding all children, but I believe most of them are registered.

Mr. FLOOD. All right. Thank you, very much.

JUSTIFICATION OF THE BUDGET ESTIMATES

APPROPRIATION LANGUAGE

AMERICAN PRINTING HOUSE FOR THE BLIND

For carrying out the Act of March 3, 1879, as amended (20 USC 101–105) [$2,408,000] *$2,762,000.*

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SPECIAL INSTITUTIONS

American Printing House for the Blind

Amounts Available for Obligations

	1976	1977
Appropriation	$2,408,000	$2,762,000

Obligation by Activity

	1976 Actual	1977 Estimate	Increase or Decrease
Grants for Education of the Blind			
A) Educational Materials	$2,328,000	$2,682,000	$+354,000
B) Expenses related to Advisory Committees	80,000	80,000	-0-
	2,408,000	2,762,000	+354,000

Obligations by Object

Grants, subsidies, and contributions	$2,408,000	$2,762,000	$+354,000

Summary of Changes

1976 Actual Obligations	$2,408,000
1977 Estimated Obligations	2,762,000
Net Change	+354,000

Increases	1976 Base	Change from Base
Program:		
Educational Materials:		
For an additional 1,500 eligible blind pupils and for all 1976 base pupils (27,320) at $93.4073 per capita in 1977	$2,328,000	$+354,000
Advisory Committees		
Expenses relating to Advisory Committees	80,000	-0-
	2,408,000	+354,000

Authorizing legislation

Legislation	1977 Authorization	1977 Appropriation requested
"An Act providing additional aid to the American Printing House for the Blind" (P.L. 87-294, Sec. 4,72, Stat. 627)	Indefinite	$2,762,000

Appropriation History

Year	Budget Estimate To Congress	House Allowance	Senate Allowance	Appropriation
1967	$ 1,027,500	$ 1,027,500	$ 1,027,500	$ 1,027,500
1968	1,225,000	1,225,000	1,225,000	1,225,000
1969	1,340,000	1,340,000	1,340,000	1,340,000
1970	1,404,000	1,404,000	1,404,000	1,404,000
1971	1,476,000	1,557,000	1,517,000	1,517,000
1972	1,580,000	1,580,000	1,580,000	1,580,000
1973	1,696,500	1,696,500	1,696,500	1,696,500
1974	1,817,000	1,817,000	1,817,000	1,817,000
1975	1,967,000	1,967,000	1,967,000	1,967,000
1976	2,408,000	2,408,000	2,408,000	2,408,000
1977	2,762,000			

Justification

	1976 Actual	1977 Estimate	Increase or Decrease
Educational Materials	$ 2,328,000	$ 2,682,000	$ +354,000
Expenses related to Advisory Committees	80,000	80,000	-0-
Total.	2,408,000	2,762,000	+354,000

General Statement

The request for 1977 is $2,762,000, of which $2,682,000 will be used to supply educational materials to all blind students of less than college grade throughout the United States; the remainder of $80,000 is estimated for administration of the Act and other expenses related to the activities of Advisory Committees, consultants, and field services.

Educational Materials: The American Printing House for the Blind supplies educational materials and educational aids for education of blind students of less than college grade. The request of $2,682,000, when taken together with the $10,000 permanent appropriation and applied to an estimated 28,820 eligible blind students, will provide a per capita rate of approximately $93.40 for fiscal year 1977. Due to increases in the cost of raw materials and labor, the estimated per capita rate of $93.40 is an increase of approximately 9% over that of 1976, and the estimated 1,500 additional eligible students to be registered will represent approximately 6% increase in eligible students.

Advisory Committees and Field Services: The American Printing House for the Blind has three (3) Advisory Committees - Publications Committee, Educational Aids Committee and the Educational Research Committee. These committees advise and approve materials and aids to be manufactured through the Federal appropriation. The request for 1977 is $80,000.

American Printing House for the Blind

Program, Purpose and Accomplishments

Activity: Educational Materials

1976	1977	
Amount	Authorization	Budget Estimate
$2,328,000	Indefinite	$2,682,000

Purpose: The American Printing House for the Blind, under the Act, "To Promote the Education of the Blind" provides educational materials to students, of less than college grade, who attend public schools and classes with sighted children and blind students who attend special schools and classes for the blind.

Explanation: All Superintendents of Schools for the Blind and of Public Instruction in the various states, or their designees, are Ex officio Trustees of the Printing House in the administration of the Federal Act, "To Promote the Education of the Blind." This group meets annually in October or November, at the American Printing House, with the Corporate Board of Trustees to review the past year's work and to adopt textbooks, approve educational aids to be manufactured and recommend research to be undertaken during the year ahead. The various Advisory Committees are also elected at the Annual Meeting. In addition to producing the newly adopted materials for the next school year, the Printing House makes the necessary reprints and keeps in stock a finished goods inventory of more than $1,500,000 in order to serve the needs of the Schools for the Blind and State Departments of Education on a current order basis.

Accomplishments in 1976: In cooperation with IBM, the American Printing House for the Blind is installing a 360-65 Computer to replace the 7040 now in use for the Braille translation program. This will increase the speed and capacity for the production of educational materials in Braille, under the Act to Promote the Education of the Blind"; also, provide necessary capacity to assist the Library of Congress and other agencies in the production of literature in Braille for national distribution. The Printing House supplied educational materials and aids to 25,809 blind children in schools for the blind and in private nonprofit and public schools. Based on registration of blind pupils as of the first Monday in January 1975, 27,320 children will be served by the Printing House in 1976.

Objectives for 1977: To continue to produce on schedule the various new educational aids and materials as approved by the Committees for the new school year, and maintain current inventory on all materials listed in catalogs in order to provide the best possible service to the various schools educating blind children. The request for 1977 represents an increase in per capita of 9% and a 6% increase in total number of eligible students to be served.

American Printing House for the Blind

Program, Purpose and Accomplishments

Activity: Advisory Committees and field services

1976	1977	
Amount	Authorization	Budget Estimate
$80,000	Indefinite	$80,000

Purpose: To advise and approve aids and materials to be manufactured and supplied through the Federal appropriation.

Explanation: There are three (3) Advisory Committees, consisting of five members of the Ex officio Trustees each - Publications Committee, Educationl Aids Comm. and Educational Research Committee.

Accomplishments in 1976: The Publications Committee and Educational Aids Committee advised and approved materials and aids to be manufactured and supplied through the Federal Appropriation. The Educational Research Committee advised and assisted in the identification of relevant areas for educational research and materials developed. Field representatives for the Printing House travelled to State Departments of Education and Schools for the Blind and met with the teachers to advise them on facilities and materials available to blind children.

Objectives in 1977: To continue to advise the Printing House on educational research to be undertaken, educational materials and educational aids to be manufactured and made available to blind children. Also, maintain a continuing contact with the schools for the blind, public and parochial schools educating blind children, and provide assistance to colleges and universities conducting training programs for teachers of special education. Field representatives for the Printing House will travel to public and private nonprofit schools educating blind children and to schools for the blind and advise teachers on materials available and their use in the education of blind children. The Printing House will also continue to give assistance to colleges and universities conducting training programs for teachers of the blind.

Federal Aid to States, Territories and Possessions
and
The Number of Pupils Registered for each Year

	No. of Pupils First Monday in January			Appropriation for Fiscal Year			
	Actual 1974	Actual 1975	Projected 1976	Actual 1975	Actual 1976	TQ Actual 1976	Projected 1977
Alabama	803	1013	1069	59,022	86,691	21,673	99,852
Alaska	42	45	48	3,087	3,851	963	4,484
Arizona	171	221	233	12,569	18,913	4,728	21,764
Arkansas	318	321	339	23,373	27,471	6,868	31,665
California	2844	3038	3205	209,038	259,987	64,997	299,370
Colorado	311	313	330	22,859	26,786	6,697	30,824
Connecticut	418	432	456	30,724	36,970	9,242	42,594
Delaware	60	58	61	4,410	4,964	1,241	5,698
Florida	1021	1156	1220	75,045	98,929	24,732	113,957
Georgia	660	687	725	48,511	58,972	14,698	67,720
Hawaii	32	37	39	2,352	3,167	792	3,643
Idaho	72	75	79	5,292	6,419	1,605	7,379
Illinois	1764	1645	1735	129,657	140,776	35,194	162,062
Indiana	574	641	676	42,190	54,856	13,714	63,143
Iowa	329	331	349	24,182	28,327	',082	32,599
Kansas	278	279	294	20,433	23,877	5,969	27,462
Kentucky	308	379	400	22,638	32,434	8,109	37,363
Louisiana	485	425	448	35,648	36,371	9,093	41,846
Maine	141	147	155	10,364	12,580	3,145	14,478
Maryland	548	630	665	40,279	53,914	13,479	62,116

Federal Aid to States, etc. (continued)

	Actual 1974	Actual 1975	Projected 1976	Actual 1975	Actual 1976	TQ Actual 1976	Projected 1977
Massachusetts	884	971	1024	64,975	83,097	20,774	95,649
Michigan	1126	1242	1310	82,763	106,288	26,572	122,364
Minnesota	399	373	394	29,327	31,921	7,980	36,802
Mississippi	236	241	254	17,346	20,624	5,156	23,725
Missouri	452	453	478	33,223	38,767	9,692	44,649
Montana	107	114	120	7,865	9,756	2,439	11,209
Nebraska	151	151	159	11,099	12,922	3,231	14,852
Nevada	26	44	46	1,911	3,765	941	4,297
New Hampshire	134	128	135	9,849	10,954	2,739	12,610
New Jersey	799	853	900	58,728	72,998	18,250	84,067
New Mexico	203	249	263	14,921	21,309	5,327	24,566
New York	1761	1731	1826	129,436	148,136	37,034	170,562
North Carolina	623	656	692	45,791	56,139	14,035	64,638
North Dakota	61	62	65	4,484	5,306	1,326	6,071
Ohio	896	975	1029	65,857	83,439	20,860	96,116
Oklahoma	201	214	226	14,774	18,314	4,578	21,110
Oregon	269	196	207	19,772	16,773	4,193	19,335
Pennsylvania	1529	1604	1692	112,384	137,268	34,317	158,045
Rhode Island	162	169	178	11,907	14,463	3,616	16,627
South Carolina	474	526	555	34,840	45,014	11,254	51,841
South Dakota	64	61	64	4,704	5,220	1,305	5,978
Tennessee	542	693	731	39,838	59,306	14,826	68,281
Texas	1220	1232	1300	89,672	105,433	26,358	121,430
Utah	183	195	206	13,451	16,688	4,172	19,242
Vermont	62	62	65	4,557	5,306	1,326	6,072
Virginia	665	700	738	48,879	59,905	14,973	68,935
Washington	454	569	600	33,370	48,694	12,174	56,044
West Virginia	239	249	263	17,567	21,309	5,327	24,566
Wisconsin	408	440	464	29,988	37,655	9,414	43,341
Wyoming	56	67	71	4,116	5,734	1,433	6,632

Federal Aid to States, etc. (continued)

	Actual 1974	Actual 1975	Projected 1976	Actual 1975	Actual 1976	TQ Actual 1976	Projected 1977
Dist. of Columbia	126	107	113	9,261	9,157	2,289	10,555
Canal Zone	1	2	2	73	171	43	187
Puerto Rico	109	109	115	8,011	9,328	2,332	10,742
Guam	8	9	9	588	770	193	841
American Samoa	-0	-0-	-0-	-0-	-0-	-0-	-0-
Virgin Islands	-0	-0	-0-	-0-	-0-	-0-	-0-
	25,809	27,320	28,820	*1,897,000	*2,338,000	**584,500	*2,692,000

PER CAPITA:

for year ending June 30, 1975 (based on actual registration, Jan. 1974) $73.5015
for year ending June 30, 1976 (based on actual registration, Jan. 1975) $85.5783
for transition quarter ending Sept. 1976 (based on actual registration, Jan. 1975) $21.3946
for year ending June 30, 1977 (based on projected registration, Jan. 1976) $93.4073

*includes $10,000 permanent appropriation
**includes one quarter of permanent appropriation for TQ

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Estimate Revised	Transition Quarter
1. Educational materials.....	$2,328,000	$582,000
2. Advisory committees.....	80,000	20,000
Total.....	2,408,000	602,000

Explanation

Estimates for the three-month interim period are based on one-fourth of American Printing House for the Blind's 1976 budget estimate.

The purpose of this request is to provide a continuous service during this period for approximately 6,827 pupils @ $21.40 per pupil.

THURSDAY, MARCH 18, 1976.

SPECIAL INSTITUTIONS

NATIONAL TECHNICAL INSTITUTE FOR THE DEAF

WITNESSES

DR. ROBERT FRISINA, DIRECTOR OF THE NATIONAL TECHNICAL INSTITUTE FOR THE DEAF, ROCHESTER INSTITUTE OF TECHNOLOGY
WILLIAM H. WILLIAMS, ASSISTANT TO THE DIRECTOR OF THE NATIONAL TECHNICAL INSTITUTE FOR THE DEAF, ROCHESTER INSTITUTE OF TECHNOLOGY
DR. WILLIAM E. CASTLE, DEAN, NATIONAL TECHNICAL INSTITUTE FOR THE DEAF, ROCHESTER INSTITUTE OF TECHNOLOGY
DR. FRANK B. WITHROW, HEW LIAISON OFFICER FOR THE NATIONAL TECHNICAL INSTITUTE FOR THE DEAF, BUREAU OF EDUCATION FOR THE HANDICAPPED
WILFORD FORBUSH, DEPUTY ASSISTANT SECRETARY, BUDGET

Mr. FLOOD. We now have the National Technical Institute for the Deaf. This presentation will be made by Dr. Robert Frisina, director of the National Technical Institute for the Deaf, Rochester Institute of Technology. Your biographical sketch will be inserted in the record at this point.

BIOGRAPHICAL SKETCH OF DR. ROBERT FRISINA

Position: Vice President for NTID.
Birthplace and date: Westline, Pa., February 14, 1925.
Education: Westminster College, 1949, B.A.; Gallaudet College, 1950, M.A.; Northwestern University, 1955, Ph. D.
Experience:
1967-Present: Director, National Technical Institute for the Deaf.
1965–67: Dean, Graduate School, Gallaudet College.
1956–67: Director, Hearing and Speech Center, Gallaudet College.
1956–67: Professor, Audiology, Gallaudet College.
1962–63: UNESCO Expert, Department of Education, Hong Kong.
1955–56: Chief Clinician and Research Associate, Northwestern University.
1955–56: Assistant Professor, Audiology, Northwestern University.
1952–55: Graduate Assistant, Children's Hearing and Aphasia Clinic.
1951–52: Instructor at the Kendall School for the Deaf.
1950–51: Instructor, Missouri School for the Deaf.
1947–49: Supervisor, Missouri School for the Deaf.
Association memberships: Alexander Graham Bell Association for the Deaf; American Psychological Association; American Speech and Hearing Association (Fellow 1966); Convention of American Instructors of the Deaf; Council for Exceptional Children.

Mr. FLOOD. You have some people with you here?

Dr. FRISINA. Yes, sir. I have Mr. Williams, assistant to the director, William Castle of the institute, Dr. Frank Withrow from the Department, and, of course, you know Mr. Forbush.

Mr. FLOOD. Do you have a prepared statement?

Dr. FRISINA. Yes, sir.

Mr. FLOOD. How do you want to handle that, Mr. Frisina?

Dr. FRISINA. If the chairman would permit, I would just read it rather quickly.

Mr. FLOOD. Very well.
Dr. FRISINA. Whichever you prefer.
Mr. FLOOD. It is up to you.

OPENING STATEMENT

Dr. FRISINA. Mr. Chairman and members of the committee: On behalf of the Departent, I am pleased to present this request for the National Technical Institute for the Deaf—NTID—for $12,675,000 for the 1977 fiscal year.

This appropriation request is a net increase of $2,839,000 over fiscal year 1976. Of this amount, 94 percent—$2,658,000—is for career education and training programs and 6 percent—$181,000—is for research, demonstration, and management. The student population will increase by 300 from 2,220 to 2,520 and the full-time equivalent faculty and staff by 18 over the transition period. The fiscal year 1977 budget will support an enrollment of 940 full-time deaf students, 400 individuals in educational extension programs, 935 individuals in sign language programs, 90 individuals in interpreter training programs, and 155 individuals in graduate training programs.

Fiscal year 1977 marks NTID's 10th full year of operation. The population of deaf youngsters NTID was established to serve is now officially estimated to be over three times as great as initial estimates.

It is a national population that is in need of better economic accommodation, better educational achievement, better communication abilities, and better personal and social skills. Deaf citizens experience greater unemployment and have lower individual and family incomes than the general population. They hold jobs in declining industries and are generally underemployed. The average deaf citizen has completed less schooling; only 12 percent have had any college in contrast to 33 percent of the general population. In addition to their loss of hearing, their speech, lipreading, reading, and writing abilities are typically far below the levels required for most employment and social situations. In the general education area, the average deaf student is 4 years behind his hearing peer with levels of personal and social development that are inadequate for dealing with society in general.

NTID has learned how to serve this population as its accomplishments to date suggest: Students have entered NTID from 47 States and territories; 95 percent of NTID graduates have been placed in meaningful jobs in 36 States; they have entered a broad array of career areas with 29 percent entering business, 26 percent engineering, 23 percent visual communications, 17 percent science and 5 percent social science, their average starting salary is a respectable $7,548 and ranges as high as $13,620 per year; their performance in areas of attendance, initiative, confidence, aptitude, skill level, and communication has been rated by employers as very good; and in contrast to past trends toward restricted employment opportunities, 88 percent of NTID graduates enter business and industry, with 8 percent entering government and 4 percent education.

In fiscal year 1977, 31 percent of NTID's deaf students will cross-register into other colleges of the sponsoring institution, Rochester

Institute of Technology; 85 percent will receive specialized communication skills training; 74 percent will receive personal and social development courses tailored to the academic needs of the deaf student; 14,000 plus hours of academic and vocational support services will be provided to students; some 2,000 potential employers will be contacted with an orientation to NTID and the deaf employee as a part of the placement process for our fiscal year 1977 graduates; and a number of major curriculum development projects will be carried out.

Applied research projects planned for fiscal year 1977 emphasize the areas of career development, speech analysis/speech perception, job placement, the teaching/learning process, academic support methods, learning disabilities, communication abilities, and manual communication. Dissemination of this research and other NTID-proven concepts will be extended to a variety of publics nationally through 5 special research publications, an exhibit and information program at 5 major professional conventions, 20 plus publications targeted at different populations, approximately 14,000 individuals visiting NTID, and several teacher exchanges. Management at NTID will be improved through the implementation of integrated planning, budgeting, accounting, and student record systems essential to the efficient operation of NTID's programs.

As directed by its charter, NTID has a responsibility to share its methods and research findings on a national basis. Toward that end, from its beginning NTID has conducted a formalized program of national information dissemination. During fiscal year 1977, NTID will complete an updating of this program with emphasis on technical assistance.

Internal components of this program include correlated planning, budgeting and monitoring systems, curriculum and instructional development, faculty and staff development, and occupation research. External components of this program are nationwide and include student orientation and recruitment, job placement, professional development, educational extension, and public information.

Thank you, Mr. Chairman, and members of your committee for the assistance and support you have provided NTID.

ENROLLMENT EXPANSION

Mr. FLOOD. Last year you asked for $2 million to expand enrollment. You want to go from 700 to 960; including 230 professional students.

This year you are proposing $3.5 million. That is to increase the deaf student population from 730 to 940, but you are apparently cutting the number of the professional students. That is a little confusing. Can you clarify now your past and your anticipated growth in both the regular deaf students and the professionals?

Dr. FRISINA. We have updated figures. We are advancing in the technical degree programs with deaf students from 780 to 940. Educational extension is going from 300 to 400; sign language programs from 920 to 935; interpreter training remains constant at 90 in both years; and the graduate intern staff training is going from 130 to 155.

Mr. FLOOD. Are you cutting the number of professional students?

Dr. FRISINA. No; we are increasing by 140.

Mr. FLOOD. That is your anticipated growth in both categories?

Dr. FRISINA. Yes, sir. Comparing 1976 to 1977, the growth is 300.

PRESENT ENROLLMENT

Mr. FLOOD. What is the present enrollment capacity at the institute?

Dr. FRISINA. The capacity is contingent upon several things. Basically we are looking toward a full-time equivalent deaf student population of 1,000. We will attain that in fiscal 1978.

TEACHING STAFF

Mr. FLOOD. Last year you told us that you were going to try and hire new faculty in advance of the actual student increase. When do you anticipate having your teaching staff up to full strength?

Dr. FRISINA. We are at 89 percent in 1977 and we will be at 100 percent in fiscal 1978.

INCREASES REQUIRED BY RIT

Mr. FLOOD. All through the justifications there, let me quote from one of your statements. "Salary increases and associated benefits as required by the sponsoring institution," what do you mean by that?

Dr. FRISINA. The contractual arrangement or the agreement between the Federal Government and Rochester Institute of Technology asked that those employed at the National Technical Institute for the Deaf be bona fide members of the staff and faculty of the sponsoring institution. In line with that directive, we are following the guidelines for advancing salaries that the institute at large uses. In other words, we do not have an independent, distinctive salary arrangement for those working in NTID. We follow the policies of the sponsoring institution in this regard.

Mr. FLOOD. What is the total portion of your 1977 request that you can attribute to the salary increases? What percent increase does that represent now to the individual faculty?

Dr. FRISINA. It will be an overall faculty average of 10 percent.

Mr. FLOOD. On salary increases?

Dr. FRISINA. Yes. That varies from year to year, Mr. Chairman. Last year it was 8.4 percent.

FACULTY JOBS

Mr. FLOOD. How many of those 55 jobs that you are requesting are faculty?

Dr. FRISINA. Seventy percent of those are faculty.

Mr. FLOOD. What kind of yardstick do you use to determine the number of faculty positions that are needed?

Dr. FRISINA. It varies with a particular activity. In the case of speech and hearing, the ratio in our communications center is 24 to 1.

In our technical education programs, it is roughly 7 to 1. Our overall figure, if we balance it all out, comes to roughly 8 to 1 and we are trying to get that to 10 to 1.

CONTRACTED SERVICES

Mr. FLOOD. Last year your increase for the contracted services was 260,000. This year, 511,000. That is about twice the amount. Why that sudden big jump there?

Dr. FRISINA. These items include the costs of room and board and instruction for students, plus physical plant costs. The major contributing component to the increase in these costs, of course, has been utilitity rate increases. They have virtually skyrocketed. The major increase in utilities, plus the added number of students we have, impacts room, board, and instruction for the total student population.

Mr. FLOOD. Why the sudden jump this year?

Dr. FRISINA. Primarily because of rate increases in utilities. In addition to that, we are in our second year now in the physical plant and are still gearing up toward total utilization. We now have the physical plant, which contributes in large measure to the magnitude of the utilities increase.

Mr. FLOOD. We would like something in the record to show those contrasts with particular reference to utilities.

Dr. FRISINA. Yes, indeed.

[The information follows:]

COMPARISON OF 1976 AND 1977 FOR CONTRACTED SERVICES

Contracted student and physical plant services consist of physical plant operations, residence hall living, food services, instructional fees, security services, student activity fees, and student health services. The reasons for the greater dollar increase of fiscal year 1977 over fiscal year 1976 versus fiscal year 1976 over fiscal year 1975 are: (1) a change in base from fiscal year 1975 to fiscal year 1976; (2) fuller utilization of the newly constructed facilities; and (3) rate increases for many of these services. The base in fiscal year 1976 from which the increase is computed was 40 percent more than the base for fiscal year 1975 upon which the fiscal year 1976 increase was computed. This increased base was the result of the enrollment of 120 more full-time equivalent students. Fuller utilization of the newly constructed facilities came about as NTID occupied the facility initially in fiscal year 1975 and moved toward 100 percent occupancy as scheduled for fiscal year 1978. Rate increases accounted for a major portion of the overall increase. Typical of these are gas which increased 22 percent, electricity which increased 51 percent, food services which increased 26 percent, and instructional fees which increased 19 percent. Total utility increases and physical plant increases accounted for $352,000 or 60 percent of the total increase.

EQUIPMENT

Mr. FLOOD. With reference to hardware, what type equipment do you plan to purchase next year to justify that $615,000 increase in these items?

Dr. FRISINA. Part of that has to do with the physical plant heating and air circulation systems which entails changes in dampers and fan motors.

Mr. FLOOD. We thought you had new equipment. Why do you have to replace them already?

Dr. FRISINA. It is not so much a replacement. It is refinement of the system in face of the fuel circumstances. We are trying to modify the system slightly so as to cut down fuel consumption.

Mr. FLOOD. Take a look at page 86 of your justifications. There you will see, toward the bottom of the page, increases, B, program, and two, replacement—additional equipment for technical education, audio-visual support, building systems, and speech training.

Dr. FRISINA. There are really five areas included in there. The first one was related to the physical features for the conservation of fuel. The next is curriculum development and evaluation. This has to do

with photographic equipment. This is basically support for the teaching process, and the conduct of research on a method of teaching using overhead projections.

Part of it is also for television. We have two TV studios in the building. We did not equip both of them at the original time of the utilization of the building because we didn't feel we could utilize them at that time.

TUITION CHARGES

Mr. FLOOD. Your tuition receipts are budgeted to increase by almost 64 percent. Why such a large, large increase as that, 64 percent?

Dr. FRISINA. From 1976 to 1977 it is an increase of 30 percent.

Mr. FLOOD. That is your tuition receipts?

Dr. FRISINA. Total revenue is moving from $1.1 million to $1.8 million.

Mr. FLOOD. The percentage is 64 percent?

Dr. FRISINA. Yes, and that increase comes from a combination of two things. The additional number of students is part of it and the rate change is the second part. There has been a cumulative increase in rate charges of about 7½ percent per annum. It is cumulative over time. We had a rather large jump from 1975 to 1976 because we were getting into the new buildings and the costs of operating the new buildings were more than prior years. So part of it is increased charges to the students and the other part is the increased number of students.

AVERAGE PER PUPIL COST

Mr. FLOOD. What is the average cost per pupil per year?

Dr. FRISINA. At the present time, $2,282.

Mr. FLOOD. What is the estimate for fiscal year 1977?

Dr. FRISINA. For fiscal 1977, it is $2,455. That includes tuition, room, board, fees.

Mr. FLOOD. What are your current charges for tuition, room, and board?

Dr. FRISINA. The current total is $2,282. Tuition is $522, room $780, board $813, and fees, $137.

Mr. FLOOD. Have those charges been increasing each year?

Dr. FRISINA. Yes, 7½ percent per annum, average over the time we have been in business.

Mr. FLOOD. How do those charges compare with other specialized institutions?

Dr. FRISINA. The institution with which we are required to be comparable is Gallaudet College and the tuition charged on NTID and Gallaudet College is identical. This tuition fee is updated each year, based upon the average cost charged at land grant colleges and universities across the country. That brings tuition in keeping with that charged at public institutions.

As far as room and board are concerned, those are to be determined on the basis of what it actually costs to operate the buildings, and so these are virtually the same at Gallaudet and NTID.

In the case of our fees of $2,282, Gallaudet's comparable fees would be $2,322. They are practically the same although the tuition is identical.

NUMBER OF GRADUATES

Mr. FLOOD. How many students will you graduate this year?

Dr. FRISINA. This particular year, something between 100 and 125. This will move up now because we have been increasing the number of students. The students average between a 2½- to 3-year stay. So I should suspect that within 2 or 3 years we are going to move that figure up to 250.

Mr. FLOOD. This year it will be 125?

JOB PLACEMENT RATE

Mr. FLOOD. We keep hearing, job opportunities for young people are going down, all over the country. Do you think this situation is going to significantly influence your ability to place your graduates?

Dr. FRISINA. Our experience has been this. The rate of employment for our graduates has remained right at the 95 plus percent. The reason it is remaining there is that we are working harder to get them placed. The jobs are available if the youngsters have appropriate preparation. If they are technically trained, the jobs are there, as far as our deaf youngsters are concerned.

It is not easy however, it requires extra effort. We are now working with major corporations. As we look at the longer run, we have specific regional and national programs, designed to nurture the relationship between national and international companies. Over time we are trying to assure them that they are not going to waste their money and time with our graduates. If the students are prepared, our experience says that the jobs are there, but they have to be prepared.

RECEIVING EMPLOYER FEEDBACK

Mr. FLOOD. Do you have a regular formal follow-up system of these graduates to determine their long-term employment success?

Dr. FRISINA. Yes. We have had a preliminary system operating for a number of years. It is called our "Graduate Feedback System." It is specifically designed to determine the kind of problems our students encounter on the job, what the reactions of the employers are to deaf people, so as to really chart new territory in acceptance of deaf people.

Mr. FLOOD. Will that system compare your students with those who have not had the special training?

Dr. FRISINA. A few years ago I was particularly interested in, and served on an advisory council that culminated in a report which is called, "Census of the United States Deaf Population," published in 1974. My major purpose there was to make certain that the questionnaire and the interviews that were conducted with these deaf people would give us baseline data against which we could compare our graduates. We now have that baseline, and we are encouraged by our initial statistics on these counts.

First, we are getting them into jobs that are technical and managerial, as opposed to what was available earlier. Over time we will continue to identify the graduates of NTID against those who have not come to this particular institution.

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A PROTOTYPE FOR OTHER INSTITUTIONS

Mr. FLOOD. Have any other institutions for the deaf adopted any of these ideas of yours?

Dr. FRISINA. Yes. We have been instrumental in helping other post-secondary institutions; primarily a network of community colleges across the country, that are incorporating certain kinds of deaf students into their programs. The experience we had with integrating deaf students into the Rochester Institute of Technology community was very useful. We have guidelines for this. We have participated in sessions. We have had people visit us and have visited them. Thus we have, played a significant role in helping deaf students gain admission to community colleges across the country. That number has virtually doubled in the last 5 years.

FACULTY AND STAFF SALARIES

Mr. FLOOD. How do your faculty and staff salaries compare with similar institutions?

Dr. FRISINA. We have comparable figures with the institutions at large and we are at about the midpoint within the institutions.

Mr. FLOOD. You can do this for the record. Develop that information on your salary scale now for the various faculty positions, the various staff positions, and then compare it with two or three other similar institutions.

Dr. FRISINA. Very good. We will supply comparable faculty salary information on several nearby and similar institutions.

[The information follows:]

COMPARABLE FACULTY SALARY WITH SIMILAR INSTITUTIONS

The average NTID faculty salary for fiscal year 1976 is $15,800. This compares with institutions in close geographical proximity as follows: $19,600, $18,700, $18,200, $17,500, $17,400, $15,600, $14,800, and $13,700. A comparison with institutions offering similar technical programs yields the following figures: $18,900, $17,800, $17,700, $17,500, $16,900, $16,500, $16,500, and $16,100. The nearby institutions in the above study include the State University of New York at Brockport, State University of New York at Geneseo, Hobart College, Monroe Community College, Nazareth College, St. John Fisher College, Syracuse University, and the University of Rochester. The programmatically similar institutions include Bradley College, Clarkson Institute of Technology, Drexel University, Illinois Institute of Technology, New York Institute of Technology, Northeastern University, and the University of Cincinnati.

EXCHANGE PROGRAM WITH RIT

Mr. FLOOD. I guess the Rochester Institute of Technology is right next door to your institute. What kind of faculty and student interchange is there between these two institutions?

Dr. FRISINA. One-third of our students take full-time technical, academic loads in the other colleges, utilizing the support personnel from NTID. In addition to that, another 50 percent of the remaining students take one or more courses in the other colleges of RIT. In the resident halls hearing and deaf students live together. There are faculty in the other colleges who teach a class of deaf students or have deaf students integrated into the regular classes. By the same token, we have our staff teaching some courses to both hearing and deaf

students in the class at the same time. As you can see, there is an active interchange between faculty and students on a day-to-day basis.

It is a rather remarkable occurrence, given the size and the complexity of the institution.

Mr. FLOOD. Thank you very much.

Mr. Early?

COST PER STUDENT

Mr. EARLY. Just a couple of questions, Mr. Chairman.

You answered the chairman that the cost per student was $2,282, and you said that cost was to cover room, board, and tuition.

Dr. FRISINA. Those are charges to the student.

Mr. EARLY. Charges to the student?

Dr. FRISINA. Yes, sir.

PER CAPITA COST

Mr. EARLY. What is the per capita cost of each student?

Dr. FRISINA. For the deaf students, it is $9,600. For the RIT hearing students it is $5,700.

PRESENT ENROLLMENT

Mr. EARLY. What is your present enrollment?

Dr. FRISINA. The current full-time equivalent is 780.

Mr. EARLY. How many students are from New York?

Dr. FRISINA. From New York?

Mr. EARLY. Yes.

Dr. FRISINA. Over time, it has varied, but it is roughly 20 percent.

Mr. EARLY. The impression is, then, that your students came from all over the country?

Dr. FRISINA. Yes.

Mr. EARLY. Would you supply for the record the home States of your present enrollment?

Dr. FRISINA. Yes, sir.

[The information follows:]

STUDENT BODY

Currently (fiscal year 1976 winter quarter), NTID is serving students from 42 States and the District of Columbia. These students are distributed as follows:

	Students		Students
Arkansas	2	Missouri	29
Arizona	1	Nebraska	1
California	33	North Carolina	5
Colorado	3	New Hampshire	3
Connecticut	18	New Jersey	17
District of Columbia	1	New Mexico	2
Delaware	4	New York	137
Florida	8	Ohio	32
Georgia	5	Oklahoma	1
Hawaii	6	Oregon	4
Iowa	5	Pennsylvania	58
Idaho	2	Rhode Island	3
Illinois	32	South Carolina	1
Indiana	6	Tennessee	6
Kansas	4	Texas	18
Kentucky	6	Utah	2
Louisiana	12	Virginia	4
Massachusetts	27	Vermont	8
Maryland	15	Washington	3
Maine	6	Wisconsin	14
Michigan	32	West Virginia	2
Minnesota	5		

COST PER HEARING STUDENT

Mr. EARLY. The cost per hearing student is only $5,700. For room and board and tuition?

Dr. FRISINA. No; when you think in terms of what it costs RIT to educate a hearing student, it comes to $5,700. Only roughly 50 percent of the RIT hearing students live in.

Mr. EARLY. Only 50 percent live in, but only 20 percent are from the State?

RIT FULL-TIME ENROLLMENT

Dr. FRISINA. The institute, RIT, is a private institution which has a total full-time enrollment of 7,300 students. It is within that 7,300 students that we find the deaf students. There are additionally anywhere—depending upon circumstances—from 8,000 to 12,000 evening students—hearing—who came in from the community for continuing education. So the institution at large has roughly 10,000 full-time equivalent students.

Mr. EARLY. My question is regarding full-time student enrollment.

Dr. FRISINA. The full-time hearing student?

Mr. EARLY. Yes; is that enrollment numbered at 780 students?

Dr. FRISINA. No; the 780 students are the deaf students among the 7,300 undergraduate full-time students.

Mr. EARLY. So full-time enrollment of deaf students is 780?

Dr. FRISINA. Yes.

PER CAPITA COST

Mr. EARLY. Their per capita cost is how much?

Dr. FRISINA. $9,600. The average school for the deaf across the country, sir, is on a 9-month basis, and on that basis averages around $6,200 per elementary and secondary school student.

Mr. EARLY. The room and board figure pertains mostly to schools that are recruiting from right in their own State then. Is that correct?

Dr. FRISINA. Yes; those are residential schools.

Mr. EARLY. Yours versus the whole country?

Dr. FRISINA. Virtually all NTID students are residential; 95 percent of our students live in.

Mr. EARLY. What percentage come from other States?

Dr. FRISINA. Eighty percent of our students come from States other than New York.

Dr. FRISINA. They actually come from 47 States.

Mr. EARLY. Let me ask one other question. Your statement said that students have entered NTID from 47 States and territories.

Dr. FRISINA. That is right.

Mr. EARLY. Is that from conception or are there 47 States represented in this year's enrollment?

Dr. FRISINA. From conception.

Mr. EARLY. How long have you been in existence?

Dr. FRISINA. Fiscal year 1977 is our 10th year of operation and our 9th year with students.

From conception it is 47 plus Washington, D.C., and Puerto Rico. We also had two U.S. citizens from Bermuda and Italy. Our enrollment is confined to citizens of the United States and those on a permanent residental basis.

Mr. EARLY. Thank you.

1977 BUDGET INCREASE

Mr. MICHEL. Your budget request represents about a 30 percent increase. How do you account for an increase that large?

Dr. FRISINA. Of the total increase 48 percent is for mandated changes. Of the remaining amount for program changes, two-thirds is

a direct result of the increases in students and one-third is for additional state-of-the-art equipment.

STUDENT ENROLLMENT

Mr. MICHEL. You are projecting an increase in full-time enrollment from 730 to 940. When the school becomes fully operational in 1978, what do you expect that enrollment to be? Will there be a leveling off then, or will there continue to be a steady increase?

Dr. FRISINA. In fiscal year 1978, NTID will serve an estimated deaf student enrollment of 1,050. The degree to which this number varies in future years is dependent primarily upon three factors: The capacity of our physical facilities; the amount of our annual resources; and the number of potential students to be served.

STUDENT FEES

Mr. MICHEL. Do the students pay any kind of a fee or tuition, and if so, what is it?

Dr. FRISINA. Yes; NTID students currently pay a total of $2,282 for tuition, room, board, and fees.

STUDENT WAITING LIST

Mr. MICHEL. Is there a waiting list of students wanting to attend the school?

Dr. FRISINA. Yes; we have approximately 50 students on our waiting list at the present time.

NON-FEDERAL RECEIPTS INCREASE

Mr. MICHEL. What accounts for the 65 percent increase in receipts from non-Federal sources?

Dr. FRISINA. This increase is a reflection of a 20-percent increase in numbers of students and a 30-percent increase in charges for tuition, room, board, and fees.

MATERIAL DISSEMINATION

Mr. MICHEL. What kind of a receptivity is there for the various materials you are disseminating?

Dr. FRISINA. Receptivity to the materials disseminated by NTID is excellent and indicative of a high degree of need for and interest in the data that are distributed. This receptivity is evidenced by such positive feedback as correspondence asking for additional information, requests to be on our mailing list, and visitations to NTID by more than 300 individuals per month from all parts of the Nation as well as foreign countries. Receptivity is also evidenced by other organization's interest in program concepts, methods and techniques developed at NTID, and by requests for NTID's participation in a wide range of national conferences, such as this year's hosting of the Conference of Executives of American Schools for the Deaf.

PERCENTAGE OF STUDENTS WHO BENEFIT FROM NTID'S PROGRAMS

Mr. ROYBAL. What percentage of the deaf college student population benefit from at least one of your programs?

Dr. FRISINA. Approximately 20 percent of the total national deaf college student population is enrolled at NTID. However, benefits are extended to virtually all deaf college students by way of NTID's research and national information dissemination program.

TOTAL NUMBER OF DEAF COLLEGE STUDENTS

Mr. ROYBAL. What is the total number of deaf college-age students in the country?

Dr. FRISINA. According to the National Association of the Deaf Census published in 1974, there are approximately 46,000 deaf persons of college age in the United States. Of that number, approximately 4,000 are currently enrolled in college, but this number is projected to double by 1990.

MEANINGFUL JOBS

Mr. ROYBAL. You indicate that 96 percent of your graduates have been placed in meaningful jobs. What does the term "meaningful" mean?

Dr. FRISINA. By meaningful employment is meant three things. (1) the job must be one for which the student's background, interests, and education at NTID have prepared him; (2) the level of expectation must be commensurate with the student's abilities; and (3) the job must provide the same remuneration and sense of satisfaction as that experienced by the student's hearing peers in similar positions.

AVERAGE STARTING SALARY

Mr. ROYBAL. You indicate that the average starting salary $7,548. How does this compare with what the average college graduate receives?

Dr. FRISINA. It compares quite favorably. From information gathered from the College Placement Council and input received from employers, NTID graduates are receiving entry level salaries competitive with those received by similarly qualified hearing graduates in like positions.

RESEARCH DISSEMINATION

Mr. ROYBAL. You indicate that you share your research through a formalized program of national information dissemination. Would you describe this program?

Dr. FRISINA. NTID's formalized program of information dissemination incorporates four principal communication activities for sharing information with key national publics. Those are print media such as regular publications and specialized monographs, audiovisual media such as motion pictures and slide presentations, electronic media such as radio and television, and direct communications such as visitations to the NTID campus and papers presented at professional meetings throughout the country. As an indication of impact, two spot announcements prepared for television have now been seen by an estimated 60 million viewers throughout the country.

CAREER EDUCATION AND TRAINING OCCUPATIONS

Mr. CONTE. What occupations do you train students for under the career education and training program?

Dr. FRISINA. NTID trains students for a broad range of occupations in engineering, science, business, visual communications and social sciences. If I may, I would like to insert for the record a list of representative job titles in which NTID graduates have been placed.

[The list follows:]

Engineering.—Electrical engineer, industrial engineer, mechanical design engineer, machine operator, designer, experimental engineer, tool design engineer, tool and die apprentice, architectural draftsman, draftswoman.

Science.—Lab technician, phlebotonist, clinical lab technician, chemical technician, physician's office technician, medical records technician, histologic technician, medical technologist, graduate student, microbiology assistant.

Business.—Management trainee, systems analyst, computer operator, accounting clerk, editorial assistant, tax agent, applications programer, junior accountant, word processing secretary, clerk typist.

Visual communications.—Artist/designer, lithographer, photo finisher, cameraman, art illustrator, art teacher, pressman, custom color photographer, color lab technician, display coordinator.

Social science.—Social worker, parent interacter, teacher, case aide, educator's aide, graduate student, rehabilitation counselor.

CAREER TRAINING INCREASE

Mr. CONTE. What will the $2,658,000 increase for career training be used for?

Dr. FRISINA. The $2,658,000 increase for career education and training includes $798,000 for annualization of partial year's salaries, salary increases as required by the sponsoring institution, associated fringe benefits, and overhead; $416,000 for increased rates of contracted student support services; $955,000 for technical, communications, and personal/social training of an additional 300 students; and $489,000 for additional equipment as used in direct educational programs.

SIGNIFICANT ACCOMPLISHMENTS

Mr. CONTE. Fiscal year 1977 marks the 10th year of NTID's operation. What accomplishments do you feel are the most significant over this period?

Dr. FRISINA. One would have to begin with the successful nationwide placement of the deaf persons NTID was designed by Congress to serve. These individuals in addition to being profoundly and largely prelingually deaf, come to NTID with an average eighth-grade overall achievement level, inadequate personal and social skills, and substantial communication impairments beyond deafness. As graduates of NTID, they are achieving a 95-percent placement record, are assuming occupations within their areas and at their levels of education, are exhibiting stay-power in their chosen fields, and are entering careers heretofore closed to deaf citizenes.

There are obviously a great many accomplishments that have led to success of this sort, including the construction of an award-winning physical facility that reflects special program needs: the development of a combination of support services and technical curricula which result in 135 different career programs in engineering, science, business, visual communications and social sciences being made available to deaf students: the development of communication and personal/social profiles that enable us to quantify for the first time these seemingly intangible competency areas; the integration of a large number

of deaf students in a pubicly supported institute into a private institution of hearing students; and the record of continued support by the Department, OMB, and the Congress.

But there is more to do. The population of college-age deaf persons is rising. There is a great need for trained personnel to serve this population and a great need for research into the accommodations this population requires in order for them to have the same opportunities hearing citizens enjoy.

CURRENT UNEMPLOYMENT RATE

Mr. CONTE. What is the current unemployment rate for deaf citizens, compared to the national rate?

Dr. FRISINA. The National Association for the Deaf census indicates that in 1972 the unemployment rate for deaf citizens averaged 6.55 percent while the rate for the general population was 5.75 percent.

JOB RETENTION RATE

Mr. CONTE. Do you have any figures on the job retention by graduates of your institute?

Dr. FRISINA. Yes, in a recent study it was found that 61 percent of our graduates were still in their first job at the end of the first work year. The other 39 percent left their jobs for reasons consistent with those offered by most persons changing jobs; poor working conditions, finding a better job, better location, continuing education, marriage, and pregnancy.

RESEARCH DISSEMINATION

Mr. CONTE. How wide a circulation does the dissemination of your research information have?

Dr. FRISINA. NTID's research information reaches individuals and organizations in every State and territory of the United States as well as several foreign countries. In terms of volume, the circulation of some research information, such as that included in the NTID Focus magazine, is quite extensive. The publication is sent to approximately 10,000 people in all States. Other more highly specialized research data are targeted to particular groups or individuals.

ADMINISTRATIVE EXPENSES

Mr. CONTE. How much of your budget is devoted to administrative expenses?

Dr. FRISINA. $1,780,000 or 12 percent of NTID's total budget is devoted to the management process. This includes all costs of general and academic administration.

RESEARCH PUBLICATIONS

Mr. CONTE. At what types of populations are your research publications targeted?

Dr. FRISINA. NTID's research publications are targeted to reach public and private residential schools for the deaf, State departments of education or public instruction, State vocational rehabilita-

tion services, public and private day schools having classes and other services for deaf children, rehabilitation facilities offering services for the deaf, speech and hearing clinics, other postsecondary programs, and other interested groups, organizations or individuals likely to have contact with the deaf.

REPORT ON WORK PERFORMANCE/FORMER STUDENTS

Mr. CONTE. How much feedback do you get from employers who have hired your former students?

Dr. FRISINA. NTID receives longitudinal information about the success of our graduates from employers at 1-, 5-, and 10-year intervals. This is in addition to preliminary information received at earlier intervals. The preliminary information includes the employee's job title and salary as well as readings of such things as performance, attendance, punctuality, safety awareness, work attitudes and peer relations. The purpose served by obtaining this information is to determine the technical, communications, personal, and social competencies of our graduates. This in turn is used to modify our programs. Since NTID is not yet fully operational, the majority of our graduates have only recently been placed. Thus, the bulk of our information to date is preliminary with more detailed and comprehensive information scheduled for compilation during fiscal year 1978.

NUMBER OF STUDENTS IN HIGHER EDUCATION

Mr. CONTE. How many of your students go on to institutions of higher education?

Dr. FRISINA. To date, approximately 110 NTID students, or 16 percent of all those who have left, have gone on to other institutions of higher education.

SOCIAL AND PERSONAL DEVELOPMENT

Mr. CONTE. In your opening statement you mentioned that the average deaf student is 4 years behind his hearing peer in personal and social development. What does your program do to correct this?

Dr. FRISINA. Each student is assisted by a career development counselor in the development of a personal career development plan. This plan concentrates on three areas of competence; technical, communications, and personal/social. Based on that plan a special program is developed to meet the student's individual needs. For technical competence, extensive educational support is marshaled, resulting in graduates who compare favorably in academic achievement with their hearing peers. For personal and social competence, special programs in career decisionmaking, interpersonal communications, interviewing, and personal finance result in graduates who display enhanced interpersonal and leadership abilities. For communications competence, a number of special programs in speech, hearing and language are developed, and as an overall indication of our success in this area, students' average reading levels at NTID have increased 1.2 mean grade equivalent levels in 1 year in contrast to their previous history of 0.65 grade equivalent levels.

ADDITIONAL FACULTY

Mr. CONTE. What will the additional faculty be utilized for?

Dr. FRISINA. The additional faculty are related solely to the increase in students with particular emphasis on technical education and personal/social development.

5-YEAR POPULATION

Mr. CONTE. What do you estimate will be the size of the population you serve in the next 5 years?

Dr. FRISINA. During the next 5 years, NTID is projected to admit approximately 1,500 new students.

EMPLOYMENT IN DECLINING INDUSTRIES

Mr. CONTE. What is the cause of deaf citizens holding jobs in declining industries to a greater extent than hearing citizens?

Dr. FRISINA. Deaf persons have traditionally been concentrated in goods-producing industries because the levels of education and communication skills required for those jobs are not as great as those required for skilled and service-producing jobs. It is for this reason that NTID regards as highly significant its accomplishments to date in placing deaf graduates in service and skilled employment. By continuing to target our programs and students in this manner, we hope to reduce this trend of deaf employment in declining industries.

Mr. FLOOD. Thank you very much.

JUSTIFICATION OF THE BUDGET ESTIMATES

Appropriation Language

NATIONAL TECHNICAL INSTITUTE FOR THE DEAF

For carrying out the National Technical Institute for the Deaf Act (20 U.S.C. 681, et seq.) [$9,836,000] *$12,675,000.*

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SPECIAL INSTITUTIONS

National Technical Institute for the Deaf

Amounts Available for Obligation

	FY76	FY77
Appropriation	$ 9,836,000	$12,675,000
Receipts and reimbursements from non-Federal sources	1,144,000	1,872,000
Total Obligations	10,980,000	14,547,000

Summary of Changes

1976 Estimates Obligations	$10,980,000
1977 Estimated Obligations	14,547,000
Net Change	+3,567,000

	Base		Change from Base	
	*Pos.	Amount	*Pos.	Amount
Increases:				
A. Built-in:				
1. Annualization of FY76 salaries	---	---	---	$+318,000
2. Salary increment	---	---	---	+879,000
3. Rate increases in contracted student and physical plant services	---	---	---	+511,000
Subtotal	---	---	---	1,708,000
B. Program:				
1. Technical instruction, communications training, personal/social development, housing, and food services for an additional 300 FTE students	211	$8,231,900	+54	+$1,244,000
2. Replacement and additional equipment for technical education, audio-visual support, building systems and speech training.	---	---	---	615,000
Subtotal	---	---	+54	+1,859,000
Total, increases	---	---	+54	+3,567,000
Decreases:				
A. Built-in:				
B. Program:				
Total, net change	---	---	+54	+3,567,000

*All positions are non-Federal.

Obligations by Activity
(Dollars in Thousands)

Appropriations/Activity	1976 Estimate Pos.	1976 Estimate Amount	1977 Estimate Pos.	1977 Estimate Amount	Change Pos.	Change Amount
1. OPERATIONS:						
a. Career Development	158	$ 6,150,600	205	$ 9,048,100	+47	+$2,897,500
b. Research.....	27	1,061,000	27	1,121,400	---	+60,400
c. Training.....	39	1,532,300	43	1,903,300	+4	+371,000
d. Information Dissemination...	14	549,000	17	695,000	+3	+146,000
e. Management.....	40	1,687,100	40	1,779,200	---	+92,100
TOTAL.....	278	10,980,000	332	14,547,000	+54	+3,567,000

Obligations by Object

	1976 Estimate	1977 Estimate	Change
Grants, subsidies, and contributions.....	$10,980,000	$14,547,000	+$3,567,000

Authorizing Legislation

Legislation	1977 Authorized	1977 Appropriation Requested
National Technical Institute for the Deaf Act	Indefinite	$12,675,000

(20 U.S.C. 681) Enacted June 8, 1965,
P.L. 89-36, Sec. 2, 79 Stat. 125.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SPECIAL INSTITUTIONS

National Technical Institute for the Deaf

Table of Estimates and Appropriations

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1967	$491,000	$491,000	$491,000	$491,000
1968	2,615,000	2,615,000	2,615,000	2,615,000
1969	800,000	800,000	800,000	800,000
1970	2,851,000	2,851,000	2,851,000	2,851,000
1971	25,444,000	25,444,000	25,444,000	25,444,000
1972	7,619,000	7,619,000	7,619,000	7,619,000
1973	6,569,000	6,569,000	6,569,000	6,569,000
1974	6,487,000	6,487,000	6,487,000	6,487,000
1975	9,819,000	9,819,000	9,819,000	9,819,000
1976	9,836,000	9,836,000	9,836,000	9,836,000
1977	12,675,000			

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SPECIAL INSTITUTIONS

National Technical Institute for the Deaf

Justification

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel compensation and benefits	278	$5,818,000	332	$7,558,400	+54	$+1,740,400
Other expenses.....	---	5,162,000	---	6,988,600	---	+1,826,600
	278	10,980,000	332	14,547,000	+54	+3,567,000

General Statement

The National Technical Institute for the Deaf (NTID) is a residential, post-secondary, technical training and education college for persons who are deaf to prepare them for successful employment throughout the nation. Funds requested for FY77 are designed to continue NTID's planned growth toward fully operational status in FY78. In FY77, a full-time equivalent of 940 deaf students will be enrolled in programs with a variety of exit points leading directly into jobs.

The deaf students NTID serves exhibit needs for enhanced academic, personal/social, and communication skills. They require enhanced job skills to improve their chances to defeat the history of unemployment and underemployment that has plagued deaf citizens. Teaching methods and techniques used with deaf students also require substantial development and refinement. Toward meeting these needs, NTID's program outcomes for FY77 are planned.

In FY77, NTID will serve a full-time equivalent enrollment of 940 deaf students; 660 of these students will be enrolled in curricula conducted by NTID and 280 will be enrolled in NTID's host institution, the Rochester Institute of Technology, with support services provided by NTID. Of this total, 85% will receive instruction in communication skills. 254 graduates will be placed in industry, education and government at job levels commensurate with their skills and training. In a wide range of programs designed to develop improved decision-making skills and present a variety of leadership opportunities in student activities and public service, the students' personal/social development will be materially improved in order to facilitate their employment as productive workers.

Applied research will focus on several learner-oriented questions related to the needs of deaf people including: their accommodation to the world of work; measurements of the communications abilities of deaf students; the usefulness of a career development model for deaf students; and several other projects that are specifically constructed to contribute to the methods of improvement of teaching the deaf.

Professionals working with and training to serve the deaf on a national basis will also receive instruction at NTID. In FY77, professionals and graduate interns from other institutions will spend one or more quarters working and learning at NTID; extended services seminars will be held for professionals in related fields; and several levels and types of manual communications training will be provided.

Through an active program of information dissemination, what is being learned and developed at NTID will be packaged, published and distributed to other schools, programs, agencies, organizations and the deaf public.

Management efforts will be directed toward planning, executing and evaluating the activities of NTID in such a way that the purposes and population for which NTID was established will be effectively served.

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Narrative

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel compensation and benefits.....	278	$5,818,000	332	$7,558,400	+54	$+1,740,400
Other expenses	---	5,162,000	---	6,988,600	---	+1,826,600
TOTAL.....	278	10,980,000	332	14,547,000	+54	+3,567,000

The FY77 estimate for operations represents an increase of $3,567,000 over FY76. This increase is further delineated by subactivity as follows:

Subactivities:						
1. Career Development	158	$6,150,600	205	$9,048,100	+47	$+2,897,500
2. Research.....	27	1,061,000	27	1,121,400	---	+60,400
3. Training.....	39	1,532,300	43	1,903,300	+4	+371,000
4. Information Dissemination...	14	549,000	17	695,000	+3	+146,000
5. Management.....	40	1,687,100	40	1,779,200	---	+92,100
TOTAL.....	278	10,980,000	332	14,547,000	+54	+3,567,000

Career Development

The total increase for Career Development is $2,897,500: $867,100 for annualization of partial-year salaries, salary increases as required by the sponsoring institution, associated fringe benefits, and overhead; $396,400 for increased rates of contracted student support services; $1,082,700 for technical, communications, and personal/social training of 300 additional students; and $551,300 for replacement and upgrading of existing equipment used in direct educational programs.

Career Development provides technical and general academic preparation for deaf students in professional and paraprofessional careers including but not limited to training in basic and preparatory English, architectural drafting, bookkeeping, data processing, engineering, engineering technologies, medical laboratory technician training, clinical chemistry, photographic technology, civil technology, computer science, printing technology, and applied arts. Student support services required to sustain this effort are tutoring, interpreting, communication skills training, media and curricula development, notetaking, and individualized counseling. In addition, all students are served by NTID's comprehensive, nationwide job placement program. Significant program outputs planned for FY77 include:

1. Of NTID's 940 full-time equivalent deaf students, 69% will enroll in NTID-managed programs on a full-time basis, and 31% will cross-register in other colleges of the sponsoring institution, Rochester Institute of Technology.

2. Eighty-five percent of the deaf students will receive instruction in communication skills (speech intelligibility, reading, writing, speechreading, and manual communication.)

3. Three specific groups of students will receive developmental education courses designed to reduce dependency and prepare them for employment in a hearing world: a) 317 first-year students, b) 226 students preparing for cooperative work, and c) 254 graduating students.

4. 6,000 plus hours of tutoring in support of academic courses will be provided.

5. 8,000 plus hours of vocational decision-making assistance, program planning, and counseling to deaf students resulting in the preparation of realistic student career development plans will be provided.

6. A computerized career guidance system will be evaluated for potential usefulness in aiding students in making career choices.

7. 60 students will gain experience in public service skills by participation in community volunteer programs.

8. 2,600 plus potential employers will be contacted to achieve placement of 254 NTID graduates.

9. A national conference and two regional seminars will be conducted for representatives of major businesses and industries to promote the employment of deaf graduates.

10. Major curricula development projects will include: a) individualizing curricula in electro/mechanical technologies and in office practices and procedures; b) individualizing curricula in electronics, medical laboratory technology, printing and in data processing; c) offering a new course in Effective Oral Communication; d) developing a new course in Interpersonal Communication to assist students in group communication situations; e) developing a new series of writing lab courses; f) developing two new courses in Communication Aids; g) developing a new special course in speechreading; and h) individualizing instructional units for development of manual reception skills.

Research

The total increase for Research is $60,400: $46,700 for faculty and staff salary increases as required by the sponsoring institution, associated fringe benefits, and overhead; and $13,700 for replacement and upgrading of equipment used to support the various on-going research projects.

Research is dedicated to specific projects directly related to designing, developing, and evaluating methods of economic accommodation, educational achievement, communication skill enhancement, personal/ social skill enhancement, and teaching techniques as they impact the occupational and employment related aspects of deafness. Applied research projects for implementation in FY77 include:

1. The usefulness of a Career Development Model for deaf students will be analyzed.

2. The Speech Analysis/Speech Perception Laboratories, designed to enhance speech reception and production skills, will be operated and fully tested.

3. The measures of academic, personal/social, and communication skills will be related to find a combined predictor of success for deaf students.

4. A summary report of the NTID graduates' accommodations to the world of work will be prepared and disseminated.

5. At least six projects dealing with applying technology to the teaching-learning process will be designed and implemented.

6. All entering deaf students will be evaluated with respect to visual information processing and comprehension of classroom material.

7. The feasibility of training hearing students to serve as notetakers, interpreters, and tutors will be determined.

8. A minimum entry level profile for students entering the RIT Colleges of Engineering and General Studies will be developed.

9. A differential diagnostic battery for determining the existence of learning disabilities in deaf students will be piloted.

10. At least 37 research projects concerning the modes, measurements, and improvement of communication abilities of deaf students will be designed.

12. The effect of class time, practice time, motivation, language background, expectancy in learning sign language, learning strategies, and cognitive style on the individual's ability to learn sign language will be determined.

Training

The total increase for Training is $371,000: $114,300 for faculty and staff salary increases as required by the sponsoring institution, associated fringe benefits, and overhead; $114,600 for increases in the rates charged for contracted student support services; $92,100 for training and education of additional students; and $50,000 for replacement and upgrading of the equipment used in these programs.

Training of professionals by formal means (seminars, workshops, short course modules) and informal means (in-service) to provide them with skills to better serve at all levels of deaf education and training is part of a continuing process for development and growth of new staff, interns, graduate students, and teachers who work in the field of deaf education.

1. A Professional Development Model for establishing, monitoring, and evaluating the growth of all NTID professionals will be implemented.

2. 85 professional and graduate interns will spend one or more quarters developing their competencies at NTID.

3. 400 individuals, representing a number of professions, will receive instruction about the physical and sociological aspects of deafness through extended service seminars.

4. 935 individuals will receive basic sign language instruction through four different training programs.

5. 90 individuals will receive instruction in advanced manual communication in order to attain interpreter level skills with special emphasis on technical terminology.

6. 70 new NTID and RIT professional staff and interns will receive intensive manual communication training preparatory to their teaching classes.

Information Dissemination

The total increase for Information Dissemination is $146,000: $76,800 for annualization of FY76 salaries, salary increases as mandated by the sponsoring institution, associated fringe benefits, and overhead; and $69,200 for meeting the needs of an increased number of students.

Information Dissemination is dedicated to packaging and publishing the results of NTID's experiences concerning career development, research, professional training, and program management to other schools, programs, agencies, organizations, and to the deaf public generally. Significant program outputs planned for FY77 include:

1. Five special publications designed to disseminate specific research and education information to the deaf education community will be produced.

2. An exhibit and program will be featured at five major professional conventions demonstrating the job potential of NTID graduates by describing NTID and its graduates as employees.

3. 20 plus publications will be produced for external use including:

   (a). 6 NTID Focus bimonthly magazines,
   (b). 2 Mini-Focus magazines,
   (c). 10 television programs,
   (d). a new catalog,
   (e). several TV news spots.

4. 14,000 persons from the areas of deaf education and rehabilitation, including professionals in education, graduate students, prospective students and their parents, and interested members of the general business community will receive formal information tours of the NTID facilities.

5. An active alumni liaison program will maintain contact and receive feedback on job success and mobility, upward and laterally, of graduates.

6. Teacher exchanges will be extended with programs for the deaf in New York, California, Wisconsin, and Michigan.

Management

The increase for Management of $92,100 is for salary increases and associated fringe benefits, and overhead as mandated by the sponsoring institution.

Management is responsible for planning, executing, and evaluating the processes previously described in such a way that the purposes and population for which NTID was established are effectively served. Significant program outputs planned for FY77 include:

1. An improved program performance and evaluation reporting system, that combines quantifiable output measures and resource input, will be tested and implemented.

2. 54 new and 20 replacement faculty and staff will be recruited and added to NTID's cadre of trained personnel.

3. The Student Record System will be made fully operational providing internal and external data for planning, scheduling and evaluating.

4. The NCHEMS/WICHE integrated planning, budgeting, and accounting system will be modified and adapted to NTID's situation.

5. A new Johnson HVAC Control System for physical plant environmental management will be used for controlling utility usage.

6. A professional staff job evaluation/compensation program will be added to the existing general staff system.

Special Institutions

National Technical Institute for the Deaf

Program Purpose and Accomplishments

Activity: Operations (National Technical Institute for the Deaf; Public Law 89-36)

1976			1977	
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
278	$9,836,000	Indefinite	332	$12,675,000

Purpose: The National Technical Institute for the Deaf (NTID) serves the nation as an important agent in solving the historically documented but still existing employment problems of the deaf through providing a defined number of young deaf people with the technical, personal/social, and communication skills required to serve as productive citizens; through training professional manpower needed nationally to provide these skills; and through gathering vital data about satisfying educational, social and economic needs of deaf people. As part of a long-standing institution of higher learning, the Rochester Institute of Technology, NTID provides an example of how the needs of the deaf and other groups of people deprived for a long time can be served by an institution that previously had not been directly involved with these groups.

Accomplishments in 1976:

1. Planned growth of student body. The enrollment of deaf students in 1976 reached 730 deaf students on a full-time basis. Several new curricula were studied for implementation including Small Web Press Operation, Microfilm Technology and Criminal Justice. These curricula reflect the current and projected national employment needs and support the increased enrollment.

Experience has shown that deaf students require substantial personal and social development. Through a combined program of developmental education courses, courses offered through NTID's Experimental Theatre, and on-campus and off-campus leadership and service opportunities, all students had an opportunity to enhance their personal/social skills, which will contribute to improving their job opportunities.

Deaf students benefited from increased opportunities to participate in a thriving social/cultural program, and more opportunities for interaction with the enlarged and diversified student body (600 in FY75 to 730 in FY76).

Two hundred fifty-five students enrolled in NTID for the first time in FY76. Of these, 25% received individual counseling at the average rate of four hours per student (per quarter) in order to assist them in selecting majors.

All deaf students were evaluated and received communication skills development instruction appropriate to their kinds and levels of needs. This instruction included remedial and technical English; aural rehabilitation including speechreading, communication aids and auditory training; oral skill development including speech production; and other skills specific to individual student's needs for education and employment.

Professional level training for 1,440 students (800 in FY75) was provided to prepare them for working with deaf persons nationally as well as working within the NTID environment.

2. Applied Research. NTID's research activities were heightened during FY76 as a result of what was learned about the operation of programs in the new facilities and what has been learned from former students' progress and subsequent job success. Research in personal and social development considered development of a socialization profile, attitudes toward deafness among hearing students, and arrangements for living on campus. Research on communication skills development considered measuring written language of deaf students, group versus individual auditory training, the bearing of sites of lesions on auditory discrimination, and articulation training. Other research regarded the academic enhancement, improved economic accommodation of deaf workers, and enhancement of teaching methods used with the deaf. The total number of research projects undertaken was 35.

Objectives for FY77:

1. Planned growth of the student body. The enrollment of deaf students in FY77 will reach 940 (730 in FY76). All of these students will be enrolled in curricula specifically designed to lead them to jobs upon graduation. Of the students served, 254 are expected to graduate and be placed in jobs commensurate with their levels of skill and training. Students will be provided counseling and other support services, including some experimental methods of improving their career decision-making skills, in order to gain information about career areas and participate in planning their studies at NTID toward valid career development.

Professionals working with and training to serve the deaf on a national basis will also receive instruction at NTID; 85 professionals and graduate interns will spend one or more quarters working and learning; extended services seminars will be held for 400 professionals in related fields; and 1095 individuals will receive the manual communication and other training appropriate to their responsibilities.

2. Applied research. Applied research will focus on learner-oriented questions primarily devised for program enhancement. At least 37 projects on the modes, measurements, and improvement of communication skills of deaf students will be designed, developed and implemented. The Speech Analysis/Speech Perception Laboratory, designed to enhance speech reception and production skills, will be operated and fully tested. A summary report of the accommodations of NTID graduates to their jobs will be produced. All entering deaf students will be evaluated with respect to visual information processing and comprehension of classroom material. A minimum of 13 other research projects, directly oriented to improving the career development process of NTID and enhancing the accommodation of deaf people in society are planned.

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Estimate Revised	Transition Quarter
Academic programs.....	$9,836,000	$2,932,000

Explanation

Estimates for the three-month interim period--$2,459,000--are based on one-fourth of NTID's 1976 budget estimate, plus an additional $473,000 for twenty new faculty ($101,000); special summer training programs ($113,000); faculty and staff merit ($152,000); annualization of FY 1976 partial year salary ($76,000) and contracted services ($31,000).

The purpose of this request is to permit NTID to augment its academic program activities during the interim period to take care of built-in cost increases and program expansion related to enrollment increases.

THURSDAY, MARCH 18, 1976.

GALLAUDET COLLEGE

WITNESSES

EDWARD C. MERRILL, JR., PRESIDENT
JOHN S. SCHUCHMAN, DEAN OF THE LIBERAL ARTS COLLEGE
DOIN HICKS, DEAN OF PRECOLLEGE PROGRAMS
PAUL K. NANCE, BUSINESS MANAGER
ROBERT R. DAVILA, DIRECTOR, KENDALL DEMONSTRATION ELEMENTARY SCHOOL
WILFORD J. FORBUSH, DEPUTY ASSISTANT SECRETARY, BUDGET

Mr. FLOOD. We now have Gallaudet College. This presentation will be made by Edward C. Merrill, Jr., president. We have a biographical sketch of you, Mr. Merrill, which we will place in the record at this point.

BIOGRAPHICAL SKETCH

Name: Edward C. Merrill, Jr.
Position: President, Gallaudet College.
Birthplace and date: Asheville, N.C., January 29, 1920.
Education: University of North Carolina, 1942, B.A., University of Tennessee, 1948, M.S., George Peabody College for Teachers, 1953, Ph. D.

EXPERIENCE

Present: President, Gallaudet College.
1961–69: Dean, College of Education, University of Tennessee.
1960–61: Professor of education, University of North Carolina.
1957–60: Associate dean for graduate studies, Universtiy of Rochester.
1955–57: Associate professor of education, Auburn University.
1953–55: Assistant professor of education, George Peabody College.
1948–51: Assistant principal and teacher of English, Lee Edwards High School, Asheville, N.C.
1946–1947: Instructor in English, Asheville-Biltmore College, Asheville, N.C.
Military service: Army of the United States, ETO, World War II (3 years).
Association memberships: National Association of Hearing and Speech Agencies, Higher Education Group of Washington, D.C., Conference of Executives of American Schools for the Deaf, Convention of American Instructors of the Deaf, The Alexander Graham Bell Association for the Deaf, National Association of the Deaf, Professional Rehabilitation Workers with the Adult Deaf, Council of Organizations Serving the Deaf, American Association of School Administrators, Phi Delta Kappa (fraternal society for men in education), Phi Kappa Phi (society recognizing scholarship), President's Committee on Employment of the Handicapped.
Publications (selected): Administrative Behavior in Education. Campbell and Gregg, eds., "The Individual and Administrative Behavior," coauthor of Chapter 9, New York: Harper and Brothers, 1957; Better Teaching in School Administration (editor). Southern States Cooperative Program in Educational Administration, Nashville: McQuiddy Press, 1955; Professional Student Teaching Programs. Danville: Interstate Printers and Publishers, 1967 (revised 1973); "Dare a Liberal Arts College Serve a Special Purpose?" Liberal Education. Washington, D.C., vol. LVIII, No. 3, October 1972; "A Perspective on Higher Education," American Annals of the Deaf. Washington, D.C., vol. 117, No. 6, December, 1972.

Mr. FLOOD. You have some people with you, Mr. Merrill.

Mr. MERRILL. Yes, Mr. Chairman. I have Dean Schuchman, dean of the liberal arts college here, Dean Doin Hicks, dean of precollege programs, Mr. Paul K. Nance, who is business manager, Dr. Robert Davila, next to me, who is director of the Kendall Demonstration Ele-

mentary School, and Mr. Forbush. Mr. Ladson is here as HEW project officer for the model secondary school for the deaf.

Mr. FLOOD. I see you have a prepared statement.

Mr. MERRILL. I would like to read the first page, Mr. Chairman, and place the rest of it in the record.

Mr. FLOOD. We will insert that in the record.

STATEMENT BY THE PRESIDENT OF GALLAUDET COLLEGE

Mr. MERRILL. Mr. Chairman, members of the committee, I am pleased to present to this committee the fiscal year 1977 budget request for Gallaudet College in the amount of $40,840,000, of which $15,575,000 is for construction. This request represents an increase over fiscal year 1976 of $4,688,000 for operations, including $2,442,000 for the Liberal Arts College, $1,801,000 for the model secondary school for the deaf—MSSD—and $445,000 for Kendall Demonstration School for the Deaf, KDES.

The requested increase for fiscal year 1977 includes three major increases for operations, the first of which relates to the opening of new facilities. Fiscal year 1977 will be the first full years of operation of the new MSSD academic and physical education facilities, the shared health and dining facilities, the central utilities plant, and the college plaza.

Gallaudet has already taken beneficial occupancy of portions of this new construction, and we will begin moving programs into the new buildings over the summer. The completion of these new facilities will allow for greatly improved programs for the MSSD students who have been taught in temporary buildings up to now, but the increase in physical space will require significant increase for maintenance and security.

Of the total operations increase for fiscal year 1977, $1,144,000—$100,000 of which is from non-Federal sources—will be used to provide for utility engineers, electricians, mechanics, custodians, groundkeepers, security guards, and other costs related to maintaining the new facilities. This is an important priority for the college, for we cannot hope to have a smoothly functioning school without adequate support personnel.

Another major increase—$941,000—$100,000 of which is from non-Federal sources—in the college's request is to meet the rapidly increasing cost of utilities. As major utility suppliers raise their price, the college must increase its budget for utilities. We are taking advantage of every opportunity to reduce energy consumption on campus, but even as we reduce consumption the increase in cost far more than wipes out the potential dollar savings.

The third item is $729,000 for pay raises for the liberal arts college, MSSD, and KDES faculties. Faculty in all three divisions of the college must not only be expert in their individual fields, but must also be able to communicate in sign language and be committed to the especially difficult task of educating deaf young people. These additional demands which are placed on our faculty make it essential for Gallaudet to have pay scales which are very competitive with other schools and colleges. This increase will enable us to maintain such pay scales.

CONSTRUCTION

The fiscal year 1977 budget request also includes $15,575,000 for construction, $13,625,000 for a new KDES facility, and $1,950,000 for the expansion of the central utility plant to serve the new Kendall School as well as some future buildings. KDES is currently housed in a building which is too small even for the existing program and which does not meet District of Columbia codes in a variety of areas. The construction of a new facility is essential for the well-being of the current Kendall student population and to allow for the development of the school into a national demonstration program which can benefit deaf children across the country.

There is a more detailed statement about increases for the liberal arts college, Kendall Elementary School, which I will submit for the record and summarize by saying that Gallaudet College's fiscal year 1977 budget request includes modest support for program improvements, but is made up largely of built-in increases related to faculty salaries, the operation of new facilities, and escalating utility costs, as well as construction of a new Kendall demonstration facility and expansion of the utility plant.

[The detailed statement follows:]

LIBERAL ARTS COLLEGE

The program increases for the liberal arts college of $1,195,000—$132,000 of which is from non-Federal sources—are focused on expanding opportunities and services to students. For the past several years the college has run two pilot programs, one for special services to deaf multihandicapped students and the other to explore cooperative education opportunities for deaf students. Both of these programs have had a significant impact on the college and funds are included in the fiscal year 1977 request to make them permanent programs.

Deaf students face much greater obstacles in social development than their hearing peers because as they are growing up they do not have the same free and easy interaction with society at large. Therefore, the college is requesting funds to expand the staff of the counseling center to help students in the area of social and emotional development.

In the area of continuing education, the funds requested will enable the college to assist other cities in the developing continuing education programs for deaf adults modeled on our successful program in the District of Columbia area. Access to continuing education opportunities is essential to all adults, hearing and deaf, as we try to cope with the rapid changes in techno'ogy and society.

MODEL SECONDARY SCHOOL FOR THE DEAF (MSSD)

Although MSSD will be in the new facility in fiscal year 1977, enrollments will remain at close to the current level until the residence halls are completed, and no new positions are being requested for MSSD. Therefore, the requested program increase for MSSD of $140,000 is only a 4-percent increase and will be used to accomplish the following goals:

One: Becoming thoroughly oriented to the new facility including its unique spaces for student instruction and independent study; its studios and electronic systems for television and computer assisted instruction; and its spaces for research and development programs.

Two: Establishing new programing in prevocational instruction and in cocurricular activities made possible by the new facilities.

Three: Implementing plans for dissemination on a more comprehensive programmatic and geographic scope as made possible by an increased repertoire of materials and the flexibility of new facilities.

KENDALL DEMONSTRATION ELEMENTARY SCHOOL (KDES)

During fiscal year 1977 as construction begins on the new KDES the school will be operating in temporary quarters working to develop (a) an exemplary educa-

tional program for children from the age of onset of deafness through age 15; (b) a diagnostic center; (c) a parent education program; (d) dissemination and research activities that will increase knowledge of learning problems of young deaf children.

The requested program increase for KDES is $147,000 which includes $69,000 for 14 new positions to handle an anticipated 15 percent increase in enrollment. These positions will not only provide additional classroom teachers, but also the essential support personnel in family services, media production and other areas of instructional support. Also, in fiscal year 1977 the KDES will be focusing increasingly on parent education and involvement. For the young deaf child, the educational reinforcement which he receives at home is as important as the more formal educational activities during the school day.

In summary, the Gallaudet College fiscal year 1977 budget request includes modest support for program improvements, but is made up largely of built-in increases related to faculty salaries, the operation of new facilities, and escalating utility costs as well as the construction of a new KDES facility and expansion of the utility plant.

I will be happy now to answer any questions the committee may have.

FACILITIES MASTER PLAN

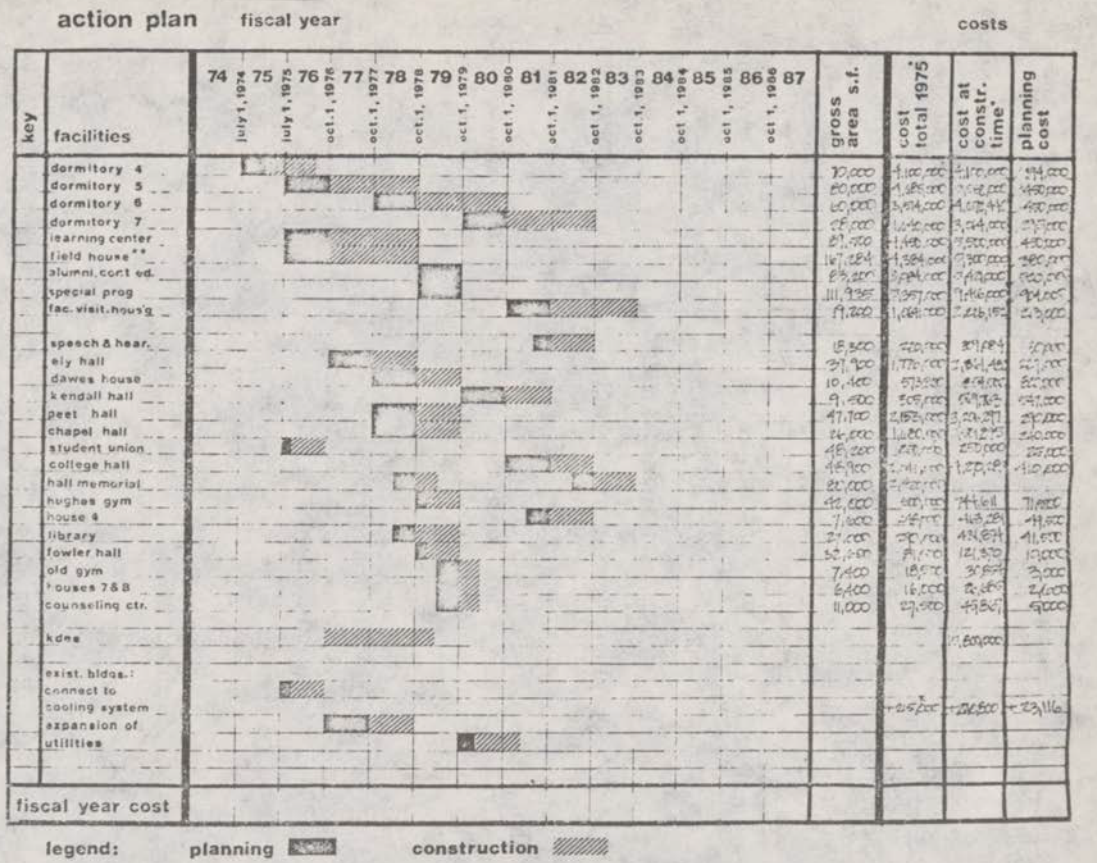
Mr. FLOOD. We understand that you have a number of construction projects planned between now and 1985. Could you estimate for us what you anticipate the total cost of that plan will be? Your master plan puts it at about 70 million.

Mr. MERRILL. Yes, sir. We have employed Hudgins, Thompson, and Ball to develop a new facility master plan for the entire campus, and they did present a schedule for these facilities as well as the cost estimates in that plan.

Mr. FLOOD. How will that cost be spread by fiscal year?

Mr. MERRILL. Well, it is related to the scheduling. There is a schedule and each year is priced out and we can provide that for the record.

[The information follows:]


action plan
fiscal year
costs
key
facilities
74
75
76
77
78
79
80
81
82
83
84
85
86
87
july 1, 1974
july 1, 1975
oct. 1, 1976
oct. 1, 1977
oct. 1, 1978
oct. 1, 1979
oct 1, 1980
oct. 1, 1981
oct. 1, 1982
oct. 1, 1983
oct. 1, 1984
oct 1, 1985
oct. 1, 1986
gross area s.f.
cost total 1975
cost at constr. time
planning cost
dormitory 4
dormitory 5
dormitory 6
dormitory 7
learning center
field house**
alumni, cont ed.
special prog
fac. visit. hous'g
speech & hear.
ely hall
dawes house
kendall hall
peet hall
chapel hall
student union
college hall
hall memorial
hughes gym
house 4
library
fowler hall
old gym
houses 7&8
counseling ctr.
kdms
exist. bldgs.:
connect to
cooling system
expansion of
utilities
fiscal year cost
legend:
planning
construction

Mr. FLOOD. We need to have a better understanding as to why this amount of expense is necessary. For instance, your plan indicates that you are planning to triple your gross square footage to almost 2.3 million feet.

Mr. MERRILL. Yes, sir.

Mr. FLOOD. Why do you need this much additional space?

Mr. MERRILL. I would say it is related to three or four important developments. One would be the logical increase in the numbers of persons served, development of programs, and these would be undergraduate students, graduate students, continuing education, public services. Gallaudet College is really a focal point for education of the deaf. As such we have an International Center on Deafness. We have now a center on law and the deaf, and these services require space.

This is true for the model secondary school and for the Kendall School. The Kendall School, for example, will provide space for parent education, which is very important for very young children.

ENROLLMENT PROJECTIONS

Mr. FLOOD. For the record, you can insert your latest estimates for enrollment for each of the next 5 years then for Gallaudet College, Model Secondary School, and the Kendall School.

Mr. MERRILL. Yes, sir. We have it, sir, in chart form here, and we will be pleased to put that in the record.

[The information follows:]

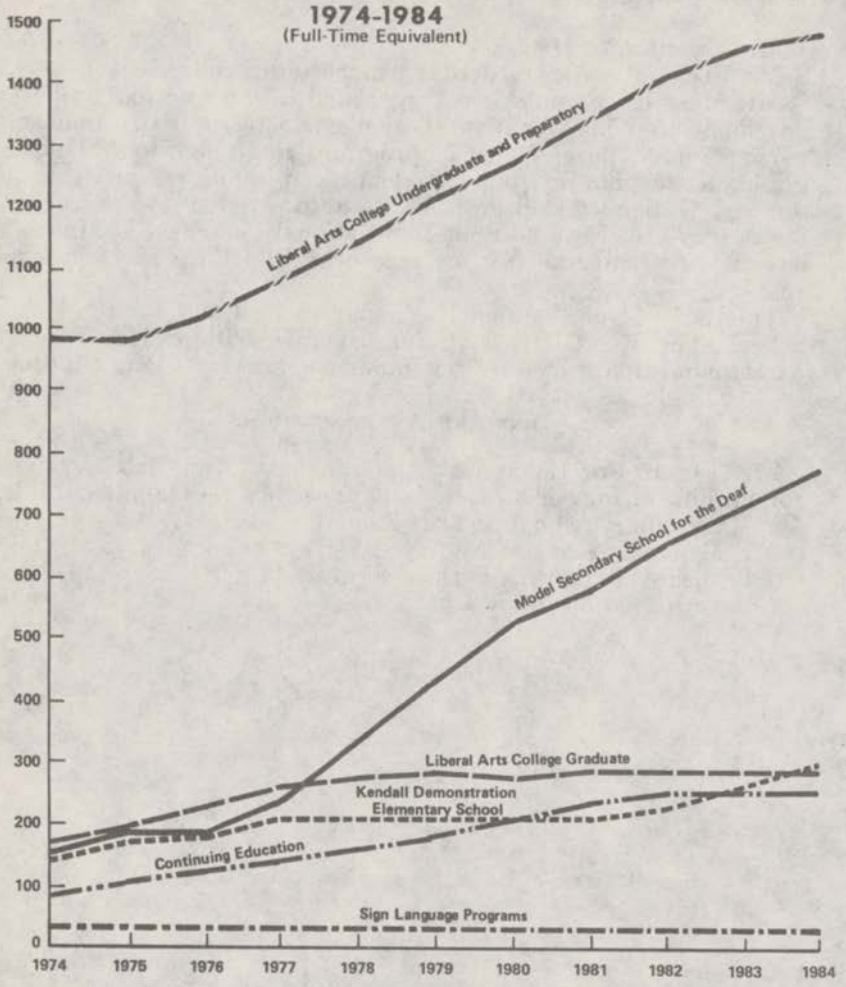
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GALLAUDET COLLEGE

Enrollment Projection Graph

1974-1984

(Full-Time Equivalent)



TOTAL	1493	1624	1738	1833	2096	2285	2500	2678	2862	3027	3137

PRECOLLEGE PROGRAMS CONSTRUCTION

Mr. FLOOD. For 1977, you are requesting over 13 million for this new Kendall School. How does that compare with the cost of building a similar-sized facility in the community?

Mr. MERRILL. We have been very competitive in that regard, particularly for the Model Secondary School for the Deaf. We are building that at a cost per square foot which is less than cost per square foot at which the District of Columbia schools build, and this is a special facility.

We do not know what the other bids will come in at. If we do go to bid for the Kendall School, we would anticipate it to be very competitive.

CONSTRUCTION SCHEDULE, KENDALL

Mr. FLOOD. What is the schedule for completion of the facility? When do you expect occupancy?

Mr. MERRILL. It would be at least 2½ years from now when it would be completed. If we could go to bid on this project in January of 1977, it would be approximately 2 or 2½ years from that time when we would occupy the building.

Mr. FLOOD. How do you stand on construction of new dormitory facilities? You planned that at the beginning, to begin last year?

Mr. MERRILL. Yes sir. We have two residence hall or dormitory projects underway. One of these is for the Model Secondary School for the Deaf. Dean Hicks, are they up with schedule on that or not?

Mr. HICKS. Just about. Our estimate was 18 months. Our contractor feels he can reduce that some.

Mr. FLOOD. You planned to begin that last year?

Mr. MERRILL. It is underway now.

Mr. HICKS. It was bid this fall and is about 4 months underway.

COORDINATION WITH NTID

Mr. FLOOD. To what extent are Gallaudet's activities coordinated with those of the National Technical Institute for the Deaf?

Mr. MERRILL. We coordinate in several ways, mainly by exchanging visits of personnel. For example, Mr. Williams who is the assistant to the director of NTID, has worked with us on some of their new techniques and we are working with them. We exchange our planning personnel. This is the main way we work together.

Our admissions officers and our academic officers work with theirs. Often we will find that a student at Gallaudet may not want the broader program that we offer and that he will prefer technical work, and so we recommend him to NTID. By the same token, some students start at NTID feel they want a broader education, and so they will transfer to Gallaudet. We do have channels set up for this purpose. It is very important that we articulate with each other.

ADDITIONAL POSITIONS

Mr. FLOOD. You are requesting 84 additional positions this year. How many of these are faculty?

Mr. MERRILL. Of the 84 that are being requested, 14 of these will go to the Kendall Demonstration Elementary School. Nine of that 14 are faculty people.

FACULTY REQUIREMENTS

Mr. FLOOD. How do you estimate your faculty requirements?

Mr. MERRILL. Dean Schuchman is here. He can explain that. I would like to say that 39 of the 74 persons are maintenance, custodial, and support staff. They are associated directly with opening new facilities.

Mr. SCHUCHMAN. The basic tool for estimating faculty requirements is enrollment. That varies according to the program. Although we use the term, "liberal arts college," in fact, our liberal arts college includes our undergraduate program, our graduate programs, continuing education public service, and sign language programs. In this particular fiscal year we are asking for three faculty positions, one in the department of psychology, which would be in our graduate program because we are opening up a new program in school psychology, at the graduate level. Another one is in the area of counseling, again at the graduate level. And the third position is in our English department.

Mr. FLOOD. Over the last several years your nonfaculty payroll has grown quite substantially. Have you ever considered contracting for any of these services that you have such as food, maintenance, health services?

Mr. MERRILL. Yes sir.

Mr. FLOOD. Would there be a saving if you went this route?

Mr. MERRILL. We contract with the Marriott Corp. for food service, and that seems to be very satisfactory, and that will continue. Mr. Nance, do we contract for any other major services?

Mr. NANCE. We experimented, Mr. Chairman, with contracting for cleaning services, custodial services. We contracted for a few of our buildings, and found that we could do it with less cost per square foot than the contractor could.

FACULTY SALARIES

Mr. FLOOD. Last year you indicated your faculty salaries were competitive with other similar institutions in the District of Columbia area here, but with this 6-percent increase for 1977, will that keep them competitive?

Mr. MERRILL. I will ask Dean Schuchman to explain the basis for figuring our faculty salary increases.

Mr. SCHUCHMAN. Mr. Chairman, we build our salary structure using national data from the largest organization for college instructors in the country, the American Association of University Professors, and the increase for next year will keep us virtually on target with those ratings.

We have had ratings of grade one in our instructors, assistant and associate professor range. Grade 1 for AUP means the 80th percentile of pay for faculty throughout the Nation in our particular grouping. In our full professor range it is grade two, which is a little bit lower.

Mr. FLOOD. Last year you provided us with a salary chart, which compares Gallaudet College with other schools in the District of Columbia area. Suppose you update that information and insert that again.

Mr. MERRILL. We will be glad to.

[The information follows:]

Five-Year Average Compensation and Rating

By Rank Within Colleges in the District of Columbia

1972-73	Professor	Associate Professor	Assistant Professor	Instructor
American	24,000 (2)	17,500 (3)	14,900 (2)	13,100 (1*)
Catholic	21,000 (4)	15,400 (5)	12,600 (5)	10,400 (4)
D.C. Teachers	25,100 (1*)	18,800 (1*)	15,800 (1*)	13,300 (1*)
Federal City	25,300 (1*)	19,400 (1*)	15,300 (1)	12,000 (2)
Gallaudet	24,100 (1)	19,000 (1)	16,000 (1*)	13,000 (1)
Geo. Washington	25,300 (2)	17,000 (4)	14,100 (4)	10,300 (4)
Georgetown	24,900 (2)	19,000 (1)	14,000 (4)	11,300 (3)
Howard	25,500 (2)	19,400 (1)	15,800 (1)	11,700 (2)
Wash. Tech. Ins.	21,900 (1)	17,800 (1)	15,100 (1)	12,900 (1)
1973-74				
American	24,000 (3)	17,800 (3)	15,200 (2)	13,600 (1*)
Catholic	21,800 (4)	16,100 (5)	13,300 (5)	10,900 (4)
D.C. Teachers	25,900 (1*)	18,700 (1*)	16,900 (1*)	11,800 (1)
Federal City	26,400 (1*)	19,900 (1)	15,700 (1)	12,200 (2)
Gallaudet	24,000 (1)	20,000 (1*)	16,600 (1*)	14,000 (1*)
Geo. Washington	27,100 (2)	18,900 (2)	15,200 (2)	11,400 (4)
Georgetown	25,900 (2)	20,100 (1)	14,600 (3)	12,200 (2)
Howard	26,200 (2)	20,100 (1)	16,400 (1)	12,200 (2)
Wash. Tech. Ins.	22,500 (2)	18,200 (2)	15,400 (1)	13,100 (1)
1974-75				
American	25,000 (3)	18,800 (3)	15,700 (3)	13,700 (1)
Catholic	22,800 (4)	16,600 (5)	14,200 (5)	11,900 (4)
D.C. Teachers	24,500 (1*)	18,600 (1)	17,300 (1*)	14,200 (1*)
Federal City	26,900 (1)	20,800 (1)	17,700 (1)	14,700 (1)
Gallaudet	24,800 (2)	20,800 (1)	17,300 (1)	14,200 (1)
Geo. Washington	28,100 (2)	19,900 (2)	15,900 (2)	11,900 (4)
Georgetown	26,900 (2)	20,700 (1)	15,400 (3)	12,700 (2)
Howard	27,000 (2)	20,800 (1)	17,100 (1)	12,500 (3)
Wash. Tech. Ins.	23,300 (1)	20,900 (1)	16,900 (1)	15,800 (1)

Mr. FLOOD. It appears from the figures you gave us last year that Gallaudet salaries are the highest in the area for every academic range, except for full professor. Why is that the case?

Mr. SCHUCHMAN. We are near the top in most ranks, except for the full professor rank. You are correct.

Mr. FLOOD. Why is that?

Mr. SCHUCHMAN. One of the reasons is that we need to attract people who are trained traditionally in the various academic disciplines and then we provide supplemental training at the college itself in the area of deafness. Our faculty members are not, except in the area of deaf education and counseling, formally trained in education of the deaf. Hence, when a faculty member, for example, who is a Ph. D. in history, comes to Gallaudet, he is taking a career risk in that although he is going into an area, college teaching, which would be comparable to the other area institutions of higher education in the District of Columbia, he will have to deal with a completely new population of students. He will have to learn new teaching skills. He will have to learn manual communication and be conversant with language problems. He is going to have to learn how to deal with the unique problems that deaf students present in a classroom. So there is career risk for these individuals. Hence, we use our salary structure as one way to attract new and young faculty members into our institution.

EMPLOYMENT OPPORTUNITIES

Mr. FLOOD. We have been hearing job opportunities for college graduates are going down all over the country. Do you expect this to influence placement of your graduates for the next couple of years?

Mr. MERRILL. Yes sir, it does. We work at it. We use some of the same techniques that National Technical Institute for the Deaf uses. Perhaps the most important thing we have initiated is a co-op study program, which means that during the summer, or during a semester, our students have the opportunity to work in a job related to their major. This gives the student an opportunity to adjust, to understand the world of work. It also gets the employer acquainted with the potential of deaf people, and very often our students will continue to work in that industry after graduation. That is the major thing we are doing now.

We have had conferences in large cities with heads of corporate enterprises, introducing them to the deaf worker, and to our graduates, and encouraging them to do two things: to accept these students as a co-op study student, and then to employ them after they are graduated.

We have one thing going for us. The amendments to the Rehabilitation Act of 1973 requires any industry or agency receiving over $2,500 of Federal funds to file an affirmative action plan for the handicapped. Many of the large industries now are interested, honestly interested, in employing handicapped people, so this is helping us place our students. It is not easy, but we work at it.

We have also asked every department—history, psychology, whatever, home economics, mathematics, chemistry—to be sure that their majors are related to employment, not only in a technical sense, but also in the sense of getting a job.

ALUMNI

Mr. FLOOD. What percentage of your staff are alumni of the Gallaudet program?

Mr. MERRILL. We have approximately 25 percent of our faculty who are deaf themselves, and I would say approximately 90 percent of those are alumni of Gallaudet College.

NEW MODEL SCHOOL FACILITY

Mr. FLOOD. We notice you plan to occupy the new model school in January. Has this brought about any problems?

Mr. MERRILL. I will ask Dean Hicks to answer that.

Mr. HICKS. This construction program was initiated on the basis of a 30-month time period. Over that 30 months, we had a number of strikes by labor groups which delayed us approximately 6 months. We do, however, have beneficial occupancy of some of the utility facilities and are testing the equipment now. We have decided, in view of the delay, to accept occupancy of the academic facility on a phased basis. Within about 2 weeks we will get occupancy of one floor and begin the carpeting and furnishing process. So we will be ready to move programs in at the beginning of the summer, and will have the building fully occupied sometime early this fall.

MSSD AND KDES ENROLLMENT

Mr. FLOOD. When do you expect to reach full enrollment at the Model School and the Kendall School?

Mr. HICKS. For the Model Secondary School we anticipate completion of residence halls in about 15 months. From that point on we can move toward full enrollment, probably over a 2- to 3-year period. We would not want to accept a completely new student body at one time. It probably would not be fair to either the students or the staff.

With respect to Kendall, we would hope construction would begin about next January, with a 2-year completion expectancy. It would be about 2 years from January before we could increase the enrollment at Kendall substantially.

CONTINUING EDUCATION

Mr. FLOOD. How extensive is that continuing education program anticipated in this budget? Does this include programs outside of the Metropolitan D.C. area?

Mr. MERRILL. Yes, sir. It includes our working with other colleges and universities. This, I think, has been one of the most important developments in recent years. Our enrollment figures for this year state that we serve 1,020 students. These are adults, principally, in the Washington area.

The major impact of this program, however, has been nationwide because we work with community colleges and encourage them to hire a coordinator for deaf adults, and get them into the programs. So we have been working actively with community colleges in Atlanta, in Kansas City, in other places, encouraging them to open their doors to deaf adults.

This program also provides a national forum for introducing deaf people to very important people in our society. We recently conducted a forum in Atlanta, another in Kansas City. There has been one in San Francisco, different places. This is another dimension.

I think it is paying off in a number of ways. Certainly in not duplicating services, but encouraging institutions to add a coordinator, a person who can work with deaf people and get them into programs, where possible.

Mr. FLOOD. Mr. Early.

FACULTY QUALIFICATIONS

Mr. EARLY. Just a couple of questions, Mr. Chairman.

In response to the chairman's question about your high salary structure, you said that your figures include staff training in teaching the deaf. Why don't you recruit people that are specialized in teaching the deaf?

Mr. MERRILL. Mr. Early, in running an accredited liberal arts college, we have to emphasize the substantive disciplines, like history and psychology. We have to have a Ph. D. person in psychology, a Ph. D. person, as Dean Schuchman is, in history. These people generally do not have preparation to teach the deaf, so we have to provide that.

Mr. EARLY. Do you advertise for staff?

Mr. MERRILL. We do. We advertise nationally. If we went the other direction of searching for a person who has prepared to teach the deaf, usually this is at the master's level, and they do not have the depth in a discipline that is required for accreditation.

Gallaudet College is coming up for reaccreditation by Middle States Association.

Mr. SCHUCHMAN. The visiting team will be on our campus this coming January or February.

Mr. EARLY. Do you think a faculty member who has a doctorate, versus a masters, is always the better teacher?

Mr. MERRILL. That doesn't necessarily follow. We feel our students deserve a faculty of equal caliber to any school or college or university. And so we do seek that. We have been encouraged by the increase in the number of Ph. D.'s. I think at one time we were down to about 17 Ph. D.'s in our faculty. We now have 50 some, I think.

Mr. SCHUCHMAN. The number now is closer to 70.

Mr. EARLY. Seventy out of how many faculty members?

Mr. SCHUCHMAN. We have 160 faculty at the college level.

Mr. EARLY. What happens if you recruit someone who has special accreditation in teaching the deaf?

Mr. MERRILL. We are very fortunate when we can do that.

Mr. EARLY. Does he get the additional stipends that you give to the others?

Mr. MERRILL. We do not give additional stipends for knowledge of deafness. Every faculty members is evaluated and, as was said earlier, a person at Gallaudet cannot receive tenure until he passes a rather rigorous communications test. This was established by the faculty themselves, and a person must demonstrate receptive skill. He must be able to read the sign language of the student. He must also demon-

strate expressive skill. He must be able to communicate to the student. If he cannot do this within 5 years, he is generally nonreappointed.

In other words, he does not continue as a faculty member at Gallaudet College.

Mr. EARLY. What is the per capita cost per student?

Mr. MERRILL. Our per capita cost this year runs around $7,000 per student.

Mr. EARLY. What is the cost for the deaf students?

Mr. MERRILL. These are all deaf students. Gallaudet has some visiting hearing students, but they are just a few.

RETENTION OF FACULTY

Mr. EARLY. What has been the history of retention of the faculty that you recruit who must be trained to teach the deaf?

Mr. MERRILL. I think our retention has been good, aside from those who did not adjust and were nonreappointed, because they could not adapt to the communication mode. I think our retention has been good.

Mr. EARLY. You have 140 faculty members?

Mr. SCHUCHMAN. 160.

Mr. EARLY. How many have over 5 years' experience?

Mr. SCHUCHMAN. Approximately 115 faculty members have a minimum of 5 years of experience within our undergraduate and graduate programs.

Mr. SCHUCHMAN. I would like to comment, in terms of the qualifications of our faculty. Many of our students do go on to professional careers after they leave Gallaudet. Approximately 28 to 29 percent of our graduates go on for further graduate training after they leave Gallaudet and are accepted into other institutions of higher education around the country at the graduate level. Hence, it is crucial that deaf students have the best qualified faculty in a variety of substantive academic fields in order to prepare them for the world of work, graduate school, and professional careers.

Mr. EARLY. Would you give me the salary range of your graduates—what is the average and what is the maximum?

Mr. SCHUCHMAN. Yes sir. I would be glad to supply that.

[The information follows:]

As you realize, there is no formal salary range since this depends upon the general condition of the economy; however, as an average, our undergraduate students would earn approximately $8,500 as a beginning salary immediately upon graduation. Students who major in accounting, mathematics, and computer programing as a group tend to earn more than the average. The students who would earn the highest salaries would be our graduate students (audiology, education, and counseling). Some of these students would earn in excess of $13,000.

Mr. SCHUCHMAN. We have done institutional studies which indicate that the salary of our graduates with BA and BS degrees compare almost exactly with liberal arts graduates throughout the country.

Mr. EARLY. I notice in previous testimony that the highest stated salary was $13,000 per graduate. I would assume that your graduates make in excess of that.

Mr. SCHUCHMAN. This is going to depend on an individual student, a particular field. That is about right.

Mr. EARLY. You will identify graduates making well in excess of $13,000?

Mr. SCHUCHMAN. Yes. As stated earlier, these would be our graduate students.

Mr. EARLY. Thank you, Mr. Chairman.

Mr. FLOOD. Thank you, gentlemen.

BUDGET REQUEST

Mr. MICHEL. Your operating budget involves about a 21-percent increase for the college and a 33-percent increase for the model secondary school. How do you explain increases that substantial?

Dr. MERRILL. There are three major items that make up this increase. In fiscal 1977, the maintenance and operating costs of new buildings to be occupied will amount to $1,144,000 to cover costs of adding 42.10 percent more to campus gross square footage in buildings. Utility prices have spiraled, with fuel oil prices approximately quintupling and electrical prices approximately tripling for an additional amount needed of $941,000 for utility price increases. A 6 percent faculty salary increase amounts to $729,000. The other small increase represents minor improvements in programs.

TUITION

Mr. MICHEL. What kind of tuition do you use? Is it the same for everybody or is it graduated according to income? Will there be an increase in fiscal year 1977?

Dr. MERRILL. The tuition is the same for each college student. The financial needs of a student to help pay the tuition charge is handled through scholarships, grant-in-aid, vocational rehabilitation, and other financial aid sources. The tuition will increase some. Both Gallaudet and NTID charge a tuition rate which is the average tuition of the publicly controlled land-grant institutions.

MAINTENANCE PERSONNEL

Mr. MICHEL. What is the total number of new maintenance personnel you are adding to maintain the new facilities?

Dr. MERRILL. Thirty-nine.

Mr. MICHEL. Why is an increase necessary? Would not the personnel used to maintain the temporary facilities be sufficient to man the new facilities?

Dr. MERRILL. The temporary facilities are less than 10 percent of the new space being added. The 39 additional maintenance employees requested in fiscal 1977 represent less than 30 percent of the maintenance work force in fiscal 1976 and this less than 30 percent will take care of permanent building space added in fiscal 1977 of 42.10 percent.

Mr. MICHEL. What is the average yearly wage being paid the maintenance personnel?

Dr. MERRILL. Approximately $11,000 per annum.

NONFACULTY PERSONNEL

Mr. MICHEL. Are you including an increase for nonfaculty personnel in the request before us, or are you planning on requesting this in a supplemental next year?

Dr. MERRILL. In a supplemental next year.

Mr. MICHEL. When you were here for the supplemental, you said your nonfaculty salaries were comparable with those of other institutions in the area. Would you provide us with a specific breakdown so that we know where they stand?

Dr. MERRILL. The Gallaudet personnel office regularly makes comparisons with other colleges and universities in the area. The data below shows where we stand.

[CLERK'S NOTE: The information has been supplied and is available in the committee's files.]

TEMPORARY FACILITIES

Mr. MICHEL. What is going to happen to the temporary facilities you have been using when you move into the new facilities?

Dr. MERRILL. The Kendall Demonstration Elementary School has requested funding for reconstruction of present facilities. If funding is approved the Kendall School will utilize the temporary facilities during the next 2 to 2½ years. At that time the temporary facilities will be removed from the campus.

UTILITY INCREASES

Mr. MICHEL. What kind of a cost increase are you projecting for utilities in 1977, and what is the basis for this projection?

Dr. MERRILL. Fiscal 1977 is the first opportunity to request funds for utility price increases since the spiraling price increases began during the latter part of fiscal 1975. Since then fuel oil has increased from 11 cents to an estimated 50 cents per gallon in fiscal 1977; electricity from 1.40 cents to an estimated 3.94 cents per kilowatt-hour in fiscal 1977. Thus, fuel oil price has approximately quintupled and electricity price has approximately tripled.

FACULTY SALARY

Mr. MICHEL. Are faculty salaries going to be increased by 6 percent, or is this just for the college?

Dr. MERRILL. The 6-percent increase is for the undergraduate and graduate faculties. The salary increase for precollege faculties is slightly higher. The salaries for these faculties have dropped a little below the average of schools in the surrounding area, and this increase will enable them to catch up.

FACILITIES MASTER PLAN

Mr. MICHEL. Where do you stand presently with respect to your facilities master plan? How much construction remains to be completed and what would the estimated total dollar cost be?

Dr. MERRILL. Gallaudet has retained a consultant firm to develop a facilities master plan. The plan is nearing completion. In addition to the construction request in the fiscal 1977 budget, the total estimated dollar cost for construction at current prices is approximately $40 million.

ENROLLMENTS

Mr. MICHEL. Your statement indicates that enrollments will remain at about the current level for the model secondary school until the residence halls are completed. What percent are enrollments likely to jump when these halls are finished?

Dr. MERRILL. Upon completion of the residence halls the enrollment of the MSSD is expected to be phased from the present 130 students to the capacity of 600 full-time equivalent students over a period of 3 years.

JUSTIFICATION OF THE BUDGET ESTIMATES

APPROPRIATION ESTIMATE—GALLAUDET COLLEGE

For carrying out the Model Secondary School for the Deaf Act (80 Stat. 1027) and for the partial support of Gallaudet College authorized by the act of June 18, 1954 (68 Stat. 265) [$22,435,000] *$41,236,000* of which [$2,255,000] *$15,575,000* shall be for construction and shall remain available until expended: *Provided*, That if requested by the college, such construction shall be supervised by the General Services Administration.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SPECIAL INSTITUTIONS

Gallaudet College

Amounts Available for Obligations

	1976 Revised	1977
Appropriation	$22,832,000	$41,236,000
Proposed supplemental appropriation	396,000	---
Subtotal, appropriations	23,228,000	41,236,000
Receipts and reimbursements from Non-Federal sources	1,813,000	2,451,000
Unobligated balance, start of year	18,160,000	---
Total, obligations	43,201,000	43,687,000

Summary of Changes

1976	Estimated obligation	$42,804,000
1976	Transition increase	+397,000
1976	Revised obligations	43,201,000
1977	Estimated obligations	43,687,000
	Net change	+486,000

	Base		Change from Base	
	Pos.*	Amount	Pos.*	Amount
Increases:				
A. Built-in				
1. Faculty payraise (College - $286,000; Model Secondary School - $323,000; Kendall School - $120,000)	---	---	---	$+ 729,000
2. Bookstore, food service, and transportation costs: (College $289,000, Kendall School - $4,000)	---	---	---	+ 293,000
3. Annualization of positions in 1976 transition quarter (College - $63,000; Kendall School - $102,000)	---	---	---	+ 165,000

*All positions are Non-Federal.

Summary of Changes (Cont.)

	Base		Change from Base	
Increases (Cont.):				
4. Annualization of one-half year positions approved in 1976: (Model Secondary School- $330,000)	---	---	---	+ 330,000
5. Annualization of costs of facilities occupied during 1976: (one-half year College - $104,000; three-fourths year Model Secondary School - $534,000; Kendall School $5,000)	---	---	---	+ 643,000
6. Cost of operating and maintaining facilities occupied during 1977: (College - $212,000; Model Secondary School - $289,000)	---	---	+39	+ 501,000
7. Increased cost in utility services: (College - $715,000 Model Secondary School - $167,000; Kendall School - $59,000)	---	---	---	+ 941,000
8. Annualization of staff payraise; (College - $199,000; Model Secondary School - $18,000; Kendall School - $8,000)	---	---	---	+ 225,000
Subtotal			+39	+3,827,000
B. Program:				
1. Liberal Arts College - Operations:				
(a) Instruction and Related Activities	251	6,413,000	+13	+ 565,000
(b) Student Services	72	1,636,000	+ 5	+ 228,000
(c) Research and Curriculum Development	19	576,000	---	+ 44,000
(d) General Institutional Administration Activities	231	4,305,000	+ 3	+ 255,000
(e) Continuing Education	13	392,000	---	+ 44,000
(f) Auxiliary Enterprises	20	1,191,000	---	+ 59,000
2. Model Secondary School - Operations:				
(a) Instruction, Dissemination and Related Programs	188	3,583,000	---	+ 34,000
(b) Central Administration	24	1,915,000	---	+ 106,000
3. Kendall Demonstration Elementary School - Operations:				
(a) Instruction, Student and Family Services, and Related Activities	92	2,220,000	+14	+ 125,000
(b) General Administration	13	572,000	---	+ 22,000

Summary of Change (Cont.)

	Base		Change from Base	
B. Program: (Cont.)				
4. Construction:				
(a) Kendall School new facility.....	---	---	---	+13,625,000
(b) Liberal arts college-planning of construction of expansion of central utilities.....	---	---	---	+1,950,000
Subtotal.....			+35	+17,057,000
Total, increase.....			+74	+20,884,000
Decreases:				
B. Program:				
1. Construction:				
(a) Liberal arts college...	---	---	---	-5,884,000
(b) Model Secondary School.	---	---	---	-14,514,000
Subtotal.....				-20,398,000
Total, decrease.....				-20,398,000
Total, net change.....			+74	+486,000

Obligations by Activity

Page Ref.		1976 Estimate Pos.	1976 Estimate Amount	1977 Estimate Pos.	1977 Estimate Amount	Increase or Decrease Pos.	Increase or Decrease Amount
	Operations:						
	(a) College.....	606	$14,513,000	666	$17,576,000	+60	+$3.063,000
	(b) Model Secondary School for the Deaf	212	5,498,000	212	7,299,000		+ 1,801,000
	(c) Kendall Demonstration Elementary School	105	2,792,000	119	3,237,000	+14	+445,000
	(d) Construction ...	---	20,398,000	---	15,575,000		-4,823,000
	Total Obligations	923	43,201,000	997	43,687,000	+74	+486,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Grants, Subsidies and contributions	$43,201,000	$43,687,000	+$486,000

Authorizing Legislation

Legislation	1977 Authorized	1977 Appropriation Requested
"An Act to amend the charter of the Columbia Institution for the Deaf." (D.C. Code 31-1032) Enacted June 18, 1954, P.L. 420 83rd Congress, Sec. 8, 68 Stat. 266.	Indefinite	$17,075,000
"An Act to modify and enlarge the authority of Gallaudet College to maintain and operate the Kendall School as a demonstration elementary school for the deaf to serve primarily the National Capital region, and for other purposes." (Public Law 91-587) 91st Congress, S.4083 December 24, 1970, 84 Stat. 1579.	Indefinite	$16,862,000
"An Act to authorize the establishment and operation by Gallaudet College of a Model Secondary School for the Deaf to serve the National Capital region." (31 D.C. Code 1051) Enacted October 15, 1966, P.L. 89-694, Sec. 2, 80 Stat. 1027.	Indefinite	$7,299,000

Gallaudet College

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1967	2,557,000	2,557,000	2,612,000	2,612,000
1968	5,815,000	5,815,000	6,001,000	5,815,000
1969	5,305,000	4,536,000	4,536,000	4,536,000
1970	6,086,000	6,086,000	6,400,000	6,400,000
1971	9,612,000	9,514,000	9,869,000	9,559,000
1972	30,246,000	29,101,000	30,862,000	30,862,000
1973	14,073,000	19,033,000	19,033,000	19,033,000
1974	15,012,000	14,942,000	15,012,000	15,012,000
1975	35,595,000	35,595,000	35,595,000	35,595,000
1976	22,435,000	22,435,000	22,435,000	22,435,000
1976 Proposed supplemental	396,000			
1977	41,236,000			

Justification

	1976 Revised		1977		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Liberal Arts College.....	606	$14,513,000	666	$17,576,000	+60	+$3,063,000
Model Secondary School...	212	5,498,000	212	7,299,000	---	+ 1,801,000
Kendall Demonstration School.....	105	2,792,000	119	3,237,000	+14	+ 445,000
Construction.....	---	20,398,000	---	15,575,000	---	-4,823,000
Total.....	923	43,201,000	997	43,687,000	+74	+486,000

General Statement

Gallaudet College is a private, non-profit educational institution providing an undergraduate higher education program for the deaf, a preparatory program for deaf students who need such training to qualify for college admission, a graduate school program in fields related to deafness, and a continuing education program for deaf adults. The 1977 budget estimate will provide for a major expansion of operations and maintenance services associated with new facilities and for improvement of academic and non-academic services to students and the national deaf community. The estimate will also provide a pay increase for faculty, utility cost increases, annualization of costs associated with the opening of new facilities in FY 1976, expansion of graduate programs, and the improvement of management systems and services.

As provided under Public Law 89-694, the Model Secondary School for the Deaf a) serves as a laboratory for educational experimentation and development; b) disseminates working models throughout the field of education of the deaf to programs serving 60,000 deaf students and 10,000 educational professionals; c) prepares deaf adolescents for post-secondary academic and/or vocational pursuits; and d) provides deaf adolescents with the skills necessary to become well-adjusted, contributing and effective members of the society. The FY 1977 budget estimate will provide for operations and maintenance of the new MSSD facility utility cost increases, annualization of positions and support costs approved for half year funding in FY 1976, and for faculty salary increases.

Kendall Demonstration Elementary School was established as a national demonstration school for the deaf by Act of Congress (Public Law 91-587). The KDES will a) develop an exemplary educational program for children from the age of onset of deafness through the age of fifteen; b) develop a diagnostic center; c) develop a parent education program; and d) become a source of important research on learning problems of young deaf children. The FY 1977 budget estimate will provide for increased costs of operation and maintenance of the Kendall facility; improvement and evaluation of the instructional, co-curricular and family education programs; acquisition and repair of group amplification equipment; testing and diagnostic evaluation; and for a pay increase for faculty.

The construction funds requested will provide for the construction of a new Kendall School facility which will enable the School to serve approximately 50 percent of the eligible hearing-impaired students residing in the Washington metropolitan area, or approximately 300 students.

Operations

College

Narrative

The 1977 budget estimate for College operations represents an increase of $3,063,000 and 60 positions over the 1976 appropriation. The distribution of these funds and positions is indicated below.

	1976		1977		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Instruction and Related Activities	251	$ 6,413,000	264	$ 7,364,000	+13	$+ 951,000
Student Services.....	72	1,636,000	77	1,889,000	+ 5	+ 253,000
Research and Curriculum Development	19	576,000	19	626,000	---	+ 50,000
General Institutional and Administrative Activities	231	4,305,000	257	5,564,000	+26	+1,259,000
Continuing Education ..	13	392,000	13	439,000	---	+ 47,000
Auxiliary Enterprises .	20	1,191,000	36	1,694,000	+16	+ 503,000
Total	606	14,513,000	666	17,576,000	+60	+3,063,000

1. Instruction and Related Activities: $ 951,000 ($ 286,000 faculty payraise; $ 186,000 new positions; $ 479,000 other expenses) Funds are requested in support of a special services unit for multiple-handicapped students, an increasing number of which are attending the College. These students require additional services which range from wheelchair pushers to intensive counseling for students with retinitis pigmentosa. The special services unit will have primary responsibility for coordination of academic and student support services from the entire campus for these students. In addition, support is requested for the establishment of a cooperative education program to provide work and experiential education and career development activities for Gallaudet students. The faculty salary increase requested, representing a six percent increase over 1976 salaries, is based on projections supplied by the American Association of University Professors (AAUP). This increase will enable the College to continue to attract and retain faculty who are qualified in their academic discipline and who can be trained to meet the special needs of deaf students. Funds are also requested for an intense examination of the curriculum in conjunction with re-accreditation of the Liberal Arts program by the Middle States Association and for enrichment of the graduate school program through increased evening course offerings, an expanded summer schedule and more off-campus training. ($83,000 of this increase is from non-federal surces.)

2. Student Services: $253,000 ($61,000 new positions; $192,000 other expenses) Funds are requested in support of a new program to coordinate all aspects of student development with a view to promoting an overall sense of direction and to eliminating duplicate or over-

lapping services. Support is also requested for interships for counseling trainees and for a part-time clinical psychologist. Also requested are funds to adequately staff the residence hall which will be opening in 1977 and to provide a modest increase in student grant-in-aid associated with increasing enrollments in the graduate program.

3. Research and Curriculum Development: $50.000 ($50,000 other expenses) Funds are requested in support of research to improve the reading and writing ability of deaf persons. The increase will also provide for the development of a broad range of more effective educational techniques for deaf persons by carrying out basic research in educational psychology, testing and measurement, cognition and learning. and in the social behavior of deaf persons. Increased support will enable the development of instructional techniques which make use of the increasing technology available.

4. General Institutional and Administrative Activities: $1,259,000 ($42,000 new positions; $1,217,000 other expenses) The funds requested will support operations and maintenance for the new residence hall, dining facility and college plaza; for increased costs of utilities services; and for the sponsorship of a model Community Service Center to provide services to deaf adults in the inner city of the District of Columbia; refinement of the program planning and budgeting processes; evaluation of program effectiveness; and enhancement of the College's upward mobility and affirmative action programs. The funds requested will also support continued efforts to increase public awareness of the College, its programs, and the needs of deaf people, and the improvement of management systems and services. ($224,000 of this increase is from non-federal sources.)

5. Continuing Education: $47,000 ($7,000 other expenses) The funds requested will provide for continuation and improvement of the demonstration educational program for deaf adults with more emphasis in the areas of job training, job related courses, public health services and mental health. The funds will support expansion of off-campus courses and learning activities by initiating continuing education programs in four more cities in 1977. This will bring to nine the number of metropolitan area programs.

6. Auxiliary Enterprises: $503,000 ($137,000 new positions; $366,000 other expenses) The funds requested will provide support for a major increase in inventories of books and supplies designed to meet the need of expanding enrollments in the Liberal Arts College, the Model Secondary School for the Deaf and Kendall Demonstration Elementary School; for inflationary increases in the cost of food services; and for increases in the cost of supplies and services necessary to continue to provide regular housekeeping and maintenance of residence hall facilities. ($314,000 of this increase is from non-federal sources.)

Operations

Model Secondary School for the Deaf

Narrative

The 1977 budget estimate for the Model Secondary School represents an increase of $1,801,000 over the 1976 appropriation. No new positions are being added in 1977. The distribution of these funds and positions is indicated below.

	1976		1977		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Instructional, Dissemination and Related Programs.....	188	$3,583,000	188	$3,940,000	---	$+357,000
Central Administration...	24	1,915,000	24	3,359,000	---	+1,444,000
Total.....	212	5,498,000	212	7,299,000	---	+1,801,000

1. Instruction, Dissemination and Related Programs; $357,000 ($323,000 faculty payraise; $34,000 other expenses) The funds requested will provide for continued development of effective instructional programs and disseminable models. Emphasis will be given to development, evaluation and refinement of models to ensure their currency and relevancy and for dissemination to all secondary programs for the deaf throughout the nation. The funds requested will also provide for a faculty salary increase keyed to compensation levels for school districts in the Metropolitan Washington Area.

2. Central Administration: $1,444,000 ($1,444,000 other expenses) Funds are requested in support of operations and maintenance of the new MSSD facility which will experience its full year of operation in 1977. The increases will provide for physical plant services encompassing custodial care, a share of the utility plant operational expense, building maintenance, grounds care, safety and security, insurance and legal expenses. Funds are also required to offset greatly increased utility costs.

Operations

Kendall Demonstration Elementary School

Narrative

The 1977 budget estimate for Kendall School operations represents an increase of $445,000 and 14 positions over the 1976 appropriation. The distribution of these funds and positions is indicated below.

	1976		1977		Increase or Decrease	
	Pos	Amount	Pos.	Amount	Pos.	Amount
Instruction, Student and Family Services and Related Activities....	92	$2,220,000	106	$2,571,000	+14	$+351,000
General Administration..	13	572,000	13	666,000	---	+94,000
Total.....	105	2,792,000	119	3,237,000	+14	+445,000

1. Instruction, Student and Family Services and Related Activities: $351,000 ($120,000 faculty payraise; $69,000 new positions; $162,000 other expenses) Funds requested will provide for additional faculty needed in view of an anticipated 15 percent increase in enrollment in the preschool, primary and elementary instructional divisions. Additionally, co-curricular programs in the areas of home economics, pre-vocational and intramural activities, including those for primary-aged children, will be expanded. A competitive sports program will be established as will a program to provide after school activities for the children. Also supported will be a Congressionally mandated program (Public Law 01-587) to provide parent education. Kendall School plans to ensure that at least 75 percent of the parents of Kendall students will be involved in or will have completed a training program in basic communication skills which will enable them to assist in their child's education. The funds requested will also enable a response to the need to replace and service group amplification equipment with more reliable systems; provide for improvement of medical and psychological services; and enable a modest expansion of the evaluation of Kendall instructional and supportive services components. Finally, a faculty salary increase commensurate with salary levels of school districts in the Metropolitan Washington Area will be provided.

2. General Administration: $94,000 ($94,000 other expenses) The funds requested will provide increases in costs of utilities, maintenance and contract services which have placed a severe strain on the resources of Kendall School. The funds requested will enable Kendall School to offset spiraling cost increases for utilities, maintenance and contract services, which have been placing a severe strain on the resources of the School.

Construction

	1976		1977		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Other Expenses	---	$2,255,000	---	$15,575,000	---	$13,320,000
Total	---	$2,255,000	---	$15,575,000	---	+13,320,000

Narrative

The 1977 Budget request for contruction is $13,625,000 for construction of a new facility for the Kendall Demonstration Elementary School, and $1,950,000 for the planning and construction of central utilities equipment to service new facilities to be constructed beginning in fiscal year 1977.

Construction of this permanent facility will be initiated in accord with the previously completed educational and architectural plans. The present physical plant is inadequate and obsolete from the point of view of current educational programming. In some aspects it does not meet construction codes of the District of Columbia for school buildings.

The new facility is necessary if Kendall School is to successfully respond to its Congressional mandate (Public Law 91-587) to develop a national demonstration program through testing, demonstrating and disseminating promising methods and materials and evaluating contributions to the advancing state of the art of educating hearing-impaired children.

The $13,625,000 requested will provide for construction of a complete facility adequate for carrying out this mandate. Included in the proposed construction are a Diagnostic and Evaluation Center, a Central Resources Center (library and media services), a Student Residential Center for up to 50 children, and a Central Administration Center, in addition to providing space for supporting service units.

This new facility will enable the Kendall Demonstration Elementary School to serve approximately 50 percent of the eligible hearing-impaired students residing in the Washington Metropolitan area, or approximately 300 students.

Central utilities equipment will be expanded to serve new facilities to be contructed beginning in FY 1977. The central cooling and heating capacity for the facility now under construction covers the loads associated with all construction now in progress. Expanded capacity will be required to service the new construction which begins in FY 1977 and FY 1978, in accord with the Facilities Master Plan.

Table I

Total Enrollment for Fall Semester

Persons Served

Fiscal Year 1975, 1976, 1977

	1975 Actual	1976 Estimate	1977 Estimate
College:			
Undergraduate [1]	1,007	1,014	1,080
Graduate [2]	231	239	256
Continuing Education [3]	600	1,020	1,230
Sign Language Program [3]	300	300	300
Total			
Model Secondary School	171	171	234
Kendall Demonstration Elementary School [4]	162	182	210
Total	2,471	2,926	3,310

1. Full-time equivalent, computed as number of full-time students plus 1/3 of part-time students.

2. Total enrollments, fall semester, including special and part-time. Full-time equivalent would be about 75% of these figures.

3. Total course enrollments, counting each person once for each course in which he or she enrolls.

4. Including preschool.

Table II
Analysis of Financing

	1975 Actual	1976 Actual	1977 Estimate
Non-Federal Income:			
1. Tuition	$ 517,000	$ 527,000	$ 610,000
2. Other Services	30,000	30,000	55,000
3. Auxiliary Enterprises	1,148,000	1,256,000	1,786,000
Total Non-Federal	1,695,000	1,813,000	2,451,000
Federal Appropriations:			
College	10,507,000	12,683,000	15,125,000
Model Secondary School	4,445,000	5,498,000	7,299,000
Kendall Elementary School	2,412,000	2,792,000	3,237,000
Construction	18,231,000	2,255,000	15,575,000
Total Appropriations	35,595,000	23,228,000	41,236,000
Total Financing	37,290,000	25,041,000	43,687,000

SPECIAL INSTITUTIONS

Gallaudet College

Program Purpose and Accomplishments

Activity: Operations - Liberal Arts College (Public Law 91-587)

1976		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
606	$12,683,000	Indefinite	666	$15,125,000

Purpose: Gallaudet College serves deaf persons through the provision of appropriately designed educational opportunities; through the training of teachers and other professionals; and through its strategic position as the capstone of educational opportunity for the deaf, provides a maximum of leadership, inspiration, and exemplary service to institutions, organizations, and individuals serving the deaf.

Explanation: The College derives its operating revenues from Congressional appropriation and through non-federal sources of income such as tuition, auxiliary services revenue, and vocational rehabilitation funds received from the states.

Accomplishments 1976: In 1976, the Liberal Arts College continued a concerted effort to resolve the language deficiency problem endemic to deaf persons; expanded and improved its contribution to deaf education in the areas of student development, professional development, research, public service and stewardship; established a program to coordinate service on local, national and international bases to those publics where needs are acute in the areas of deafness and education of the deaf; and provided management structures intentionally designed to mobilize and direct effectively the resources available to the College.

Objectives 1977: The 1977 budget request will provide for a major expansion of operations and maintenance services associated with new facilities and for improvement of academic and non-academic services to students and the national deaf community. The request will also provide a pay increase for faculty, and support to offset utility cost increases, to annualize costs associated with the opening of new facilities in FY 1976, to expand graduate programs, and to improve management systems and services.

SPECIAL INSTITUTIONS

Gallaudet College

Program Purpose and Accomplishments

Activity: Operations - Model Secondary School for the Deaf (Public Law 89-694)

1976		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
212	$5,498,000	Indefinite	212	$7,299,000

Purpose: The Model Secondary School for the Deaf serves as a laboratory for educational experimentation and development; disseminates working models throughout the field of education of the deaf to programs serving 60,000 deaf students and 10,000 educational professionals; prepares deaf adolescents for post-secondary academic and/or vocational pursuits; and provides deaf adolescents with the skills to become well-adjusted, contributing and effective members of the society.

Explanation: The MSSD conducts its mission in a new facility located on the Gallaudet College campus and through several field teams. The mission is supported totally through an annual Congressional appropriation.

Accomplishments 1976: In 1976, the MSSD implemented earlier development programs and procedures in the new academic complex. Operations, personnel and equipment were transferred to the new facility. New courses were developed and tested, and instructional media services were expanded in anticipation of increasing enrollments. Residence programs and a program of educational, social and recreational activities were implemented for the enlarged student body. Additional faculty were recruited and programs to enhance the educational experience of deaf persons at the secondary level were implemented.

Objectives 1977: The 1977 budget request will provide for operations and maintenance of the new MSSD facility, utility cost increases, annualization of positions and support costs approved for half-year funding in 1976, and for faculty salary increases.

SPECIAL INSTITUTIONS

Gallaudet College

Program Purpose and Accomplishments

Activity: Operations - Kendall Demonstration Elementary School (Public Law 91-587)

1976		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
105	$2,792,000	Indefinite	119	$3,237,000

Purpose: Kendall School operates as a national model elementary school for the deaf. Its instructional program involves provision of learning activities and on-site instruction for 150 children, through age 15. The supportive services program provides services to students, families and instructional personnel in the areas of social service, family education, speech therapy, audiology, student counseling, learning diagnosis and disability, and medical services. The design and evaluation program provides clinical and technical design and development, and dissemination and evaluation.

Explanation: Kendall School is totally supported through annual Congressional appropriation.

Accomplishments 1976: In 1976, Kendall School completed and implemented a management-by-objectives model; continued participation in the American Association of School Administrators (AASA) Academy program; established working relationships with all major agencies in the Washington, D.C. area; developed a complete medical file on each child; completed psychological assessment on each student; expanded home visits by social workers; expanded the basic family education services; evaluated the staff training and parent education programs; and initiated dissemination visits to other schools and programs.

Objectives 1977: The 1977 budget requests will provide for increased costs of operation and maintenance of the Kendall facility; improvement and evaluation of the instructional, co-curricular and family education programs; acquisition and repair of group amplification equipment; testing and diagnostic evaluation; and for a pay increase for faculty.

SPECIAL INSTITUTIONS

Gallaudet College

Program Purpose and Accomplishments

Activity: Construction

1976		1976		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$2,255,000	Indefinite	---	$15,575,000

Purpose: The purpose of this activity is to provide for continuing development of facilities in accord with program plans and objectives of the College, the Model Secondary School, and Kendall Demonstration School, as delineated in the Program Master Plan and in the Facilities Master Plan.

Explanation: The Model Secondary School for the Deaf and the Kendall Demonstration Elementary School are totally supported through annual Congressional appropriation. The Liberal Arts College derives its support from Congressional appropriation and from non-federal sources of income such as tuition, auxiliary services revenue, and vocational rehabilitation funds received from the states.

Accomplishments 1976: In 1976, construction was completed of the new Model Secondary School for the Deaf academic facility and the facilities to be shared by the College, the MSSD and the Kendall Demonstration Elementary School (central heating and cooling plant, central services and maintenance, food services and health services). Planning was begun for the learning center, the field house, and a fifth residence hall. Existing buildings were connected to the central cooling plant. Planning was completed and construction was nearing completion on new roads and on conversion of the Student Union Building for more effective use after removal of the food service facilities.

Objectives 1977: The construction funds requested will provide for construction of a new facility for the Kendall Demonstration Elementary School to serve approximately 50 percent of the eligible hearing-impaired students residing in the Washington Metropolitan Area, or approximately 300 students. Included in the proposed construction are a Diagnostic and Evaluation Center, an Early Childhood Center, an Elementary Center, a Central Resources Center, a Student Residential Center and a Central Administration Center. Also, requested are funds to provide for expansion of central heating and cooling services to new facilities to be constructed beginning in 1977.

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Estimate Revised	Transition Quarter
1. Liberal Arts College	$12,348,000	$3,397,000
2. Model Secondary School	5,459,000	1,585,000
3. Kendall Demonstration School	2,770,000	759,000
Total	20,577,000	5,741,000

Explanation

Estimates for the three-month interim period—$5,741,000--are based on one-fourth of Gallaudet College's 1976 budget estimate, ($5,344,000) and an additional $397,000 for twelve new faculty ($55,000); faculty pay raise ($291,000); utilities ($43,000) and food and transportation ($8,000).

The purpose of this request is to permit Gallaudet to augment its academic program activities during the interim period to take care of built-in cost increases and program expansion related to anticipated Fall enrollment increases.

THURSDAY, MARCH 18, 1976.

HOWARD UNIVERSITY

WITNESSES

DR. JAMES E. CHEEK, PRESIDENT
DR. CASPA L. HARRIS, JR., VICE PRESIDENT FOR BUSINESS AND FISCAL AFFAIRS—TREASURER
DR. CARLTON P. ALEXIS, VICE PRESIDENT FOR HEALTH AFFAIRS
DR. LORRAINE A. WILLIAMS, VICE PRESIDENT FOR ACADEMIC AFFAIRS
DR. ROGER D. ESTEP, VICE PRESIDENT FOR DEVELOPMENT AND UNIVERSITY RELATIONS
DR. CHARLES S. IRELAND, HOSPITAL DIRECTOR, HOWARD UNIVERSITY HOSPITAL
MRS. DOROTHY H. BAYEN, BUDGET DIRECTOR
AUGUSTUS L. PALMER, ASSISTANT TREASURER,, HOWARD UNIVERSITY, AND FINANCIAL DIRECTOR, HOWARD UNIVERSITY HOSPITAL
WILFORD FORBUSH, DEPUTY ASSISTANT SECRETARY, BUDGET

Mr. FLOOD. We now have Howard University. The presentation will be made by Dr. James E. Cheek, the president of the university. We have your biographical sketch, which we will place in the record at this point.

[The information follows:]

BIOGRAPHICAL SKETCH

Name: James E. Cheek.

Position: President of the university.

Birthplace and date: Roanoke Rapids. N.C.; December 4, 1932.

Education: Shaw University, 1955, B.A.; Colgate-Rochester Divinity School, 1958, M.Div.; Drew University, 1962, Ph. D.

Experience: 1969: President, Howard University; 1963–69: President, Shaw University, Raleigh, N.C.; 1961–63: Assistant professor of New Testament and historical theology, Virginia Union University, Richmond, Va.; 1959–61: Instructor in Western history, Union Junior College, Cranford, N.J.; 1959–60: Teaching assistant in historical theology, Drew Theological School, Madison, N.J.

Associations/memberships: Board of directors: Union First National Bank of Washington; National Council on Educating the Disadvantaged; National Association for Equal Opportunity in Higher Education; Joint Center for Political Studies; Downtown Progress; Washington Urban League.

Board of Trustees: The University of Miami; Drew University. Colgate-Rochester Divinity School; Consortium of Universities (Local); Federal City Council.

Honors and recognitions: Doctor of humanities, Shaw University, 1970; doctor of humane letters, Trinity College, 1970; doctor of laws, A. & T. State University, 1971; doctor of laws, Drew University, 1971; docteur Honoris Causa, l'Universite d'Etat d'Haiti, 1972; doctor of education, Providence College, 1972; doctor of laws, Delaware State College, 1972; doctor of humanities, University of Maryland, 1975; doctor of divinity, Bucknell University, 1975.

Mr. FLOOD. Now you have some people with you?

Dr. CHEEK. Mr. Chairman, this is Dr. Williams, our vice president for academic affairs. To my immediate left, Dr. Alexis, vice president for health affairs; Dr. Caspa Harris, vice president for business and fiscal affairs, at the table.

And then we have as backup, Mr. Palmer, the controller of the hospital; Dr. Ireland, the director of the hospital; Dr. Estep, vice president for development; Mrs. Bayen, the budget director.

Mr. FLOOD. Very good. I see you have a prepared statement there, Doctor. How do you want to handle this?

Dr. CHEEK. I think, Mr. Chairman, it is a very short statement, and if it is your pleasure, I will just read it.

Mr. FLOOD. Very well.

OPENING STATEMENT

Dr. CHEEK. Mr. Chairman, on behalf of the Howard University Board of Trustees, its faculty and student body, I am pleased to have this opportunity to present to you our 1977 budget request.

Our request for 1977 has been prepared in three budgetary components; the academic program component; the construction component and the Howard University teaching hospital component. Our total request is $81,909,000.

The academic program component of our request represents an increase of $5,751,000 in additional Federal support and $750,000 in non-Federal support by the university for a total increase in 1977 of $6,501,000. Our request includes $1,900,000 for faculty salary increases in line with recent AAUP studies and projections; $1 million as partial support for our retirement plan in order to comply fully with the 1974 Pension Reform Act and $1,851,000 for built-in increases.

This portion of our request also includes $375,000 for 11 new faculty positions in the college of medicine. The addition of these positions will provide needed support for required basic science courses taught to students in the colleges of dentistry, nursing, pharmacy, allied health sciences as well as students in the college of medicine.

Our request includes $325,000 for the School of Communications, department of television and film production, for equipment and supplies and $300,000 for the university library system to provide for six professional positions as well as a modest amount for books and supplies.

The remaining 60 faculty positions—of which 30 will be funded by the university for a total cost of $750,000; and 30 will be funded by the Federal Government for a total cost of $750,000—represent needed increases in order to reduce unfavorable faculty/student ratios in our schools and colleges and to correct deficiencies as cited by the accrediting agencies.

All of our academic program increases in 1977 represent efforts to correct accreditation deficiencies; funds to comply with recent Federal legislation or funds to remain reasonably competitive with similar educational institutions in regard to competitive salary ranges. No funds have been requested for new programs or to expand existing programs other than to meet minimal needs required for accreditation purposes.

Our construction request for 1977 is $2 million. This request will provide $1 million for the annual payment on our current deferred note for the acquisition of the Dunbarton campus property and an additional $1 million to continue our renovation program of the buildings on this campus.

The university is not seeking additional program funds for the Howard University teaching hospital in the 1977 budget request. The only funds requested for this purpose are $340,000 for annualization

of nonteaching pay considered a built-in increase applicable to prior period adjustments.

Mr. Chairman, the university is mindful of the fact that we have had serious economic problems in our Nation and a substantial number of individual taxpayers have experienced serious financial difficulties. In the light of these circumstances, Howard University is making every conceivable effort to reduce expenditures and to continue its academic programs in line with standards of efficiency as determined by the appropriate accrediting agencies.

Mr. Chairman, I again express to you and the committee our sincere appreciation for permitting us to present this request and I shall be happy to answer any questions that you or members of the community may have with respect to our presentation.

ENROLLMENT TRENDS

Mr. FLOOD. Dr. Cheek, we know that your estimated enrollment for 1976 is almost 20 percent below what you anticipated at this time last year. And that trend apparently is continuing for next year. Why have you lowered the estimates of enrollment?

I think the figures we had last year estimated 10,502 for 1976, and now 8,624.

Dr. CHEEK. The 1976 estimate, Mr. Chairman, probably would be slightly higher than the 8,624 that is listed here when all the data is completed. That is the reason we list it as an estimate rather than the actual enrollment.

We have been conservative ino ur projections for 1977 because we are attempting to limit our enrollment somewhere in the same range as to what we have at the present time.

The university is not, itself, reducing enrollment as such. We have been following a conscious policy of trying to maintain enrollment consistent with at least the past 2 years until we can acquire the resources that would be necessary to accommodate an expanded enrollment.

Mr. FLOOD. But this comparison of the figures from last year is almost 20 percent below your last year's estimate. The reasons we raise that question are the implications for your future budgets? Shouldn't you be planning a reduced level of operation with all of these things being so?

Dr. CHEEK. Mr. Chairman, we do not consider this as a continuing trend. There are several things that contribute to this, perhaps the most conspicuous being the economic situation in the country. Our enrollment decreases, interestingly enough, have occurred principally in old students returning rather than in new students entering, and our data indicate that the major problem cited for old students not returning is the economic situation.

Mr. FLOOD. That might be, but from what we have before us, it is an apparent reduction in enrollment. But in spite of that whole atmosphere, you are still requesting more new positions for 1977. What type of jobs are these, and why, under all these circumstances do you still need these?

Dr. CHEEK. Frankly, even with a reduction we still would not have in most of the schools and colleges the faculty-student ratios that

would be considered optimal for quality instruction. We would certainly be compounding the problem if we were to embark on a massive program at this stage in attempting to increase enrollment.

Mr. FLOOD. Yes, you said that, but why, in view of all these circumstances, are you still requesting new positions for 1977?

Dr. CHEEK. Well, the most compelling circumstances is that we are trying to correct deficiencies. We are still in that process of attempting to correct deficiencies that have been long-standing.

Mr. FLOOD. Last year, you told us that you were revising your long-range estimates of enrollment to 20,000 students.

What is your current estimate for enrollment growth?

Dr. CHEEK. Mr. Chairman, we have not settled on that question yet. We have just been authorized this year by the board of trustees to establish a central university planning office, and one of their tasks will be to review the university's entire master plan, including physical facilities projection, and we will hopefully sometime in July make rather hard decisions with respect to what Howard University can reasonably expect to accommodate over the next 10 years in terms of number of students.

CONSTRUCTION

Mr. FLOOD. All of those things being so, shouldn't the construction plans be deferred until you review the implications of your enrollment trend?

Dr. CHEEK. We have in this request funds for construction that relate only to the Dunbarton property. We have currently underway for construction the university center, and renovations to the founders library.

We are, of course, in the process of making an addition to the medical school and an expansion of the dental school, of the fourth and fifth floors.

Mr. FLOOD. With all these implications of your enrollment trends, it occurs to us that you might defer this construction.

Dr. CHEEK. We couldn't defer construction that is already in progress.

Mr. FLOOD. I mean the plans.

Dr. CHEEK. Mr. Chairman, we could not even do that, because, as we have indicated on a number of occasions in our testimony in prior years, the university is so far behind in its physical facilities in respect to our current enrollment.

ACCREDITATION PROBLEMS

Mr. FLOOD. Now your justification indicates serious deficiencies may result from accreditation problems. What are these deficiencies specifically?

Dr. CHEEK. They vary from school to school. In most of the schools and colleges the deficiencies have to do with teaching personnel, principally in terms of ratio of full-time faculty to students and supporting personnel. In other schools and colleges it has to do with physical facilities. In still others, they are problems revolving around inadequate equipment, supplies, and things of that nature.

Mr. FLOOD. What action are you planning? You have the problems; what action are you planning to meet the problems we are talking about? I think you should expand the answer to that question for the record.

Dr. CHEEK. All right.

[The information follows:]

The actions proposed by the university to eliminate our accreditation deficiencies are varied and we have taken several approaches to eliminate these problems. For example, we have requested from the Congress over the last several years, additional faculty; supporting personnel; funds for supplies, equipment, and other related expenses; as well as numerous requests for construction funds to provide adequate physical facilities. We have received only a portion of the necessary funds required from the Congress since our initial requests were reduced before presentation to the Appropriations Committee. In addition to seeking direct Federal assistance, the university has embarked on a major fund raising development program to acquire additional financial support from the private sector of our economy. To this end, we have engaged a professional fundraising firm and we have expanded our own internal development staff to actively seek funds from the private sector.

Since many of our accreditation problems involve inadequate physical facilities, the university has held enrollment to levels that would adequately accommodate our student body in our present physical facilities. We have not received construction funds for classroom buildings for several years and our current classroom facilities will not permit an expanded enrollment. We have made proposals to Federal agencies and non-Federal foundations and corporations for construction and operating funds. We have had limited success in both areas as we continue to actively meet some of our needs from these sources.

Our deficiencies are of such magnitude that we realize it will take several years to meet totally all of our needs. Since fiscal year 1972, our congressional requests have been designed to meet these needs on a step-by-step basis. During the past 5 years, the Federal appropriation has reduced considerably many of our needs concerning accreditation due to insufficient faculty and supporting personnel. Unfortunately, it has not totally eliminated the problem and that is the reason why we are still seeking additional support from the Congress this year.

NONFACULTY SALARY STUDY

Mr. FLOOD. Last year, we discussed at some length the question of nonfaculty salaries, and you indicated recently you were developing what you call a revised salary system. What progress are you making in that area?

Dr. CHEEK. Mr. Chairman, pursuant to our understanding of the committee's wishes, we have been in consultation with the appropriate officials at DHEW, and we have engaged a firm to prepare for us a work plan for the design and implementation of a position classification and salary administration program. The firm has already been engaged, and it will take several months before we have such a program proposal for our review and consideration before it can be implemented.

Mr. FLOOD. Several months?

Dr. CHEEK. July 31 is when we expect to have it completed.

Mr. FLOOD. Do you expect a moratorium on salary increases for the professionals you are talking about until the system now is in place, do you think?

Dr. CHEEK. No, we do not plan a moratorium.

Mr. FLOOD. Not until you get this plan in place?

Dr. CHEEK. No, we do not. Unfortunately, I could not appear for that hearing but we have presented a proposal for a modest increase in order that we can remain competitive with all of the agencies, or-

ganizations, and institutions with which we compete for personnel, and we may be causing additional problems for ourselves if we were to have a moratorium until we devise a plan that could be reviewed and approved by the administration and the board of trustees.

THE LIBRARY SYSTEM

Mr. FLOOD. You are also requesting six new positions and an increase of $300,000 for the university library. Your justification indicates that the present library is inadequate.

Dr. CHEEK. Yes, that is correct.

Mr. FLOOD. Can you explain to us why it is inadequate? Is there some kind of standard you are aiming at for tomorrow?

Dr. CHEEK. Mr. Chairman, the university became a member of the Association of Research Libraries, I think 4 years ago, and that is an organization composed of 78 university library systems, and they publish annually the statistics on total number of volumes in the library, total number of staff, professional staff, nonprofessional staff, the number of volumes per full-time student equivalent, number of volumes per full-time faculty equivalent, total operating budget, and so forth.

Just in terms of the standards of the Association of Research Libraries, our library system, in almost every category in which they publish the data, has ranked 77th or 78th out of the 78 university libraries.

In addition, we have a sample group of universities to which we have referred on several occasions, all of which, incidentally, are members of the Association of Research Libraries, and our deficiencies in comparison with those 11 universities are just so staggering they boggle the imagination really, and here again, the only explanation that one can give that is reasonable is that the university library system has not received the kind of attention that it should have received in prior years.

This is not intended as any indictment of anybody, but simply a statement of an empirically verifiable fact.

SCHOOL OF COMMUNICATIONS

Mr. FLOOD. You are also requesting an increase of $325,000 for communications.

Dr. CHEEK. Yes.

Mr. FLOOD. Have you ever considered the possibility of sharing facilities with other schools or the public TV or something?

Dr. CHEEK. We have considered doing that. We have not undertaken yet a systematic program of trying to develop those kinds of relationships. One of the reasons is that we have not yet fully developed the interfacing of the schools and colleges within Howard University with the school of communications. There is a lot that remains to be done in developing cooperative programs between the college of fine arts, the school of business administration, the school of communications, and the school of engineering, and it has been the feeling of our faculty, and one with which I fully agree, that until Howard University has itself developed a full-scale program that it would not be wise to undertake trying to develop cooperative programs with other universities.

TELEVISION SYSTEM

Mr. FLOOD. What about the public TV system?

Dr. CHEEK. We are engaged right now in conversation with the local public broadcast station with respect to cooperative programs. As a matter of fact, a luncheon is taking place right now at the university with respect to that. We cannot yet predict what the outcome would be, but it is certainly desirable from our standpoint.

Mr. FLOOD. What kind of equipment would you purchase with these increases you are requesting?

Dr. CHEEK. The standard equipment required, and this is for the television and film department, television cameras, videotape machines, the monitors that are required to adequately equip a studio, or studios, the standard kind of equipment they would be required not only for teaching purposes, but also for over-the-air broadcasting, because there isn't any point at all in training students on equipment that does not represent equipment that is the state of the art when they go out to seek employment in various stations across the country.

RETIREMENT PROGRAM REVISIONS

Mr. FLOOD. The funds that you requested for the retirement program seem to vary quite a bit from year to year to year. For instance, in 1977, you show an increase of $1 million. What kind of problems are you having with the retirement system?

Dr. CHEEK. Our request this year comes principally as a result of the Pension Reform Act. Our estimates indicate that the university would have to vest approximately $3.5 to $3.7 million in order to take care of current employees.

Now that is our estimate. As you know, we cannot come up with a figure until the actuaries have done their studies and given us an actual figure that we will have to provide for a vested retirement program, and we are attempting through this request to prepare for the time when our retirement program will have to be fully funded.

In other words, the approach that we are taking is to seek this in stages rather than to in 1 fiscal year try to seek the full amount.

STUDENT AID

Mr. FLOOD. How much in Federal student aid funds are being used at Howard during the current academic year?

Dr. CHEEK. I think it is about $2½ million.

Mr. FLOOD. Do you estimate any increase in Federal student aid funds for the coming academic year?

Dr. CHEEK. Mr. Chairman, we have requested more, but I don't have the figures at this time.

Mr. FLOOD. Do you have an estimated increase?

Dr. CHEEK. We are requesting an increase because the $2.5 million is not adequate. We have approximately 67 percent of our students on financial aid—that is not just Federal—when our estimate is that what we need is approximately 80 percent, so we have about 13 or 14 percent of our students that need financial aid who are not receiving it.

Mr. FLOOD. What has been the experience of your students with the BEOG program, the basic education opportunity grant program?

Dr. CHEEK. It was better this year than it was last year. I am not sure I have that information available to me.

Mr. FLOOD. If you don't have that, we would like to have it in the record because, as you know, that BEOG program is discussed at great length in the hearings, and we would like to know that.

Dr. CHEEK. Maybe I can give it to you.

Mr. FLOOD. Don't guess. The record will do it. You can supply it for the record.

Dr. CHEEK. I don't have the comparison with last year.

Mr. FLOOD. Do that for the record, then.

Dr. CHEEK. All right.

[The information follows:]

COMPARATIVE STATEMENT OF BASIC EDUCATIONAL OPPORTUNITY GRANT RECIPIENTS

	1974–75		1975–76	
	Number	Amount	Number	Amount
Allied health	16	$13,932	54	$57,271.00
Architecture and planning	17	14,948	38	42,703.00
Business and public administration	35	24,925	110	112,373.00
Communications	36	25,548	134	141,412.00
Dental hygiene	3	2,008	3	4,176.00
Education	1	288	6	3,953.00
Engineering	62	48,736	110	115,151.00
Fine Arts	39	31,327	112	107,730.00
Human ecology	2	2,064	34	35,017.00
Liberal arts	296	216,914	649	672,224.08
Nursing	20	14,620	41	38,972.00
Pharmacy and pharmacal sciences	14	8,416	30	30,384.00
University without walls			3	4,200.00
Total	557	417,658	1,324	1,365,566.08

HOWARD UNIVERSITY HOSPITAL

Mr. FLOOD. About the hospital program, the estimate we see here for outpatient visits is much, much lower than last year's estimates. What is the reason for the lower workload?

Dr. CHEEK. Mr. Chairman, I will ask Dr. Alexis to respond to that.

Dr. ALEXIS. Mr. Chairman, we increased our outpatient charges at a level that was considered comparable to the other two university hospitals, and the initial effect of that action was really a counterproductive one in that a significant number of our patients could not pay those new charges, and there was an initial decline in our outpatient clinic loads.

With the assistance of our social service department and our business office, we have set up programs for partial pay, with deferred payments for clinic visits, and it is anticipated that over the next several months we should begin to experience an increase again in outpatient and ambulatory care in general.

Mr. FLOOD. We note here there has been a substantial increase in the hospital rates at Howard. Do you expect further increases in those rates for next year?

Dr. ALEXIS. That is a matter, Mr. Chairman, that we have under active review at this time.

Mr. FLOOD. I am sure of that; that is why I asked.

Dr. ALEXIS. We are looking at two sets of information to help us in making our final decision. No. 1, the level of increase in our malpractice premium, and firmer estimates with reference to our utility costs. As you know, we still have not had a year's experience in the new structure and hopefully within the next 4 to 6 weeks we should have enough data to enable the administration and the board of trustees to make an intelligent decision.

Mr. FLOOD. Supply for the record the current rates at Howard and then compare them with other local hospitals. Do that for the semiprivate room, the intensive care, and coronary care, the operating room.

Dr. ALEXIS. Yes, sir.

[The information follows:]

HOWARD UNIVERSITY HOSPITAL

Comparison of Room Rates for Selected Services *

	Howard University Hospital	George Washington University Hospital	Georgetown University Hospital	Remarks
As of April 12, 1975				
One Bed Room	$112	$123	$124	This was the date when the new Howard University Hospital was opened.
Two Bed Room	105	106	107	
Four Bed Room	90	103	97	
Intensive Care Unit	250	250	350	
Coronary Care Unit	250	270	350	
Stroke Unit	250	---	350	
Surgical Intensive Care	263 *	---	---	
Operating Room	125-65 **	125-75 **	135-90 **	
As of July 1, 1975				
One Bed Room	112	146	135	The Howard University Hospital rate was not raised at this time because we had instituted, less than three months before, a rate which was approximately three times the charge in the old Freedmen's Hospital.
Two Bed Room	105	131	118	
Four Bed Room	90	125	---	
Intensive Care Unit	250	475	---	
Coronary Care Unit	250	420	388	
Stroke Unit	250	---	388	
Surgical Intensive Care	263	---	---	
Operating Room	125-65 **	160-95 **	145-95 **	
As of February, 1976				
One Bed Room	no	no	165	We understand that the Georgetown University Hospital instituted this increase to cover additional costs after renegotiation of their malpractice insurance coverage.
Two Bed Room	change	change	148	

* Median Rate for Accommodations.
** First half-hour and each additional half-hour, respectively.

Mr. FLOOD. Has the hospital reached the stage where it is considered to be self-supporting now?

Dr. ALEXIS. No, Mr. Chairman, it has not.

USE OF FREEDMEN'S FACILITIES

Mr. FLOOD. By the way, what is the old Freedmen's Hospital being used for now?

Dr. CHEEK. Mr. Chairman, currently one part of it, the building that we called the Hospital Annex, is being used to accommodate the School of Nursing and the School of Allied Health, and I think a small portion still carries a clinical program in radiotherapy.

The main complex of buildings are currently being prepared for renovation to accommodate several academic programs, the School of Communications being one of the most prominent in terms of space utilization; also, supporting services, such as the University Counseling Service and a number of smaller educational programs. They are components of programs that will be occupied in other places on the campus.

OFF-CAMPUS FACILITIES

Mr. FLOOD. What are your other plans for off-campus facilities?

Dr. CHEEK. Other than Dunbarton, which we consider our second campus, we are hopeful that we can begin development on the Beltsville property at least in fiscal year 1978, because, first of all, we need the facility there to carry on the program for which we acquired that property and, second, we have recently been notified that we must return the property to the Federal Government since the University has not made full utilization of it.

The one program that is going on there now is a portion of our program in astronomy, where we have a telescope located that was a gift from NASA 2 years ago. It is our intention to make a request to HEW for funds to develop the Beltsville campus.

We will just have to wait and see how that turns out. Our immediate problem, of course, is to have the Division of Surplus Federal Property in DHEW withdraw their order or directive that the property be returned.

Mr. FLOOD. Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

OTHER FEDERAL SUPPORT

The total request, as I understand it, is $81,909,000. How much more does Howard receive than that figure from the Federal Government?

Dr. CHEEK. During the period July 1 through December 31, 1975, We received from the Federal Government approximately $12,350,000 in addition to student aid. The $12.3 million figure includes a variety of programs that are specific contracts over which the university, itself, has no control in terms of making use of that for general operating funds.

Mr. SHRIVER. They are similar to payments to other schools over the country?

Dr. CHEEK. That is correct.

Mr. SHRIVER. Exclusive of the construction, what would it amount to?

Dr. CHEEK. Approximately $15 million last year.

Mr. SHRIVER. You gave testimony in answer to one of the chairman's questions as to the amount of student aid. What was that figure?

Dr. CHEEK. The total amount of Federal student aid is approximately $2.5 million.

Mr. SHRIVER. Would you add all those up to get the amount from the Federal Government?

Dr. CHEEK. About $17 million, yes, exclusive of construction funds.

Mr. SHRIVER. Your total increase requested for the fiscal year 1977 budget, I understand, is $6,501,000.

Dr. CHEEK. Yes; that is correct, $750,000 of that amount is proposed to come from non-Federal sources, so it is actually $5.7 million from the Federal Government.

ENROLLMENT

Mr. SHRIVER. What is the total enrollment?

Dr. CHEEK. The enrollment that is projected for next year is approximately 9,000.

Mr. SHRIVER. How many more is that for next year than for this year?

Dr. CHEEK. Mr. Shriver, that would be approximately the same. It may vary by 100 or 150 students.

Mr. SHRIVER. This increase that you are asking for is not because of increased enrollment?

RETIREMENT REVISIONS

Dr. CHEEK. No; it is not.

Mr. SHRIVER. One large item is a million dollars for partial support of a retirement plan to comply fully with the 1974 Pension Reform Act. What do you refer to there?

Dr. CHEEK. I have answered it in part, but not in the way that Dr. Harris can, because he is more familiar with that. If it is all right, I will ask him to respond.

Mr. SHRIVER. Put it in the record, if you would.

Dr. CHEEK. All right.

[The information follows:]

We are requesting $1 million as an estimate of the university's need to comply with the Pension Reform Act of 1974. The university has a retirement program that is not fully vested. The current program provides a base floor for retirement purposes after the deduction of the fully vested TIAA/CREF portion of the retirement allowance. The balance due the retired employee, if any, is not currently vested and is funded in our budget on an annual basis. The Pension Reform Act of 1974 requires private universities and colleges to fully vest all retirement pension plans by a specific date. In the case of Howard University, we must provide actual funding for this portion of our retirement program in advance of retirement of our employees to comply with provisions of the act requiring full vesting. There are penalties in the act for failure to fully comply with all of its provisions.

The university currently is requesting $1 million to assist us in meeting the funding requirement until such time as we have fully identified the total needs required to fund our pension plan. We have engaged an actuarial firm to develop the funding necessary under the act. This request is our estimate of partial support to meet minimum requirements of the law. It is our estimate that the

actual retirement contribution required will exceed this request. The Pension Reform Act of 1974 (ERISA) is a Federal act designed to assure the full vesting of employee pension funds in private enterprise.

SCHOOL OF COMMUNICATIONS

Mr. SHRIVER. You answered some questions of the chairman relative to film production and communications. Is this a new school that you are starting, a school of communications?

Dr. CHEEK. It actually was started in 1972, so it is a relatively new school, and we have been requesting funds and they have been provided each year to develop the school as we go along.

Mr. SHRIVER. How much has been provided up to now?

Dr. CHEEK. I don't have it immediately available with me now, but I can provide that.

[The information follows:]

SCHEDULE OF FEDERAL SUPPORT OF THE SCHOOL OF COMMUNICATIONS, 1972-77

	Faculty		Supporting staff		Other objects	Total	
	Positions	Amount	Positions	Amount		Positions	Amoun
1977 request					$325,000		$325,000
1976	4	$90,000	8	$87,494	322,506		500,000
1975	7	130,000	6	56,370	268,630		455,000
1974	9	175,000	4	37,232	287,768		500,000
1973	12	200,000	3	30,433	91,567		322,000
1972	18	251,000	9	70,936	178,064		500,000
Total	50	846,000	30	282,465	1,473,535	80	2,602,000

Mr. SHRIVER. Have you made application under public broadcasting for funds or equipment to help?

Dr. CHEEK. Yes, we have an application pending now relating to the television station, and we are waiting to see what the disposition of that application will be.

Mr. SHRIVER. You haven't heretofore made application?

Dr. CHEEK. No. When we started the school of communications, we started with a focus on two programs initially. One that was already in existence at the university, but not in an expanded form, and that was the department of speech pathology and audiology, which was already there but was a department, and that was expanded. The second had to do with radio broadcasting. We started on a very modest basis with television and cinematography. And now that we have the radio component pretty much underway, the speech pathology and audiology underway, we started last year to begin the full-scaled development of the television and film departments.

RADIO STATION

Mr. SHRIVER. Do you have a radio station?

Dr. CHEEK. Yes.

Mr. SHRIVER. Does it receive funds from public broadcasting?

Dr. CHEEK. No, it does not.

Mr. SHRIVER. Have you made application for that?

Dr. CHEEK. We have not made any applications.

Mr. SHRIVER. So you have funded it through funds provided through this appropriation?

Dr. CHEEK. Yes.

Mr. SHRIVER. In my own hometown the universities there for a number of years have been supported through public broadcasting, so they are less dependent of local or State funds.

Dr. CHEEK. I know.

LIBRARY SYSTEM

Mr. SHRIVER. Howard belongs to the Association of Research Libraries. How does that work with reference to all of the research facilities available in the Washington area, including the Library of Congress?

Dr. CHEEK. Mr. Shriver, I couldn't answer that with respect to the Library of Congress.

Mr. SHRIVER. Why do you need a separate research library when we have all of these facilities within a very short distance of your institution?

Dr. CHEEK. The Association of Research Libraries is an organization of universities that carry on rather extensive research programs. I must say that among the 78 universities that are members of that, our institution probably is, comparatively speaking, less research oriented than the others. In order for our institution to be a full-scaled university, and that is what our objective is, then we have to have a library resident on our campus that provides the bibliographical resources necessary to carry on that kind of research.

Now that is not research just for the faculty. Universities that offer doctoral level programs must have extensive research facilities in order for those programs to be good or distinguished or excellent.

I doubt even the libraries at Harvard would be considered totally sufficient for Harvard's needs, and that they still in certain areas would have to draw upon surrounding libraries. That is the reason we have nationwide the interuniversity library loan system.

Despite the existence in Washington of other area universities and the Library of Congress, we still would have to have at our institution a much more extensive library collection than we have.

If the median library collection for the 11 universities that we have used for comparison indicates that we are deficient by 1.2 million volumes in terms of the mean, we are hardly in the ballpark of the universities and institutions with which we are compared.

Mr. SHRIVER. I can see on your campus you might not have those, but I can't think of any finer research opportunities than exist across the street from here, and it is not too far from your campus.

Dr. CHEEK. Those facilities are extensively used.

Mr. SHRIVER. I would think they would be.

Dr. CHEEK. Yes, they are.

Mr. SHRIVER. That would be a great advantage of your institution being here, I would think.

I am not going to argue with you; I just wondered why.

Dr. CHEEK. The accrediting agency, unfortunately, simply doesn't count the——

Mr. SHRIVER. You mean the Association of Research Libraries?

Dr. CHEEK. That is not an accrediting body for the libraries. The accrediting agency for the university is the Middle States Association. The Association of Research Libraries is a membership organization that doesn't accredit the library. You could be a member or not be a member. We applied for membership, and we were accepted into membership because there are certain advantages from being a member of that organization.

Mr. SHRIVER. It looks to me that the accrediting agency would recognize in this area we have vast research and library resources.

ACCREDITATION DEFICIENCIES

What were some of the deficiencies of accreditation that you mention on page 2 of your statement?

Dr. CHEEK. In some schools and colleges, faculty-student ratios, the absence of sufficient number of faculty in relation to the number of students we have. In other schools, physical facilities, where we have, for example, the school of business and public administration housed in what used to be a warehouse; the absence of sufficient equipment, particularly in the areas of what is called the hard sciences, the natural and physical sciences, where the need for equipment changes as the technology changes.

Mr. SHRIVER. Are you making some changes to bring this about?

Dr. CHEEK. We are seeking, Mr. Shriver, in those schools and colleges where corporations have what might be called "vested interest" and by that I mean where they recruit students, we have been seeking their assistance in trying to develop our equipment needs, particularly in the school of engineering, in some areas of chemistry.

We also have been seeking equipment from other agencies of the Government. We received the telescope for astronomy from NASA, which is a $1 million piece of equipment. We also received from the Atomic Energy Commission as a gift a nuclear reactor for our program in engineering and nuclear science engineering.

DUNBARTON

Mr. SHRIVER. I have just one final question concerning the Dunbarton property; how is that proceeding?

Dr. CHEEK. That is proceeding quite well. We have at Dunbarton the law school which is in its third year and a number of our research institutes are still located there. We are still carrying on the program of renovation to convert the facility to the use to which it is now being put as well as to bring it up to the District of Columbia Code.

Mr. SHRIVER. Thank you, Dr. Cheek.

Mr. FLOOD. Mr. Michel?

FACULTY/STUDENT RATIOS

Mr. MICHEL. According to your statement, you are adding 60 new faculty positions to reduce "unfavorable faculty/student ratios". Last year you added 97 for the same purpose, but when I asked you what

the ratio was, the only answer I got was that "it varies." This year I want a specific answer, even if it is by school, and also what the "acceptable normative standards" are which you are apparently using as a standard for the student/faculty ratio.

Dr. CHEEK. I am providing for the record a schedule of required faculty to meet accreditation requirements as of June 30, 1976. This schedule provides the information requested. Last year, the university did not add 97 new faculty positions. We were allowed 54 new faculty positions and 43 supporting personnel positions for a sum total of 97 positions.

HOWARD UNIVERSITY

Schedule of Required Faculty to Meet Accreditation Requirements as of June 30, 1976

School/College	1975 Student Enrollment	Recommended Faculty/Student Ratio	Actual Faculty/Student Ratio	Additional Faculty Required	No. of Faculty Provided in 1976 Budget	No. of Faculty Requested in 1977 Budget	Additional Faculty Required
Architecture	239	1:9	1:9.08	1	-	-	1
Business Administration	866	1:12	1:22.49	35	6	6	23
Communications	400	1:8	1:9.69	9	4	5	-
Education	437	1:12	1:13.22	4	-	4	-
Engineering	624	1:10	1:11.98	11	-	4	7
Fine Arts	650(a)	1:8	1:11.49	26	3	-	23
Human Ecology	208	1:12	1:12.19	1	-	-	1
Graduate School	1,450	1:6	1:33.82	199	6	4	189
Law School	450	1:12	1:14.22	7	-	-	7
Liberal Arts	5,000(a)	1:12	1:13.51	47	8	16	23
Social Work	167	1:8	1:7.52	-	-	-	-
Dentistry	458	1:4.00	1:4.72	21	5	6	10
Medicine	1,593(b)	1:3.90	1:4.92	105	13	18	74
Pharmacy	400	1:8	1:19.04	32	4	4	24
Allied Health Sciences	228	1:4.00	1:5.50	29	5	4	20
Nursing	250	1:8.00	1:11.04	11	-	-	11
Total				538	54	71	413

(a) - Based on enrollment derived from serving other undergraduate colleges.

(b) - Based on enrollment derived from serving the health sciences schools and colleges.

Mr. MICHEL. How long are you going to continue to add faculty positions for the purpose of improving the ratio?

Dr. CHEEK. We would be forced to ask for additional faculty support until such time as we have met the recommended faculty/student ratio as normally required in other educational institutions.

AVERAGE FACULTY SALARIES

Mr. MICHEL. You are budgeting $1.5 million for those 60 positions, which averages out to $25,000 each. Is that an accurate figure, and if so, what is the justification for such a high average salary level? I think you better provide for the record a position by position breakdown and the salary for each.

Dr. CHEEK. I am providing for the record a detailed listing by schools for each of the positions requested and the salaries requested by rank. You will note that the salaries do not average $25,000 each since the university must provide 15 percent of each salary requested for related fringe benefits. I am also providing the 1976–77 projected scales of average compensation for faculty personnel as determined by the AAUP and previously compared with Howard University salaries.

AAUP—Table 17

Professor	$34,540
Associate professor	24,580
Assistant professor	19,990
Instructor	16,320

The above figures do not provide comparable salaries for faculty personnel in the colleges of medicine and dentistry which are not included in this scale and provide higher salaries than those of other nonmedical faculty.

[The listing of faculty positions follows:]

HOWARD UNIVERSITY
WASHINGTON, D. C. 20059

Schedule of Faculty Position Distribution
June 30, 1977

School	No.	Amount	Total
Business and Public Administration			
Professors	4	$25,000	$ 100,000
Associate Professors	2	20,000	40,000
	6		$ 140,000
Communications			
Professor	1	$25,000	$ 25,000
Associate Professors	4	20,000	80,000
	5		$ 105,000
Education			
Professors	2	$25,000	$ 50,000
Associate Professors	2	20,000	40,000
	4		$ 90,000
Engineering			
Professor	1	$25,000	$ 25,000
Associate Professors	3	20,000	60,000
	4		$ 85,000
Graduate School			
Professor	1	$25,000	$ 25,000
Associate Professors	3	20,000	60,000
	4		$ 85,000
Liberal Arts			
Professors	7	$25,000	$ 175,000
Associate Professors	3	20,000	60,000
Assistant Professors	6	14,791	88,750
	16		$ 323,750
Medicine			
Associate Professors	2	$23,500	$ 47,000
Assistant Professors	4	22,000	88,000
Assistant Professors	7	25,000	175,000
Instructors	5	19,000	95,000
	18		$ 405,000
Dentistry			
Assistant Professors	3	$23,000	$ 69,000
Instructors	3	17,000	51,000
	6		$ 120,000
Pharmacy			
Associate Professors	3	$21,000	$ 63,000
Assistant Professor	1	20,250	20,250
	4		$ 83,250
Allied Health			
Assistant Professors	4	$17,000	$ 68,000
Total.....	71		$1,505,000

APPLICATIONS FOR 97 FACULTY POSITIONS

Mr. MICHEL. How many applications did you have for the 97 new faculty positions you filled during the current year?

Dr. CHEEK. The university did not have 97 new faculty positions available during the current year. We did have available 54 new faculty positions and 27 of these positions were available to the academic affairs division. Of the 27 academic affairs division new faculty positions, we had 208 applications as follows:

School/college	Faculty positions	Applications for positions
Liberal arts	8	60
Graduate school	6	16
Fine arts	3	60
Communications	4	30
Business and public administration	6	42
Total	27	208

The remaining 27 positions were assigned to the health affairs division and were all used to place into permanent faculty positions persons who had previously been teaching on the special project grant in the college of medicine and capitation grants in dentistry, pharmacy and allied health sciences that were reduced during the past year.

FACULTY SALARIES—COLLEGE OF MEDICINE

Mr. MICHEL. You are budgeting $375,000 for 11 new faculty positions in the college of medicine, which averages out to about $34,000 each. Is this accurate, and if so, what is the justification for such a high level in this instance?

Dr. CHEEK. The university is requesting in the college of medicine funds for 18 new faculty members as follows:

Classification	Number	Salary rate	Total
Associate professor	2	23,500	$47,000
Assistant professor	4	22,000	88,000
Assistant professor	7	25,000	125,000
Instructor	5	19,000	95,000
Total	18		405,000

Our request for the College of Medicine also includes $110,500 for supplies and expenses.

NONFACULTY PERSONNEL REQUESTED

Mr. MICHEL. Does your budget provide for an increase in nonfaculty personnel and if so, how many and in what dollar amount?

Dr. CHEEK. Our budget does include an increase in nonfaculty personnel for the university library system. We are requesting specifically six positions as follows:

Classification	Number	Salary rate	Total
Professional librarian	1	$15,481	$15,481
Professional librarian	1	14,117	14,117
Semiprofessional librarians	2	10,520	21,040
Semiprofessional librarians	2	9,473	18,946
Total	6		69,584

NONFACULTY SALARY STUDY

Mr. MICHEL. Regarding nonfaculty salaries, you of course have a study underway to set up a pay scale apart from the Federal Government. A concern I raised last month when you were here, and which I don't think is fully understood, is that based on our committee's investigative report last year, your nonfaculty salaries are 20 percent to 25 percent higher than those paid to George Washington and Georgetown employees. Therefore, to fully carry out our report langauge, a scale should be adopted that would eventually bring those salaries back in line with those two schools. That means probably a lower average increase per year than might otherwise be the case. Are you going to move in that direction?

Dr. CHEEK. The university is making every effort to comply with the committee's directive. We are, as you are aware, currently undergoing a review and salary implementation change by Hay Associates to provide nonfaculty salary ranges comparable to area schools and colleges as well as the Federal and District governments with which we compete. Our request provides a lower average increase for fiscal year 1977 than the information provided us by other area schools for the same period. It is our understanding that other area schools will provide an average nonfaculty salary increase of 6.3 percent while Howard University is seeking an average of 5 percent. When the study has been completed by Hay Associates, we will then have a more accurate comparison based on competitive salaries in the Washington, D.C. area and with other similar educational institutions including Georgetown and George Washington University; and not based solely on salaries paid to employees at Georgetown and George Washington that are not our major competitors as stated in the report.

Mr. MICHEL. Last year and this, you have continually referred to the competition you are facing from other employers in the area for nonfaculty personnel. This is cited as a justification for high salaries. In view of the supposedly high unemployment rate which many people are decrying, I would think there would be plenty of people to go around, without the need for competitively high salaries. Am I right or wrong in this assumption?

Dr. CHEEK. Howard University continues to be in direct competition with the areas two largest employers, the Federal Government and the District of Columbia government. We still continue to seek many of the same persons from the same pool selected by these two major employers. Our problem is compounded because of the equal employment opportunities being provided now to all citizens without regard to race, creed or color. Howard University applauds this type of competition and we certainly hope that it will continue. You must understand, however, that a number of employers, both from the pri-

vate and governmental sectors, in an effort to meet affirmative action and other fair employment practices do seek and acquire many of their minority employees from Howard University since we are still the major predominantly black institution in the country. We are becoming a training ground for other institutions since our employees will not remain at Howard at salary levels that are not competitive.

Mr. MICHEL. Have you made any changes to reflect findings of our investigative staff last year, or have you just written that report off as a biased, faulty document not worthy of being pursued?

Dr. CHEEK. The university has made changes to reflect the findings of the investigative staff report last year by hiring the firm of Hay Associates to revise our nonfaculty pay scale. We have also studied tuition rates at Howard as well as tuition rates at the schools selected by the investigative staff, and a tuition increase was put into effect for the 1975–76 school year. The university does not consider the report the type of document not worthy of being pursued since it is a report from the Committee on Appropriations, U.S. House of Representatives, and we have no intention of ignoring its contents or recommendations. We do not agree with every recommendation made in the report nor some of the theory used to arrive at the recommendations, but the report will certainly be given all possible consideration because of its source.

INCREASE OF TUITION AND FEES

Mr. MICHEL. You have apparently raised your tuition by $250, to $1,350. Is any increase planned for the coming year?

Dr. CHEEK. I am enclosing herewith a schedule of university tuition by schools since our tuition exceed $1,350 per year in certain schools and colleges. The university does not plan to increase tuition for the 1976–77 school year because of the national economic situation and the particular economic status of the majority of our students.

SCHEDULE OF COMPREHENSIVE TUITION EFFECTIVE FOR FISCAL YEAR 1975–76

School or college	1973–74 tuition	1974–75 tuition	1975–76 tuition
1. Liberal arts	$900	$1,100	$1,350
2. Education	900	1,100	1,350
3. Graduate school	900	1,100	1,350
4. Social work	900	1,100	1,350
5. Business	900	1,100	1,350
6. Communications	900	1,100	1,350
7. Engineering	900	1,100	1,350
8. Architecture	900	1,100	1,350
9. Fine arts:			
Music	964	1,164	1,418
Art and drama	900	1,100	1,350
10. Medicine	1,200	1,500	1,850
11. Dentistry	1,050	1,300	1,650
12. Dental hygiene	900	1,100	1,350
13. Pharmacy	900	1,100	1,350
14. Nursing	900	1,100	1,350
15. Law	900	1,150	1,500
16. Religion	900	1,100	1,350

FOREIGN STUDENT ENROLLMENT

Mr. MICHEL. About 30 percent of your enrollment is comprised of foreign students, and nearly 10 percent come from OPEC countries. Don't you think it is about time you establish an out-of-country tui-

tion rate so that the American taxpayers don't have to subsidize the great share of the education for these students?

Dr. CHEEK. Based upon enrollment figures for the spring semester, 1976, foreign students comprised 20.65 percent of those enrolled at Howard University; 7.29 percent of our enrollees come from OPEC countries. The university has no current plans to establish an out-of-country tuition rate. This, of course, is consistent with the policy of the university to provide quality education at a reasonable cost for any student, irrespective of race, creed, or national origin. The university is not aware of an out-of-country tuition charge instituted by other educational institutions elsewhere in the Nation. To initiate this type of charge when no other school is processing tuition charges in this manner would create for us serious problems. The university has traditionally educated many of the current leaders of foreign nations, particularly those from the less developed areas of the world and feel strongly that the relationships established with these individuals while in attendance at Howard have served to assist the Federal Government in its efforts to foster a good relationship with these nations.

Mr. MICHEL. Please provide for the record the number of foreign students attending Howard this year, the number from OPEC countries, the number of these students receiving financial aid and the total dollar amounts.

Dr. CHEEK. There are 1,865 foreign students presently enrolled at Howard University—spring, 1976. Of this number, 658 are from OPEC countries; 76 OPEC students are receiving financial aid from Howard University for the 1975–76 school year, amounting to $87,065.

COST PER STUDENT

Mr. MICHEL. Last year you disagreed with the investigative staff's figure as to the average cost per student for education at Howard, but did not have a figure of your own. Do you now have such a figure, and if so, please provide it. If not, explain why.

Dr. CHEEK. Last year the university did disagree with the university expenditures per student by school and university-wide for fiscal year 1973 as derived by the investigative staff's report. We disagreed primarily in the method used to provide such figures rather than the figures themselves. For the same period used by their report—fiscal year 1973—the university has provided the following costs.

	Cost per student
Graduate and Undergraduate Schools	$1,879.38
Law School	3,141.50
College of Dentistry	[1] 9,774.00
College of Medicine	[1] 8,199.00

[1] These figures represent the latest available cost per student for the college of dentistry and the college of medicine based on fiscal year 1971 figures. The university has not instituted a detailed cost study for these two schools since fiscal year 1971 because of the extensive cost accounting required to provide such figures due primarily to basic science courses taught in the college of medicine required for other disciplines in the health area.

CONSTRUCTION AT DUNBARTON

Mr. CONTE. What is the status of the construction at Dunbarton College campus? Last year we provided $1 million for this program.

Dr. CHEEK. The university has continued to renovate the facilities at the Dunbarton College campus and the $1 million in construction

funds provided for that purpose is currently being utilized to provide air conditioning and other construction costs to convert this facility for our use primarily as a school of law. These funds represent an ongoing construction process that is estimated to take approximately 5 to 6 years to convert the buildings to our use for a law school and for other educational purposes.

LAW SCHOOL ENROLLMENT

Mr. CONTE. Further, what is the outlook for the enrollment at the college of law? Provide statistics to show actual enrollment up to this year and your projections for the next school year.

Dr. CHEEK. We anticipate that the enrollment at the school of law will remain stable in the immediate future. According to our records, the total enrollment at the school of law from 1970–75 is as follows:

Law school student enrollment 1971–77

1970–71	411
1971–72	448
1972–73	437
1973–74	424
1974–75	416
1975–76	404
1976–77	[1] 400

[1] Estimated.

EPA REQUIREMENTS

Mr. CONTE. What is the status of your university smokestack with regard to satisfying EPA requirements. Last year we discussed this issue and it was of extreme concern to me.

Dr. CHEEK. It is my understanding that our powerplant had to have installed new boilers before the stack emission controls could be installed in the university's smokestack to satisfy EPA requirements. New boilers have been designed and were installed on November 24, 1975. The university has subsequently met with representatives of the Environmental Protection Agency and we are now in the process of collecting emission data for submission to EPA to determine the equipment required to be installed in our smokestack to meet EPA requirements. Once the EPA provides the university with the necessary requirements for equipment installation that will meet their standards, the university will issue a contract for the design and installation of this equipment. Our engineers have informed me that it will take approximately 6 to 8 months for this process to be completed provided the equipment is readily available.

FREEDMEN'S OPERATING COST

Mr. CONTE. Last year you estimated that operating Freedmen's Hospital would cost approximately $32,755,000. Based on your operation since August 1975, do you feel you will be able to stay within that $32.75 million range? Further, what are your operating expenses estimate for fiscal year 1977?

Dr. CHEEK. The $32.75 million estimate was prepared and submitted before the Howard University Hospital opened in its new building.

After several months of experience in the new hosptial, we found it necessary to increase our projected costs to an estimate of $38,263,000. This revised estimate is shown on page 138 of the justification of appropriations for fiscal year 1977. To accommodate this increased expenditure, we revised our estimated receipts from patient care from $13,-156,000 to $17,700,000. This was made possible through an increase in daily room rates. It appears at this time that the increased revenue and expenditure projections will be realized. In fiscal year 1977, we estimate our expenses to be $43,393,000, requiring an increase in appropriations of $340,000 and an increase in revenue from patient services in the amount of $4,790,000 to be supported from increased census operations.

FEDERAL FUNDS FOR HOSPITAL—5-YEAR PROJECTION

Mr. CONTE. What are your estimates for the amount of Federal shares needed for operation over the next 5 years?

Dr. CHEEK. It is still too early to anticipate operations over an extended period, however, our best estimates with regard to requirements for Federal appropriations are shown in the table below. These figures exclude consideration for future salary increments:

HOWARD UNIVERSITY HOSPITAL

Projection of Requirements for Federal Appropriations, 1976-81

Fiscal year:	*Estimated appropriations*
1976 (proposed)	[1] $20, 563, 000
1977 (proposed)	[1] 20, 903, 000
1978	19, 900, 000
1979	18, 900, 000
1980	17, 900, 000
1981	16, 900, 000

[1] Proposed and includes supplemental salary increases.

HOWARD UNIVERSITY HOSPITAL SERVICE CHARGES

Mr. CONTE. An issue which was discussed at great length last year was the disparity of hospitalization charges between Freedmen's Hospital and other District of Columbia hospitals. Howard's charges were significantly lower. Has that situation changed?

Mr. CHEEK. Yes; the situation has changed significantly. When we began operations in the new hospital, a new rate schedule was instituted to bring Howard University Hospital charges more in line with the other two teaching hospitals in the area.

PROJECTED ENROLLMENT FOR HEALTH PROFESSIONS

Mr. CONTE. What is your projected enrollment in all the medical professional schools over the next 5-year period? What is present statistics on enrollment compared to the past 5 years?

Dr. CHEEK. The projected enrollment statistics for the medical professional schools for the next 5 years are as follows:

PROJECTED ENROLLMENT, 1976-77 TO 1980-81 CENTER FOR THE HEALTH SCIENCES

	1976-77	1977-78	1978-79	1979-80	1980-81
C/Allied health sciences	297	327	357	375	400
C/Dentistry	443	467	467	467	467
C/Medicine	471	510	510	510	510
C/Nursing	266	291	310	310	310
C/Pharmacy and pharmacal sciences	276	300	305	305	305
Total	1,753	1,895	1,949	1,967	1,992

COMPARISON ENROLLMENT, 1971-72 TO 1975-76 CENTER FOR THE HEALTH SCIENCES

	1971-72	1972-73	1973-74	1974-75	1975-76
C/Allied health sciences		51	90	161	272
C/Dentistry	382	392	406	414	430
C/Medicine	437	470	486	485	473
C/Nursing	208	259	249	247	213
C/Pharmacy and pharmacal sciences	252	310	338	342	302
Total	1,279	1,482	1,569	1,649	1,690

FINANCIAL AID

Mr. CONTE. Provide an update for the record showing figures on financial aid made available to the student body similar to the chart on page 319 of last year's record.

Dr. CHEEK. I am providing the following schedule as requested.

SCHEDULE OF FINANCIAL AID DISBURSED, SEPTEMBER 1975 TO FEBRUARY 1976

Programs	Number of awards	Amoun disbursed
University administered programs (scholarships, endowments, prizes, grants)	2,031	$2,870,720
Federal Government supported programs	2,427	2,155,755
United student aid funds	149	253,500
Law	29	52,000
Medicine	118	198,000
Graduate business	2	3,500
University emergency loans	1,636	285,920
Total	6,243	5,565,895

FINANCIAL AID—OPEC STUDENTS

Mr. CONTE. Last year you advised that $106,804 in financial aid was made available to 96 students from OPEC countries. Does their government provide any moneys to supporting U.S. institutions?

Dr. CHEEK. At present the university provides financial aid to 76 OPEC students amounting to $87,065. The university does not receive any direct financial support from the governments of any OPEC countries. A number of OPEC countries provide various forms of financial assistance directly to their students attending U.S. institutions.

ACADEMIC DEFICIENCIES—NINE SCHOOLS

Mr. CONTE. Last year, Dr. Cheek, I commended you on your efforts to correct the academic deficiencies among the nine colleges and schools. We provided $2.3 million for that purpose and I strongly supported it

in committee. What has the $2.3 million accomplished? What more needs to be done in terms of construction and financial assistance? You realize, I'm sure, that you have friends on this subcommittee and it is important that we put your future necessities in perspective.

Dr. CHEEK. The university provided 54 new faculty positions and 31 supporting personnel positions for the 9 colleges and schools requested in fiscal year 1976. The inclusion of these positions assisted us greatly in reducing unfavorable faculty/students ratios as well as required supporting personnel in these schools and colleges. We have a deficiency of faculty members totaling approximately 413 positions if the 1977 budget request is approved in total.

The university also requires support for its construction program. We have not received any funds in the past several years for new construction projects and our current campus is deficient in adequate physical facilities. I shall include for the record our 5-year construction request which was originally submitted to the Department of Health, Education, and Welfare.

HOWARD UNIVERSITY

SUMMARY - 1977 CONSTRUCTION REQUEST

	1977	1978	1979	1980	1981	TOTAL
Plans and Specifications	$ 1,570,000	$ 300,000	$ 2,280,000	$ 200,000	$ 200,000	$ 4,550,000
Land Acquisition	4,125,000	5,230,000	4,330,000	2,730,000	3,230,000	19,645,000
Major Renovations	9,650,000	7,000,000	2,900,000	3,300,000	1,900,000	24,750,000
Construction of New Buildings	16,000,000	19,000,000	6,600,000	1,500,000	21,000,000	64,100,000
Additions to Current Buildings	---	1,600,000	---	---	13,000,000	14,600,000
	$31,345,000	$33,130,000	$16,110,000	$ 7,730,000	$39,330,000	$127,645,000

HOWARD UNIVERSITY

1977 CONSTRUCTION REQUEST

PLANS AND SPECIFICATIONS:

	1977	1978	1979	1980	1981	TOTAL
1. Classroom Building No. 5	$ 500,000	$ ---	$ ---	$ ---	$ ---	$ 500,000
2. Fine Arts Addition	120,000	---	---	---	---	120,000
3. Master Development Plan	200,000	100,000	100,000	100,000	100,000	600,000
4. Learning Resources Center	550,000	---	---	---	---	550,000
5. Beltsville Campus	200,000	200,000	100,000	100,000	100,000	700,000
6. Medical Building "B"	---	---	780,000	---	---	780,000
7. Freedmen's Square Phase "A"	---	---	1,300,000	---	---	1,300,000
Total	$1,570,000	$300,000	$2,280,000	$200,000	$200,000	$4,550,000

LAND ACQUISITION:

1. Dunbarton Campus - 1st Trust HEW and HUD Notes	$1,060,000	$1,060,000	$1,060,000	$1,060,000	$1,060,000	$5,300,000
2. Kelly Lumber Yard	65,000	170,000	170,000	170,000	170,000	745,000
3. Freedmen's Hospital Area	2,000,000	1,000,000	500,000	500,000	1,000,000	5,000,000
4. Seventh and Florida Avenues, N. W.	1,000,000	---	---	---	---	1,000,000
5. Georgia and Barry Place	---	3,000,000	1,000,000	1,000,000	1,000,000	6,000,000
6. Georgia and Fairmont (Effingham Apartments)	---	---	1,600,000	---	---	1,600,000
Total	$4,125,000	$5,230,000	$4,330,000	$2,730,000	$3,230,000	$19,645,000

MAJOR RENOVATIONS:

1. Dunbarton Campus	$1,000,000	$1,000,000	$1,000,000	$ ---	$ ---	$ 3,000,000
2. Power Plant Facilities	1,500,000	1,500,000	---	1,500,000	---	4,500,000
3. Former Freedmen's Hospital Building	2,000,000	1,000,000	---	---	---	3,000,000
4. Sherman Avenue Building	1,000,000	---	---	---	---	1,000,000
5. Chapel	500,000	300,000	200,000	---	---	1,000,000

HOWARD UNIVERSITY

1977 CONSTRUCTION REQUEST

MAJOR RENOVATIONS: Cont'd)

	1977	1978	1979	1980	1981	TOTAL
6. Biology Building	$ 250,000	$ ---	$ ---	$ ---	$ ---	$ 250,000
7. Cramton Auditorium	---	300,000	---	---	---	300,000
8. Dental School	300,000	300,000	300,000	300,000	400,000	1,600,000
9. Douglas Hall	---	100,000	100,000	100,000	100,000	400,000
10. Engineering	---	200,000	200,000	500,000	300,000	1,200,000
11. Fine Arts	800,000	---	400,000	---	---	1,200,000
12. Food Service Facilities	300,000	---	---	---	---	300,000
13. School of Architecture	300,000	200,000	---	300,000	100,000	900,000
14. Medical School	---	---	---	400,000	---	400,000
15. Pharmacy	---	---	200,000	100,000	---	300,000
16. Physics Building	600,000	200,000	---	---	---	800,000
17. Residence Halls	1,000,000	1,000,000	---	---	1,000,000	3,000,000
18. Home Economics	---	100,000	---	---	---	100,000
19. Ira Aldridge	100,000	---	---	100,000	---	200,000
20. Slowe Hall	---	800,000	500,000	---	---	1,300,000
Total	$9,650,000	$7,000,000	$2,900,000	$3,300,000	$1,900,000	$24,750,000

CONSTRUCTION OF NEW BUILDINGS:

1. Classroom Building No. 5	$ ---	$ 6,000,000	$ ---	$ ---	$ ---	$ 6,000,000
2. Classroom Building No. 4	16,000,000	---	---	---	---	16,000,000
3. Extended Care Pavilion	---	13,000,000	---	---	---	13,000,000
4. Learning Resources Center	---	---	6,600,000	---	---	6,600,000
5. Clinic Office Building	---	---	---	1,500,000	---	1,500,000
6. Freedmen's Square "A"	---	---	---	---	21,000,000	21,000,000
Total	$16,000,000	$19,000,000	$6,600,000	$1,500,000	$21,000,000	$64,100,000

HOWARD UNIVERSITY

1977 CONSTRUCTION REQUEST

ADDITIONS TO CURRENT BUILDINGS:

	1977	1978	1979	1980	1981	TOTAL
1. Fine Arts Addition	$ ---	$1,600,000	$ ---	$ ---	$ ---	$ 1,600,000
2. Medical Building "B"	---	---	---	---	13,000,000	13,000,000
Total	$ ---	$1,600,000	$ ---	$ ---	$13,000,000	$14,600,000

ACCREDITATION REQUIREMENTS

Mr. CONTE. Last year you advised that five of Howard's schools had not met accreditation requirements—page 324 record. Has the situation changed since the hearings?

Dr. CHEEK. The situation has changed in two of the schools since our last hearings. The school of human ecology has been fully accredited by its accrediting agency during the past year and our school of business and public administration has been visited by its accrediting agency and we expect that this report will be received shortly. The college of allied health sciences, school of communications and the school of education expect visitation by their respective accrediting agencies sometime during the 1977 school year.

MEDICAL EDUCATION DEFICIENCIES

Mr. CONTE. Dr. Alexis, last year we discussed the fact that the justification stated that Howard was deficient in medical education expenditures relative to the national norms. You provided comparison statistics for the record. Please provide an update for the record. Dr. Alexis, as a member of this subcommittee, I commend Howard on the excellent record that they have in turning out extremely capable members of the medical and dental professions. I am sure you deserve a portion of that commendation. However, I am concerned about this disparity. What needs to be done to equalize Howard with the norm. In what respects does the inequity affect your program?

Dr. ALEXIS. The material presented in our justification last year is the latest information available to us to support the fact that Howard University is deficient in medical education expenditures when compared to the national norm. It is reasonable to assume that the unfavorable conditions continued to exist in that our situation has not improved significantly.

To alleviate this highly unsatisfactory condition would require additional funds to increase the number of faculty members, provide more classroom and laboratory space with equipment, and to secure sophisticated learning facilities and resources. In addition, there should be funds for student aid. With this additional support we will be able to attract the more capable and experienced teachers in greater numbers. Classes will be smaller in size and make possible more individualized instruction. The laboratories will make better teaching techniques available to students and increase research activities by the faculty. The learning facilities and resources will greatly improve learning and facilitate teaching. Financial aid to students will allow Howard to attract students who are better able to successfully complete the course of study. Howard University's expenditures per undergraduate medical student, sponsored research per full-time faculty, sponsored program expenditures per full-time student, total expenditure per student, et cetera, will then compare favorably with national norms.

The equity we experience is significantly evident in the performance of our students on national board examinations, in the limited amount of research being conducted in our college, and especially in the university's limited efforts in the community.

CURRENT DAILY RATES—HOWARD UNIVERSITY HOSPITAL

Mr. CONTE. Last year, Dr. Alexis, you provided a table (p. 326) hearing, showing current daily rates in the hospital and expected increases. Provide a table updating those statistics showing actual daily rates now in effect.

Dr. ALEXIS. We are attaching a comparative schedule of the current rates, which was prepared and submitted for the record.

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HOWARD UNIVERSITY HOSPITAL

Comparison of Room Rates for Selected Services *

	Howard University Hospital	George Washington University Hospital	Georgetown University Hospital	Remarks
As of April 12, 1975				
One Bed Room	$112	$123	$124	This was the date when the new Howard University Hospital was opened.
Two Bed Room	105	106	107	
Four Bed Room	90	103	97	
Intensive Care Unit	250	250	350	
Coronary Care Unit	250	270	350	
Stroke Unit	250	---	350	
Surgical Intensive Care	263 *	---	---	
Operating Room	125-65 **	125-75 **	135-90 **	
As of July 1, 1975				
One Bed Room	112	146	135	The Howard University Hospital rate was not raised at this time because we had instituted, less than three months before, a rate which was approximately three times the charge in the old Freedmen's Hospital.
Two Bed Room	105	131	118	
Four Bed Room	90	125	---	
Intensive Care Unit	250	475	---	
Coronary Care Unit	250	420	388	
Stroke Unit	250	---	388	
Surgical Intensive Care	263	---	---	
Operating Room	125-65 **	160-95 **	145-95 **	
As of February, 1976				
One Bed Room	no	no	165	We understand that the Georgetown University Hospital instituted this increase to cover additional costs after renegotiation of their malpractice insurance coverage.
Two Bed Room	change	change	148	

* Median Rate for Accommodations.
** First half-hour and each additional half-hour, respectively.

FAILURES ON BAR EXAM

Mr. CONTE. Last year, we discussed the fact that there was an alarming degree of failures on the bar exam by Howard law graduates. Has the situation changed appreciably since last year? What seems to be the problem?

Dr. CHEEK. The performance of graduates from the Howard School of Law on passing bar examinations has not changed appreciably since last year. Nationally (i.e., those States in which our graduates set for the bar) for the period 1970–1975, the percentage of graduates passing was sixty-one (61) percent. For the District of Columbia (1970–1975) the passing rate was forty-five (45) percent. For Maryland, it was twenty-three (23) percent and in Virginia it was eighteen (18) percent. The area result (D.C., Maryland and Virginia) for the period 1970–1975 was a twenty-five (25) percent passing rate. It is difficult to know precisely what is the problem. There have been allegations of racial discrimination or bias. The Dean and the Faculty of the School of Law are now involved in developing special programs with the objective of thoroughly equipping our students to pass the bar examinations and thus decrease the percentage of failure. We plan to continue monitoring this situation to try to determine more precisely the problem or problems and develop appropriate solutions.

FUND RAISING PROGRAMS

Mr. CONTE. We discussed your fund raising programs in the past. How much has actually been raised in the past fiscal year? What are your projections for fiscal year 1977?

Dr. CHEEK. The following schedules provide the actual private funds raised during the 1974–75 year and our projections of funds to be raised in 1967–77. The schedule excludes Federal gifts and grants or specific Federal contracts for research purposes:

PRIVATE FUNDS RAISED AND PROJECTIONS

	1974–75 actual	1976–77 projections
Alumni and friends	$584, 395	$685, 000
Foundations	4, 419, 183	5, 500, 000
Corporations	1, 281, 166	1, 500, 000
Total	6, 284, 744	7, 685, 000

OB/GYN/PEDIATRICS PROPOSAL

Mr. CONTE. This fall I sponsored a meeting in my office with you and representatives from Georgetown University, George Washington University and Childrens Hospital regarding the organization of a Research Center at Childrens Hospital operated by all of the institutions. What has been the success/failure of your efforts thus far? There is a tremendous potential for setting up the most advanced OB/GYN/pediatrics facility of its kind in the country. I certainly hope you all follow through on this project.

Dr. ALEXIS. Mr. Conte, we plan to follow through on the project. I agree that there is a tremendous potential for setting up the most

advanced OB/GYN/pediatrics facility of its kind in the United States. We are still attempting to obtain funding for this project. Hopefully, such funds will be provided in the fiscal year 1977 budget. Howard is quite prepared to be an equal partner in this venture.

THREE YEAR PROJECTION OF OUTPATIENT VISITS

Mr. CONTE. Your statistics show an increase of 30,000 outpatient visits at Freedmen's in 1977. What are your projections over the next 3 years?

Dr. ALEXIS. Our 1977 estimate of outpatient visits projects a workload of 190,000 patient visits. However, we have experienced some difficulty in the rate of growth due to the relatively high (for our patient clientele) emergency and clinic rates which were instituted for the new hospital. We have a task force working with this problem at this time in an effort to realize our projections. It appears at this time that the 190,000 visits per year will approximate our maximum annual rate. We have hopes that we will be able to achieve and maintain our outpatient visits at approximately this level for the next 3 years.

SCHEDULE OF NEW FACULTY POSITIONS

Mr. CONTE. You are requesting an additional 30 positions at page 137 of your justification, yet it appears your enrollment is declining. Provide a chart showing which college each of the extra positions will be assigned and the current teacher/student ratio. Further, provide a comparison table showing similar statistics at other D.C. colleges.

Dr. CHEEK. The information requested is provided on the attached schedule. Unfortunately, this information from similar D.C. colleges is not available to us.

Our schedule also provides a total of 71 faculty positions of which 41 of these positions were requested from the Federal Government with a requirement that the university provide 30 of these positions.

HOWARD UNIVERSITY

Schedule of Required Faculty to Meet Accreditation Requirements as of June 30, 1976

School/College	1975 Student Enrollment	Recommended Faculty/Student Ratio	Actual Faculty/Student Ratio	Additional Faculty Required	No. of Faculty Provided in 1976 Budget	No. of Faculty Requested in 1977 Budget	Additional Faculty Required
Business Administration	866	1:12	1:22.49	35	6	6	23
Communications	400	1:8	1:9.69	9	4	5	-
Education	437	1:12	1:13.22	4	-	4	-
Engineering	624	1:10	1:11.98	11	-	4	7
Graduate School	1,450	1:6	1:33.82	199	6	4	189
Liberal Arts	5,000(a)	1:12	1:13.51	47	8	16	23
Dentistry	458	1:4.00	1:4.72	21	5	6	10
Medicine	1,593(b)	1:3.90	1:4.92	105	13	18	74
Pharmacy	400	1:8	1:19.04	32	4	4	24
Allied Health Sciences	228	1:4.00	1:5.50	29	5	4	20
Total				492	51	71	370

(a) - Based on enrollment derived from serving other undergraduate colleges.

(b) - Based on enrollment derived from serving the health sciences schools and colleges.

Mr. FLOOD. Thank you very much, Doctor.
The committee is adjourned.

JUSTIFICATION OF THE BUDGET ESTIMATES

APPROPRIATION ESTIMATE, HOWARD UNIVERSITY

For the partial support of Howard University [$84,158,000] *$84,309,000*, of which [$10,000,000] *$2,000,000* shall be for construction and shall remain available until expended: *Provided*, That if requested by the University, such construction shall be supervised by the General Services Administration.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SPECIAL INSTITUTIONS

Howard University

Amounts Available for Obligation

	1976	1977
Appropriation	$ 84,158,000	$ 84,309,000
Proposed supplemental	2,400,000	---
Subtotal, appropriations	86,558,000	84,309,000
Receipts and reimbursements from non-Federal sources	54,159,000	59,699,000
Unobligated balance, start of year	21,620,000	2,171,000
Unobligated balance, end of year	-12,225,000	-355,000
Total, obligations	150,112,000	145,824,000

Summary of Changes

1976 Estimated obligations	$150,112,000
1977 Estimated obligations	145,824,000
Net Change	-4,288,000

	1976 Base Pos.*	1976 Base Amount	Change from Base Pos.*	Change from Base Amount
Increases:				
A. Built-in				
1. Annualization of non-teaching pay raise (Academic Program-$520,000; Howard University Hospital - $340,000	---	---	---	$ 860,000
2. Periodic step increases and promotions	---	---	---	340,000
3. Annualization of 30 new faculty positions funded for 3 months in transition quarter	---	---	---	561,000
4. Partial support - Utilities	---	---	---	90,000
Subtotal				1,851,000

*All positions are non-Federal.

	1976 Base Pos.	1976 Base Amount	Change from Base Pos.	Change from Base Amount
B. Program				
1. Academic Program				
a. College of Medicine	351	$ 8,099,000	11	$ 375,000
b. School of Communications	81	2,469,000	---	325,000
c. University Libraries	163	3,944,000	6	300,000
d. Faculty salary increases		---	---	1,900,000
e. Partial support of the Retirement program	---	---	---	1,000,000
Subtotal				3,900,000
2. Increase in reimbursements from non-Federal sources				
Academic program	---	---	---	$ 750,000
Howard University Hospital	---	---	---	4,790,000
Subtotal				5,540,000
3. Construction:				
Dunbarton College Campus	---	---	---	2,000,000
Subtotal				2,000,000
Total, increases				13,291,000
Decreases:				
A. Program:				
Construction-non-recurring projects	---	---	---	$-17,579,000
Subtotal				-17,579,000
Total decreases				-17,579,000
Total, net change				-4,288,000

Obligations by Activity

Page Ref.	1976 Estimate Pos.	1976 Estimate Amount	1977 Estimate Pos.	1977 Estimate Amount	Increase or Decrease Pos.	Increase or Decrease Amount
Operations:						
(a) Academic program.....	2,907	$ 92,454,000	2,984	$ 98,615,000	+77	$+6,161,000
(b) Howard University Hospital.....	1,661	38,263,000	1,741	43,393,000	+80	+5,130,000
Subtotal.....	4,568	130,717,000	4,725	142,008,000	+157	+11,291,000
Construction:						
(a) Planning and site development.....	---	936,000	---	100,000	---	-836,000
(b) Buildings and land acquisition.....	---	18,459,000	---	3,716,000	---	-14,743,000
Subtotal.....	---	$ 19,395,000	---	$ 3,816,000	---	$-15,579,000
Total obligations....	4,568	150,112,000	4,725	145,824,000	+157	-4,288,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Grants, subsidies and contributions.....	$150,112,000	$145,824,000	$-4,288,000

Significant Items in House and Senate
Appropriations Committee Reports

Item	Action taken or to be taken
1976 House Report	
Howard University Hospital	
1. Committee found that the rates at the new Hospital are well below the rates charged by other hospitals in the metropolitan areas. The Committee urges that fees be revised more in line with rates at comparable hospitals (page 23).	The Hospital opened on April 12, 1975, at which time room rates were increased from $43 per p tient day for a semi-private (two-bed) room to a daily rate of $105. These new rates are more in line with other area hospital rates, and will continue to be reviewed as the Hospital gains experience.

Authorizing Legislation

Legislation	1977 Authorization	1977 Appropriation Requested
"An Act to Incorporate Howard University" (20 U.S.C. 128) Sec. 8	Indefinite	$84,309,000

APPROPRIATION HISTORY

HOWARD UNIVERSITY

Fiscal Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1965	$15,691,000	$15,691,000	$15,691,000	$15,691,000
1966	18,742,000	18,742,000	18,742,000	18,742,000
1967	23,638,000	23,515,000	23,515,000	23,515,000
1968	45,582,000	26,397,000	26,397,000	26,397,000
1969	29,970,000	28,778,000	28,778,000	28,778,000
1970	61,969,000	61,969,000	61,969,000	69,969,000
1971	38,197,000	38,197,000	38,197,000	38,197,000
1972	60,486,000	60,486,000	60,486,000	60,486,000
1973	58,881,000	58,881,000	58,881,000	58,881,000
1974	62,146,000	62,146,000	62,146,000	62,146,000
1975	81,700,000	81,700,000	81,700,000	81,700,000
1976	84,158,000	84,158,000	84,158,000	84,158,000
1976 Proposed Supplemental	2,400,000			
1977	84,309,000			

JUSTIFICATION

Howard University

	1976		1977		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel compensation and benefits	4,568	$ 98,497,000	4,725	$104,173,000	+157	$ +5,676,000
Other expenses		51,615,000	---	41,651,000	---	-9,964,000
Total	4,568	150,112,000	4,725	145,824,000	+157	-4,288,000

General Statement

Academic Program

Howard University, located in the District of Columbia, Chartered by an Act of Congress, will celebrate 109 years of service to higher education on March 2, 1976. The University consists of seventeen schools and colleges and offers programs in higher education on the undergraduate, graduate and professional levels. Undergraduate students are registered in the college of liberal arts; graduate students seeking the masters degree and doctors degree are registered in medicine, dentistry, pharmacy, nursing, fine arts, business, engineering, architecture, social work, law, education, communications, allied health, human ecology, and religion. (The school of religion receives no support from Federal funds.) The University offers the masters degree in 3 departments and the doctor of philosophy degree in 19 fields in the graduate school.

Enrollment of students	1975 Actual	1976 Estimate	1977 Estimate
Undergraduate	2,538	2,600	2,600
Graduates	809	1,000	1,000
Professional Schools	4,339	4,855	5,170
Howard University Hospital	202	169	169
Total	7,888	8,624	8,939

Faculty	1975	1976	1977
No. of faculty	1,770*	1,824	1,895

*Includes 800 part-time teachers.

Howard University Hospital	1975	1976	1977
Patient statistics:			
Admissions	11,084	11,500	12,700
Avg. daily patient load including newborns	320.5	370	410
Outpatient visits:			
Clinic	74,959	94,000	112,000
Emergency	51,701	66,000	78,000
Total outpatient visits	126,660	160,000	190,000

Building Program

The building program at Howard University has been revised several times since the master development plan was inaugurated in 1951. The University is currently revising the master development plan due to increased enrollment during the past several years; expansion of its educational programs and the availability of the old Freedmen's Hospital complex. The University has completed twenty four building projects since 1946 including the new university teaching hospital. It is anticipated that five building projects will be under construction in 1976 and two major renovation projects are expected to be underway during this same period as well as ten projects in various stages of planning. (See Table II).

Program Goals for 1977:

The University will continue its emphasis on graduate and professional education in order to meet national deficiencies that exist in the nation, primarily, within minority communities. In this regard, the University will continue its analysis and review of its educational curricula in the professional and graudate schools in order to provide adequate instruction, and to seek financial support to acquire sufficient personnel, equipment, supplies and training aids as they become necessary.

Emphasis must be placed in FY 77 on meeting accreditation deficiencies. A number of schools and colleges have been critized by accrediting bodies concerning lack of sufficient faculty, inadequate number of support staff and insufficient space. We plan to utilize all available construction funds to meet our space problems and to seek funds to meet accreditation deficiencies.

Cost reduction is a must for Howard in FY 77. Every educational program, academic and administrative unit will be carefully reviewed with the goal to reduce unnecessary cost and to obtain maximum utilization from our current budgetary resources. In this regard, the University has already undertaken an initial program of cost reduction of fuel oil and plans have been developed to extend this program to other utility costs in an effort to eliminate unnecessary expenditures.

Howard University will continue its primary mission to provide educational opportunities to minority students and at the same time provide the same opportunities to any qualified student without regard to race, creed, religion or national origin.

HOWARD UNIVERSITY

Academic Program

	1976		1977		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel compensation and benefits	2,907	$71,924,000	2,984	$76,020,000	+77	$+4,096,000
Other expenses	---	20,530,000	---	22,595,000	---	+2,065,000
Total	2,907	92,454,000	2,984	98,615,000	+77	+6,161,000

Narrative

The 1977 budget estimate for the academic program represents an increase of $5,411,000 over the 1976 appropriation. Of this total $700,000 is requested for support of two schools and colleges including 11 positions for instructional purposes; $300,000 for the university library system including 6 new positions; $1,900,000 for faculty salary increases and $1,000,000 for partial support of our retirement program. A distribution of the instructional funds and positions are presented below:

	1976			1977		
	Fac.	Supp. Pers.	Amount	Fac.	Supp. Pers.	Amount
1. Faculty salaries increases	---	---	$1,800,000	---	---	$1,900,000
2. Liberal Arts	8	4	400,000	---	---	---
3. Graduate School	6	3	300,000	---	---	---
4. Fine Arts	3	1	120,000	---	---	---
5. Communications	4	8	500,000	---	---	325,000
6. Business and Public Adm.	6	3	230,000	---	---	---
7. Medicine	13	6	400,000	11	---	375,000
8. Dentistry	5	---	125,000	---	---	---
9. Pharmacy	4	2	150,000	---	---	---
10. Allied Health Sciences	5	4	130,000	---	---	---
11. Staff Benefits (Retirement Allowances	---	---	200,000	---	---	1,000,000
12. University Libraries	---	12	450,000	---	6	300,000
13. Non-faculty pay increase annualization	---	---	194,000	---	---	520,000
14. Periodic step increases and promotions	---	---	---	---	---	340,000
15. Annualization of new faculty positions	---	---	---	30	---	561,000
16. Non-Federal new faculty positions	---	---	---	30	---	750,000
17. Partial support - Utilities	---	---	---	---	---	90,000
18. Non-recurring pay increase (10/1/72-12/31/72)	---	---	(-228,000)	---	---	---
Total	54	43	$4,771,000	71	6	$6,161,000

Faculty Salary Increases, Budget Authority, $1,900,000

Funds are requested for faculty salary increases of 6% in accordance with AAUP recommended projections and to allow Howard to remain competitive with similar educational institutions of like size, scope and complexity.

School of Communications, Budget Authority, $325,000

Funds are requested to provide partial support for the Department of Television and Film Production. Equipment is required to provide proper instruction in this academic discipline that is an integral part of the total program of this relatively new school.

College of Medicine, Budget Authority, $375,000

This request will provide additional basic science faculty to reinforce the standard medical curriculum with remedial courses and programs needed to correct deficiences in the pre-professional educational preparation of a large number of students served by the College of Medicine. The request also provides a modest sum to support the acquisition of audio-visual materials, special instructional equipment and teaching devices required to foster the learning process.

University Libraries, Budget Authority, $300,000

Funds are required to assist our library system to purchase books, supplies and to provide four professional staff members as well as two support personnel. The university library system continues to lag far behind comparable library systems in similar educational institutions due primarily to a lack of adequate financial resources. Our inadequate library system continues to affect the accreditation of virtually all schools and colleges since they are served by the library system and it is an integral part of each school's program.

Partial Support - Retirement Program, Budget Authority, $1,000,000

The university is seeking partial support to comply with the Pension Reform Act of 1974, (ERISA) that requires vesting of the full retirement program. The university's retirement program currently provides partial vesting with the supplement budgeted and paid on an annual basis upon retirement of the respective employee.

HOWARD UNIVERSITY

Howard University Hospital

	1976		1977		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel compensation and benefits.....	1,661	$26,573,000	1,741	$28,153,000	+80	$+1,580,000
Other expenses.....	---	11,690,000	---	15,240,000	---	+3,550,000
Total.....	1,661	38,263,000	1,741	43,393,000	+80	+5,130,000

NARRATIVE:

In the 1977 fiscal year, the new hospital will be fully operative. It is our objective to conduct its activities so that patient care will be fully equivalent to that which is furnished by the other university teaching hospitals in the area. The hospital will operate 455 beds and bassinets, and expects the inpatient census to increase over 1975 by 15 percent in 1976, and by 28 percent in 1977 to a level of 410 patients per day. A total of 169 physicians, dentists, and other health personnel will be in training in both fiscal years. Outpatient visits will increase from 126,660 in 1975 to 190,000 in 1977.

The hospital proposes an increase in obligations for 1977 in the amount of $5,130,000 for staffing, equipment, alterations, price increases, periodic step increases and annualization of salary costs. Increased patient load and improved collection procedures will result in an increase of patient care receipts in the amount of $4,790,000. This will fund all but $340,000 of the increase in operational costs.

CONSTRUCTION

	1976		1977		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Other expenses.....	---	$19,395,000	---	$3,816,000	---	$-15,579,000
Total obligations	---	19,395,000	---	3,816,000	---	-15,579,000
Subactivities:						
Planning and site development.....	---	936,000	---	100,000	---	-836,000
Buildings and land acquisitions.....	---	18,459,000	---	3,716,000	---	-14,743,000
Total obligations	---	19,395,000	---	3,816,000	---	-15,579,000

NARRATIVE:

The building program at Howard University has followed the master development program as prepared in 1951 with the cooperation of the General Services Administration, authorized by an appropriation of $50,000 by the Congress (Public Law 639, 80th Congress, approved June 1949). This program was based upon a twenty year projection which would make it possible to accommodate an equivalent of 5,200 full-time students in ten schools and colleges for a regular two semester school year. The student projection of 5,200 was reached in 1963. The full-time equivalent student enrollment for 1976 is expected to be 8,624. In order to update the master development program, the Congress authorized two appropriations in 1965 and 1967 totalling $60,000 to study the building needs of the university for the next twenty years. This study was completed in 1966 and received the approval of the National Capital Planning Commission. In general, the revised master development program provided educational, administrative, service and auxiliary facilities for a full-time equivalent of 12,000 students or an increase of 6,800 over the 1951 plan. The university is currently revising the 1966 plan. The transfer of Freedmen's Hospital to the supervision of Howard University, the acquisition of the old Griffin Stadium site, construction of a new 500 bed teaching hospital and the acquisition of the Dunbarton College site represent the major developments not contemplated in the original program.

Buildings and Land Acquisition

Dunbarton College Campus, Budget Authority, $2,000,000 -

The university continues to seek funds to meet its contractual obligation in purchasing the Dunbarton College Campus. These funds will be utilized to make payment on the first and second trust notes currently outstanding on this acquisition and to continue a renovation program on currently existing buildings.

TABLE I

ANALYSIS OF FINANCING IN SUPPORT OF BUDGET ESTIMATES
FOR FISCAL YEARS 1975 THROUGH 1977

	1975 Actual	1976 Estimate	1977 Estimate
From Non-Federal Sources			
1. Student Fees - Tuition*.....	$ 8,148,000	$ 9,498,000	$ 9,948,000
Incidental & Service.....	1,588,000	1,663,000	1,963,000
2. Endowment Income.....	288,000	288,000	288,000
3. Gifts and Grants.....	16,785,000	18,200,000	18,200,000
4. Sales & Services of Educational Departments & Activities.....	271,000	275,000	275,000
5. Other Income.....	183,000	247,000	247,000
6. Auxiliary Enterprises.....	3,929,000	4,030,000	4,030,000
7. Student Aid.....	3,000,000	2,258,000	2,258,000
8. Patient Collections - Howard University Hospital	15,265,000	17,700,000	22,490,000
Total, Non-Federal.....	49,457,000	54,159,000	59,699,000
From Government Appropriations			
Howard University - Academic Program Operations.....	$ 49,788,000	$ 55,995,000	$ 61,406,000
Construction NOA.....	3,261,000	6,200,000	2,000,000
Unobligated balance.....	5,711,000	13,195,000	1,816,000
Howard University Hospital - Operations.....	19,412,000	20,563,000	20,903,000
Total, Government Funds.	78,172,000	95,953,000	86,125,000
Total, Financing.....	127,629,000	150,112,000	145,824,000

*Yearly tuition costs for schools and colleges is $1,350, except for Dentistry ($1,650), Medicine ($1,850), Music ($1,418) and Law ($1,500).

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Howard University

Program Purpose and Accomplishments

Activity: Operations, Academic Program

1976			1977 Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
2,907	$55,995,000	Indefinite	2,984	$61,406,000

Purpose:

This activity provides the required support for the academic program of the university and includes the required sub-activities classified as instruction and departmental research; research and training sponsored by outside agencies and organizations; a comprehensive library system that services the colleges and schools of the university including highly specialized professional schools as well as undergraduate and the graduate areas of instruction; administrative and support services; operation and maintenance of physical plant, auxiliary enterprises and student aid.

Explanation:

The instructional activity, with its supporting sub-activities, provides education on the undergraduate, graduate, and professional levels for students who elect to attend a highly complex institution to secure a high grade quality education that is not available within their own locality. While this education is available at Howard University to all students without regard to race, creed, or national origin, the university undertakes to meet its primary mission by providing special attention to the needs of Blacks and other minorities.

The academic program is supported by an annual Federal appropriation as well as receipts from student fees, endowment income, gifts and grants for research or specified projects, sales and services of educational departments, auxiliary enterprises income, and gifts and grants for student aid. FY 77 estimates are shown in Table I.

Accomplishments in 1976

Howard University in 1976 will: (1) continue a program to maintain faculty salaries on a competitive basis and seek a level of comparability with similar institutions of like size and scope; (2) provide 54 teaching and 31 supporting positions in 9 schools to assist and expand educational programs; and (3) add 12 additional professional librarians and support personnel for the university library system and provide additional funds for the purchase of books, supplies and equipment.

Objective for 1977

The university will continue to require funds for faculty salary increases in order to remain competitiv Accreditation deficiencies that continue to exist in FY 77 will have to be met from non-Federal sources.

The university plans to comply fully with the Pension Reform Act of 1974, (ERISA) and must provide full vesting of the total pension plan.

The 1977 objective is to eliminate as many of the accreditation deficiencies as possible within the budget of the university. In meeting this objective the university will continue to analyze its current programs and its operating budget to reallocate funds needed to correct some of our accreditation deficiencies.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Howard University

Program Purpose and Accomplishments

Activity: Operations, Howard University Hospital

1976		1977		
			Budget Estimates	
Pos.	Amount	Authorization	Pos.	Amount
1,661	$20,563,000	Indefinite	1,741	$20,903,000

Purpose:

The Howard University Hospital furnishes inpatient and outpatient care for the community and serves as a facility for the training of physicians, dentists and other professional and technical health personnel. It is the teaching center for Howard's health programs.

Explanation:

Operation of the hospital is financed by direct appropriation and income derived from charges for medical and hospital services to patients, medicare patients and patients certified by the District of Columbia and other jurisdictions. The hospital operates a total of 455 beds and bassinets.

Accomplishments in 1976:

In 1976 the new university teaching hospital will be fully operative. The expected average daily census of 370, including newborns, represents an increase of 15 percent over the preceding year, while the expected 160,000 outpatient visits are a 26 percent increase over 1975.

Objective for 1977:

In 1977 the average daily census will increase by 11 percent to 410 patients including newborns, while the estimated 190,000 outpatient visits will be an increase of 12 percent over 1976. With the staffing, equipment and other support proposed for that year the care provided will be fully comparable with that available in other university hospitals.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Howard University

Program Purpose and Accomplishments

Activity: Construction - Land Acquisition, Equipment and Building Renovations

1976			1977 Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	10,000,000	Indefinite	---	$2,000,000

Purpose:

The construction activity of the building program at Howard University is designed to execute projects after plans and specifications have been completed by the architect-engineer, and to implement related construction projects, including major renovations or the purchase of land and facilities.

Explanation:

Appropriations are requested to fund the construction projects in accordance with the master development plan. These require the actual construction or acquisition of physical facilities to house the various educational programs or activities as needed.

Accomplishments in 1976:

The University expects to break ground on the new student center building during this fiscal year. Major renovations are underway in the university library building and in the chemistry building in accordance with completed plans and specifications. The university hospital building has been completed and is now fully occupied. The Engineering building addition was completed and work is scheduled to start on renovating the old Freedmens Hospital buildings to be used for academic purposes. The University also plans to acquire a facility for our school of business and public administration on the Sherman Avenue site and to begin renovations in this facility. The University purchased the Dunbarton College site and is in a fazed process of making major renovations in these buildings to accommodate several academic programs.

Objectives for 1977:

The budget request provides for additional funds for partial payment of the Dunbarton College site, and to continue our planned renovation program of the buildings to be used for academic purposes. It is estimated that construction of the library building extension will be started as well as the addition of the fourth and fifth floors of the college of dentistry and the addition to the medical school building. Renovation projects in other campus buildings where funds are available should be completed during the FY 77 year.

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Estimate	Transition Quarter
1. Academic Program.....	$55,995,000	$14,401,000
2. Howard University Hospital.....	20,563,000	5,226,000
Total.....	76,558,000	19,627,000

Explanation

Estimates for the three-month interim period are based on one-fourth of Howard University's 1976 budget estimate.

The purpose of this request is to permit Howard to augment its academic program acitivities and the Hospital's operation during this period. The transition quarter includes funds for 30 new positions with an additional 30 positions to be funded by the University.

FRIDAY, MARCH 19, 1976.

OFFICE OF HUMAN DEVELOPMENT

WITNESSES

STANLEY B. THOMAS, ASSISTANT SECRETARY FOR HUMAN DEVELOPMENT
JOHN H. MEIER, DIRECTOR, OFFICE OF CHILD DEVELOPMENT
JAMES A. HART, COMMISSIONER, OFFICE OF YOUTH DEVELOPMENT
ARTHUR S. FLEMMING, COMMISSIONER, ADMINISTRATION ON AGING
ANDREW S. ADAMS, COMMISSIONER, REHABILITATION SERVICES ADMINISTRATION
GEORGE BLUE-SPRUCE, DIRECTOR, OFFICE OF NATIVE AMERICAN PROGRAMS
FRANCIS X. LYNCH, DIRECTOR, DEVELOPMENTAL DISABILITIES OFFICE
JOHN F. SMITH, EXECUTIVE DIRECTOR, WHITE HOUSE CONFERENCE ON HANDICAPPED INDIVIDUALS
JAMES GARRETT, DIRECTOR, RESEARCH, REHABILITATION SERVICES ADMINISTRATION
JERRY SUTTON, DIRECTOR, OFFICE OF ADMINISTRATION AND MANAGEMENT
ARMANDO D. SAVET, DIRECTOR, DIVISION OF BUDGET AND FINANCIAL MANAGEMENT, OAM
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER

OPENING REMARKS

Mr. NATCHER. The committee will come to order.

We take up at this time the Office of Human Development. We have before the committee Mr. Stanley B. Thomas, Assistant Secretory for Human Development. It is always a pleasure to have you appear before us. Tell us who you have with you.

INTRODUCTION OF WITNESSES

Mr. THOMAS. To my left, Francis X. Lynch, Director, Developmental Disabilities Office; Dr. George Blue-Spruce, Director, Office of Native American Programs; Jim Hart, Commissioner, Office of Youth Development; Dr. Arthur S. Fleming, Commissioner, Administration on Aging; to my right, Mr. Jerry Sutton, Director, Office of Administration and Management; then Dr. John Meier, Director, Office of Child Development; Mr. Andrew S. Adams, Commissioner, Rehabilitation Services Administration; and I am sure you know Mr Miller, Deputy Assistant Secretary, Comptroller.

OPENING STATEMENT

Mr. NATCHER. We have examined your statement. You have a good statement. With your permission, we will insert it in its entirety and proceed on with the questions.

[The statement and biographical sketch follows:]

BIOGRAPHICAL SKETCH OF STANLEY B. THOMAS, JR.

Position: Assistant Secretary for Human Development.
Birthplace and date: New York, N.Y., April 28, 1942.
Education: B.A., Yale University, New Haven, Conn., 1960–64.
Experience:
Present: Assistant Secretary for Human Development.
1969–73: Deputy Assistant Secretary, Office of Community and Field Services.
1968–69: Manager, Personnel Relations, Phillip Morris, Inc.
1966–68: Manager, College Bureau, Time, Inc.
1966: Secretary, New York Anti-Poverty Operations Board.
1965–66: Assistant to the Vice President and Secretary, Time, Inc.
1964–65: Publishing Trainee, Time, Inc.
Honors and awards:
1973: Recipient of the Secretary's Special Citation.
1972: Recipient of Department Superior Service Award.
Elected Trustee Horace Mann School, Bronx, N.Y.
1971: Nominee to Yale University Corporation.

Mr. Chairman and members of the committee, I am happy to appear before you today to discuss the Office of Human Development's budget request for fiscal year 1977. We are requesting $1,572,689,000 to support programs which provide services to special populations including children, youth, older Americans, the physically and mentally handicapped, the developmentally disabled, and native Americans. Mr. Chairman, I would like to highlight some of our program activities in the 1977 budget request.

OFFICE OF CHILD DEVELOPMENT

The activities of Child Development are directed at the improvement of child care delivery systems and the design and implementation of programs to improve the quality of life for children and their families.

Our budget request for Child Development activities is $463,928,000, including $434,300,000 for Headstart, $10,700,000 for research and development, and $18,928,000 for child abuse.

YOUTH DEVELOPMENT

We are requesting $6 million for the youth development program which awards grants to provide temporary shelter and services to meet the immediate emotional, psychological, physical, and social needs of youth who runaway.

ADMINISTRATION ON AGING

For programs for the elderly, we are requesting $192,575,000.

Programs for the elderly will continue to focus on strengthening the new national network of State and area agencies on aging and nutrition services.

Our fiscal year 1977 budget request will provide approximately the same level of funding for the State agency operations, the research and demonstration program, and the Federal Council on Aging. Area planning and social service programs will be restored to the $82 million level, and this will be accomplished by phasing out model projects as these activities can be supported by States and localities.

REHABILITATION SERVICES ADMINISTRATION

We are requesting $776 million for the rehabilitation programs authorized under the Rehabilitation Act of 1973, as amended.

The major objective for these programs is the preparation of handicapped persons for gainful employment. The level of funding requested, including funds transferred from the Social Security Administration, will enable States to serve 1,652,000 handicapped individuals and to rehabilitate 361,700 individuals, 42 percent of whom are severely handicapped.

The request includes $720 million for the basic State grant program. This amount will provide the services necessary to prepare physically and mentally handicapped persons for gainful employment.

DEVELOPMENTAL DISABILITIES OFFICE

We are requesting $53,625,000 for the developmental disabilities program in fiscal year 1977.

The Developmentally Disabled Assistance and Bill of Rights Act was signed into law on October 4, 1975. This act revised and extended the basic authorization

for the developmental disabilities program. The 1977 budget request takes into consideration the changes which have been included in the new legislation.

Our request will provide: $30,058,000 for formula grants to States and territories; $3 million for advocacy grants; $16,317,000 for project grants such as demonstrations, training and technical assistance; and $4,250,000 to support university affiliated facilities.

SPECIAL PROGRAMS FOR NATIVE AMERICANS

We are requesting $32 million for the special programs for native Americans.

The long-range goals for this program are: (1) To develop the capacity of native Americans and organizations to focus on planning as the basic method to improve resource allocations and effectiveness of services in native American communities; (2) to achieve the development of the necessary social and economic infrastructure in native American communities to increase self-sufficiency; and (3) to eliminate the most critical gaps in the range of social and human development services necessary for self-sufficiency.

Currently, direct funding to grantees provides services which are available to over one-half of the approximately 1 million eligible native Americans in the United States. Grants are provided to 275 tribes and Alaskan villages as well as 59 urban organizations located in 37 States and 1 Hawaiian organization.

WHITE HOUSE CONFERENCE ON HANDICAPPED INDIVIDUALS

For the White House Conference on Handicapped Individuals we are requesting $1,436,000, an increase of $91,000 over the 1976 appropriation.

The purpose of this conference is to stimulate a national awareness and assessment of problems facing handicapped individuals and to develop recommendations and solutions to these problems.

SALARIES AND EXPENSES

For salaries and expenses we are requesting $47,725,000, an increase of $2,732,000 over the comparable appropriation for 1976. Primarily, this increase is for mandatory salary requirements, increased working capital fund charges, and increased costs for rent and telephone services.

Thank you, Mr. Chairman. My colleagues and I will be delighted to answer any questions you and the committee may have.

HEAD START REDUCTION

Mr. NATCHER. You are requesting a total of $1,572,689,000 for fiscal year 1977. Mr. Thomas, the budget proposes to reduce the Head Start program by $27,200,000 from the 1976 level. How can you justify to us a cut of this magnitude?

Mr. THOMAS. The appropriation request is for $434,300,000, which will permit us to provide services to approximately 350,000 youngsters in both the summer and full-year programs.

The President, on a number of occasions, has spoken to his specific interest in holding down the Federal budget. As you know, the Federal budget will go up some $25 billion this fiscal year in terms of the President's proposals. I think the nature and spirit of the President's interest is in holding down Federal spending, but still providing sufficient resources to programs like Head Start so they can continue in operation.

PLANS FOR FISCAL YEAR 1976 CONGRESSIONAL INCREASE

Mr. NATCHER. Now, Mr. Thomas, if you will, tell us exactly how you plan to spend the congressional add-on of $20,200,000 for Head Start in the 1976 Appropriation bill?

Mr. THOMAS. Basically we plan to spend that as directed by the Congress to provide the cost of living increases which will accrue to the Head Start programs as a result of whatever inflationary factors there are. There will be some instances where Head Start will use those funds for increased rent or salary increases; sometimes they may want to utilize those funds for facilities improvement. But we will obviously operate is accordance with the intent of the Congress by using the resources to meet the increased costs.

CHILDREN SERVED BY HEAD START

Mr. NATCHER. How many children in total will be served by Head Start in 1977, under your budget request?

Mr. THOMAS. We anticipate the number of children to be served in 1977 will be approximately the same number as served in fiscal year 1976. Our figures for fiscal 1976 suggest—and these are figures which couldn't be considered hard and fast—that approximately 303,000 will be in the full program and 46,000 in the summer program.

Mr. NATCHER. This is the approximate number now being served?

Mr. THOMAS. That is right.

Mr. NATCHER. How many children have been served by the Head Start program since the beginning of the program?

Mr. THOMAS. I believe that, since the inception of the program, approximately 5.7 million youngsters have been served, Mr. Chairman.

Mr. NATCHER. If you will, we would like to have a cumulative figure since the beginning and placed in the record at this point.

[The information follows:]

HEAD START CHILDREN SERVED

Fiscal year	Full year [1]	Summer	Total
1965		561,000	561,000
1966	160,000	573,000	733,000
1967	215,100	466,300	681,400
1968	217,700	476,825	694,525
1969	213,456	421,665	635,121
1970	239,552	195,328	434,880
1971	296,486	123,485	419,971
1972	292,600	86,400	379,000
1973	292,600	86,400	379,000
1974	292,600	86,400	379,000
1975 estimate	310,000	69,000	379,000
1976 estimate	303,000	46,000	349,000
Total	2,833,094	3,191,803	6,024,897

[1] Includes children served in parent and child centers and experimental programs for fiscal years 1968–75.

Mr. THOMAS. I think it is important to note for the record, too, Mr. Chairman, that in the coming year we are implementing an information system which will give us the number of children in the program. We have had to rely primarily on statements by grantees and our own views on the situation up to now.

EFFECTIVENESS OF HEAD START PROGRAM

Mr. NATCHER. Mr. Thomas, do you believe in the Head Start program?

Mr. THOMAS. Unequivocally.
Mr. NATCHER. You have not changed your mind about it at all?
Mr. THOMAS. It is a fine program. It is an excellent program.
Mr. NATCHER. I just wanted to hear you say that on the record.
Mr. THOMAS. Again, it is a great program.

HEAD START BENEFITS TO CHILDREN

Mr. NATCHER. Tell us how the Head Start program has benefited children.

Mr. THOMAS. I will be delighted to make some comments and I am sure Dr. Meier will want to supplement these remarks.

First, all of the children in Head Start receive a medical screening. I think we can say without equivocation that screening identifies particular health problems these children may have. They can then be referred to appropriate providers of health services.

Second, we are very insistent as to the meals and nutritional intake which are important for young children to have. We have some basic standards which we follow. We can say, as a result of the health screening and the meals which are served to meet their dietary needs, the children are healthier.

In addition, we have put a lot of emphasis on cognitive development. There is an additional and perhaps even more important element of Head Start. It is a program in which we look at the child in the family. The center has offered an opportunity for parents as well as children to receive services. We think, that as a result of parent involvement in decisionmaking, parents take even greater interest in their children than they might have, had they not been involved.

There is a combination of these things which promote effectiveness.

Dr. Meier.

DISTINGUISHING CHARACTERISTICS OF HEAD START

Dr. MEIER. I would subscribe to everything Mr. Thomas has said. He has been a real supporter of Head Start. The program has some distinguishing characteristics which have also been a lighthouse for the entire country.

It raises the general consciousness of people as to the importance of young children and the importance of providing preschool experiences for these children, particularly those growing up in an atmosphere of poverty and for other reasons, who don't get the same benefits as many of our middle- and upper-class children.

As to parent involvement that is most important. It enables these parents to better understand the role of parenting, the various kinds of responsibilities which go along with that and how important it is to carry out these responsibilities in behalf of the children. The evidence is that where we have greater parent involvement, the gains the children attain are sustained right into the public schools.

We are now in our 11th year. We have had 10 years of successful existence and longitudinal data are beginning to be analyzed which indicate the impact on the community. It is a unifying nucleus around which people can perceive and tap resources of that community. It is, indeed, very gratifying.

The parents themselves are more active community members, feeling more control over their own destiny, if you will. We feel that kind of impact goes beyond the specific impact on the children which is considerable in itself.

FUTURE EMPHASIS OF HEADSTART

Mr. THOMAS. I might add, in coming years, we will be emphasizing even more the impact on children in greater specificity than we have in the past, to clearly demonstrate the changes which have occurred in terms of cognitive development and health, as compared to children of comparable levels and demographic comparable characteristics. This is very important in terms of our being able, in a more pronounced fashion, to demonstrate the effect. We do have information which gives us some of that, but we want to go further and articulate it further.

FUTURE EDUCATIONAL IMPACT OF HEADSTART

Mr. NATCHER. Mr. Thomas, you and Dr. Meier believe, without any question that the benefits are here and it does help their future education. There is no question about this; is that right?

Mr. THOMAS. I think there is one other factor we have to put in here which relates to an additional activity which the Office of Child Development is undertaking. We find there are certain advances the child makes in Head Start. We want to perpetuate those advances after the child's entry into the school system. In many instances the advancements made in Head Start, because of the individualized attention in Head Start, will not continue into the school. We will try to work with the school to provide developmental continuity. We have a program designed to achieve that goal.

AVERAGE COST PER CHILD

Mr. NATCHER. What is the average cost per child?

Mr. THOMAS. $1,352 per child, Mr. Chairman. But, again, that would vary, depending on the site, depending on the number of children, et cetera. I might add one thing. Head Start also has had to achieve an enrollment of 10 percent handicapped children. Obviously, the cost for a handicapped child is higher than a nonhandicapped child.

Mr. NATCHER. Why do you estimate it will stay the same in 1977 as in 1976?

Mr. THOMAS. As a result of the improved methods of management which we have been encouraging Head Start programs to take, looking at fixed costs, et cetera, our hope is that we can maintain the same number of children. That is certainly the anticipated direction we are going to take. But I would not want the record to indicate that nothing will change with the $20 million reduction in the budget. That is just simply not possible.

Mr. NATCHER. You are keeping in mind that we still have a certain amount of inflation in this country. We hear it all down through the budget process, as far as additional costs and increases are concerned. You are keeping that in mind, Mr. Thomas?

Mr. THOMAS. Yes, we are, Mr. Chairman. There is no question that the ability to continue enrollment and services will require extraordinary efforts on our part and the part of the grantees, as well.

NUMBER OF HEAD START GRANTEES

Mr. NATCHER. How many Head Start grantees do you have at this time, Mr. Thomas?

Mr. THOMAS. Approximately 1,300 grantees.

Mr. NATCHER. Of that number, how many are Community Action Agencies?

Mr. THOMAS. I don't know the exact number. Perhaps Dr. Meier can answer that.

Dr. MEIER. Sixty-five to seventy percent as of last year.

OPERATION OF A HEAD START CLASS

Mr. NATCHER. Can you, or one of your staff, Mr. Thomas, describe for us how a typical Head Start class operates?

Mr. THOMAS. I would defer to Dr. Meier.

Dr. MEIER. This is a real pleasure, because this is where the action is. These children who are identified as eligible, arrive frequently through transportation provided by the program. In some instances as soon as they arrive, they have the opportunity to get some kind of nutrition which is properly prescribed for their needs. Many of them don't get breakfast, as you may imagine, at home. But in Head Start that need is met.

The classrooms are well equipped. We have performance standards in place now which specify at least minimal quality criteria. Our teachers are receiving a good deal of training so they can provide for these children the kind of meaningful language interaction which is important. They talk with the childern, not to them.

The groups are small enough so there is an opportunity for the children to express their needs, to play with a variety of manipulative toys, to do the type of things youngsters of 3 to 5 years like to do. These include role playing, aspiring to be greater than perhaps even their parents are. There are models before them which also give them aspirations which we feel are very beneficial. They have opportunities to literally play with and, if you will, work with books; to interact with one another; and, Mr. Thomas has indicated, to interact with handicapped children. In a reciprocal fashion, they learn from each other as to the nature of handicapped conditions and the handicapped children receive a lot of additional information and experience.

They have opportunities for field trips. Some of these children, it is hard to believe, don't get off their own block or a circumscribed five- or six-block area until they come to Head Start. They have their parents working as volunteers in the center and these parents are learning more about what their childern can do. It spills over in the home to other siblings so they, too, benefit from this. It is the kind of thing which keeps us all going, I can assure you.

When we see what happens as a result to these children who now are smiling, the benefits can be recognized. In some cases, some of the children who are in what we might call an abusive or neglectful situation, come in and have a program which really cares about them, and

teachers and aides who really care about them. They, therefore, not only benefit from the cognitive experience, but also from the emotional kinds of input we feel so important for their future coping behavior in a very complex society. They are getting off to a solid footing in spite of the problems to be faced in the public schools.

I would be delighted to go on and on. I am very keen about what is happening.

Mr. NATCHER. Thank you very much.

CAREER DEVELOPMENT AND TECHNICAL ASSISTANCE

Why do you need $19,150,000 for what you call career development and technical assistance in the head start program?

Mr. THOMAS. Mr. Chairman, as you can appreciate, with the kinds of health, educational, and social service needs of the handicapped children, plus working with as many as 1,300 grantees, training and technical assistance are very important. Also in terms of the management improvements, fiscal accounting, personnel practices, et cetera, a substantial degree of assistance, advice, and counsel to the grantees is required.

This activity in our budget is designed to provide that assistance. We want to insure that health screening is sufficient, and we want to insure that parents are involved in the decision-making process as they should be. We are also very concerned with the training of people who work with children, including the 10 percent handicapped. We have embarked on an activity, the child development associate program, designed to train people who work with children. Those are some of the major areas of this activity.

I should also say the Office of Child Development has been working hard to assure the technical assistance is consistent with our interests in improving the program. As a result of improving our performance standards, we can say, if we find a program not up to standard, here are the deficiencies.

CONTRACT ASSISTANCE

Mr. NATCHER. Is most of this contract money?

Mr. THOMAS. Much of it is contract assistance, Mr. Chairman.

Mr. NATCHER. Can you tell us who the principal contractors are? If you will provide that list, we will insert it in the record at this point.

[The information follows:]

Yale University; University of Maine; University of New Hampshire; Wheelock College; Technical Assistance; Division of Continuing Education, State of Oregon; Bank, Finley, Thomas, & White; SEDFRE, Inc.; Dell Green & Associates; Kirschner Associates, Inc.; State of Ohio Department of Economics and Community Development; Governor's Office of Economic Opportunity, Minnesota; State of Michigan Department of Labor, Bureau of Community Services; Educational Projects Inc.; Contracting Corp. of America; Colorado State University; Performance Management Specialists; Roy Littlejohn Associates; Social Dynamics, Inc.; Modern Talking Pictures, Inc.; American Academy of Pediatrics; Inter America Research Associates; and University Research Corporation.

Mr. THOMAS. We are examining that particular activity continuously. If we feel the resources are not being properly used, we can ask for reprograming action.

Mr. NATCHER. How do you reach an agreement as far as contract money is concerned? What is the procedure?

Mr. SUTTON. We have a fairly intensive set of procedures we are implementing now. As you are aware, there are some specific requirements as to Federal procurement policy. The process involves the publication of the program requirements through Commerce Business Daily inviting firms and universities to respond to those program requirements. We review those with representation from both program areas and sometimes people with special skills, to aid the shops in making decisions as to the kind of talent, support and skill necessary to fulfill their program.

Mr. THOMAS. It is through the competitive process that you get the finest kind of assistance. In addition, in developing the scope of work you have to be very precise as to what it is that has to be done. Then you can make the best decision as to the best way of providing what is required.

OCD'S RESEARCH AND DEMONSTRATION PROGRAM

Mr. NATCHER. You are requesting $10,700,000 for research and demonstration for the Office of Child Development. Why do you need this money, Mr. Thomas?

Mr. THOMAS. All of that is under section 426 of title IVB of the Social Security Act, which is directed to the area of child welfare services. As you know, Mr. Chairman, at the State level, there are services provided in foster care, adoption, emergency services, and child abuse. Most of the activity in this regard, has been directed to defining the best kinds of child welfare systems at the State level.

What are the best kinds of placements which can be made? Who are the best kinds of people we can encourage to be participants in the foster program? The Children's Bureau has had the basic authority for this research activity. Our efforts are designed to improve existing systems. We have been involved in what is called the interstate compact. If a child needs to be placed in foster or adoptive care, and is in Arizona but there is a credible placement in Nevada, under the compact there can be interaction to make the most judicious placement.

BENEFITS TO THE TAXPAYER

Mr. NATCHER. Do you believe the taxpayer benefits from research and demonstration studies?

Mr. THOMAS. I believe the taxpayer can benefit more from those activities than has been the case. I think over the past few years, as we have gotten more and more into human service research, there has not been as emphatic a relationship between that research and the basic goals or objectives of a program as there should be. When you look at the results of the research, sometimes it is hard to say what the benefits are. How are you going to transfer that research information into program operation? We have been very emphatic with all the Headstart units in calling for credible long-range planning so that credible research will have some effect.

However, while we are now requiring each program to develop a policy implication paper on the results of proposed research and how it will be utilized in basic programs, I don't think from our vantage point or the Congress' vantage point, it has been emphatic. But through our research and planning process, we are hopeful we can

come before you whenever you ask us to and show we spent x amount of dollars on this research and we can tell you what the results were in terms of new initiatives which should be taken, or in terms of improved services for people.

I can tell you, as you begin to orchestrate your research along those lines, it can be threatening to other people who have been traditionally involved in this process. We intend to do that and we think the results will be beneficial to the taxpapers.

DUPLICATION OF RESEARCH EFFORTS

Mr. NATCHER. Isn't it true that a lot of your research is duplicated by other Federal agencies or even in other sections of the department of HEW?

For instance, day care research. Don't we have duplications here?

Mr. THOMAS. No, Mr. Chairman. I am sure there are always instances in which some duplication occurs, but I would like to tell you for the record how we try to avoid that. One of the things the department has instituted in the research and evaluation process, is the circulation of research proposals to all the elements of the department which could have an interest in that area. Obviously, if we are doing something which the Social and Rehabilitation Service is about to do, they can say, we won't do it or we will work with you. Particularly in the aging, children, and the rehab programs, there are interagency groups to assure we do coordinate.

CONTINUING NEED FOR RESEARCH AND DEVELOPMENT

Mr. NATCHER. We would like to know more about child development and research. Tell us why your office needs to do research in this area.

Mr. THOMAS. Again, Dr. Meier may want to supplement this. But the basic foundation is the recognition that the healthy growth of a child is directly related to the relationship with his parents and the family structure. Our interest is simply to learn more about that and what it is we can do to help parents meet their responsibilities. One of the tragedies of our society is that one of the most important things which occurs is the interaction between a child and his parent. We have developed a program and we have been trying to work with young men and women who will become parents.

Mr. NATCHER. Go right ahead, Dr. Meier.

IMPORTANCE OF PARENT/CHILD RELATIONSHIPS

Dr. MEIER. What's happening to the family is a very current concern. I don't need to elaborate on the media's treatment of this crisis if one wishes to look at it as a crisis. We do know the prime educator of the child has traditionally been the parent. We are having more and more single families, children born to unwed teenage mothers not prepared physically, or psychologically to assume the responsibilities for these newborn children.

As Mr. Thomas suggests we have developed a very successful program which explores childhood and will expose junior and senior high students to the importance of this interaction between them and their newborn infants, toddlers, and young children. We don't know

everything we would like to know about what the fundamental competencies or skills are for parenthood. Most of this in the past was filled in by the extended family. The new mother could go to her mother, aunt, or other relatives. That support system is no longer available to most of our young families. We are now exploring alternatives or ways in which we can assist these mothers and fathers to do a more effective job with their young children. In some cases we have children who are without parents and for whom we have to provide some sort of viable alternative.

In order to determine what the fundamental components of that alternative are, requires research, applied research. You asked about day care, we have a very large program investigating the importance of child-to-staff ratios, how many adults should be in a program for, let us say, 25 or 50, or 100 children. What are the tradeoffs? It you come close to approximating a mother-child dialog does that make significant difference in the growth and development of a child? As you move away from the 1-to-1 ratio what are the tradeoffs? Do you go from 1 to 4, 1 to 10? We must look at things such as time and motion studies as to how mothers spend their time around children, whether it be 1, or 5, versus the way a teacher spends her time when she is responsible for 10 children.

These are applied research endeavors which tell us a good deal as to the critical factors as to both competency as well as constructive alternatives.

CHILD ABUSE PROGRAMS

Mr. NATCHER. You are requesting almost $19 million for programs to prevent child abuse. Tell us how you plan to spend this money. Break it down, if you will, by activity, for us.

Mr. THOMAS. Mr. Chairman, in the child abuse area, we are addressing three or four problem areas in our approach. The first is that we are looking at the best ways to treat the very difficult problem of child abuse and neglect. We have orchestrated a very careful program which involves a number of demonstration centers as to the best ways to treat child abuse.

In addition to that, we are providing technical assistance to institutions, whether public or private, providing services in the child abuse area. They may want to know the best techniques for dealing with the specific problem. Another element to our approach is to try to determine the cause of child abuse and the ways we can prevent its recurrence.

I should add, by the way, that our demonstration programs are also service delivery oriented. Finally, we are also providing resources to the States. There are approximately 20 States which, at this point in time, based on the existing statute, are eligible to receive grants from the Federal Government. So we are providing resources to those States for the provision of child abuse services. We estimate in fiscal 1977 an additional 10 to 12 States will come into compliance with the statute and we will be able to provide resources to them.

FEDERAL ROLE IN CHILD ABUSE

Mr. NATCHER. Do you believe the Federal Government can alleviate the problem of child abuse?

Mr. THOMAS. I think, Mr. Chairman, in the immediate future, the Federal Government, working in partnership with State and private agencies, is in a position to help children who are abused and parents who are abusing and prevent recidivism. We hope at some point in time to get more information on causes. For example, we are faced with the fact that this abuse and neglect transcends all economic groupings. We have to look at what the causes are. Usually, it is because of a stressful situation. It may be the parents don't know enough as to how to cope with a child.

CHILD DEVELOPMENT VERSUS YOUTH DEVELOPMENT

Mr. NATCHER. We are not too clear, Mr. Thomas, as to why you have to have an Office of Youth Development in addition to an Office of Child Development. What are we doing, just using phrases or is it necessary, Mr. Thomas.

Mr. THOMAS. The best way to respond to that is look at the target groups. The problems and needs of a 4-year-old are different from those of a 15-year-old runaway. We are dealing with two separate target groups.

YOUTH DEVELOPMENT ACTIVITIES

Mr. NATCHER. What does the Office of Youth Development do?

Mr. THOMAS. One of the basic responsibilities of that office, Mr. Chairman, is to provide services for runaway youth. Of the $6 million request we have made for fiscal 1977, $5 million will support runaway youth projects, approximately 102 of them. We estimate they will provide services to 78,000 youths in fiscal 1977. The runaway youth houses or shelters provide temporary shelter and care, and try to reconnect the runaway youth with his or her family, and pull in other providers who could help in that situation. We are doing an incidence study at the present time to determine the number of runaways. There are estimates of from one-half million to 2 million.

Jim Hart might want to expand on that.

Mr. NATCHER. Now, Mr. Hart, if the runaway youth program is real important why are you asking for a $2 million reduction.

Mr. THOMAS. I should interject there.

Mr. NATCHER. Mr. Thomas, you go ahead and try that one.

Mr. THOMAS. In the initial location of dollars for the runaway youth program, somewhere in the neighborhood of 10 to 15 percent was used for establishing facilities to work with the runaway youth. That startup cost will not be recurring, obviously. Second, as a basic agenda of the program, and one which I think the Congress would support, we are looking to a point in time when runaway houses will not have to rely on other sources for funding.

YOUTH DEVELOPMENT RESEARCH AND DEMONSTRATION

Mr. NATCHER. Why do you also need research and demonstration funds for the Office of Youth Development?

Mr. THOMAS. Mr. Chairman, the causes of running away, the best solutions, as well as defining important needs of young people in our society are all of significance and need to be researched. In addition to rehabilitation services, the Office of Youth Development has done good work in relating their research to their program objectives. Hence the combination of relating their research to objectives as well as identifying some of the critical needs of young people and trying to insure that the Department approaches those needs in the most consistent fashion is the reason we are asking for $1 million. Indeed, I would say the Office of Youth Development has done excellent work in developing research and development plans which in time indicate not only the breadth and scope but the pertinency of what they are doing.

Mr. NATCHER. Why couldn't we just terminate it?

Mr. THOMAS. There are things we need to learn and improve upon so that we can use our dollars more effectively to meet the problems of youth. The Office of Youth Development is spending its money in the best interest of the taxpayer and the country.

AREA AGENCY ON AGING

Mr. NATCHER. We have talked about this matter before, as you know, Mr. Thomas. Would you describe again for us, the function of an area agency for the aging. Tell us what activities are carried out.

Mr. THOMAS. Dr. Flemming, having visited one or two, would be in a propitious position to respond.

Mr. NATCHER. Dr. Flemming, it is always a pleasure to have you before us. You were here when I first came to this committee.

Dr. FLEMMING. I think in responding to your question, I should first of all indicate how the area agency on aging relates to the total national network on aging which has been brought into existence as a result of amendments to the Older Americans Act. As you know, we do have 56 State agencies on aging. Under the law they become the managers for the aging programs which have been assigned to them under the Older Americans Act.

Each year the State agency on aging must prepare for the Governor an annual plan. The Governor submits this annual plan to the Commissioner on Aging. Before he submits it, he must have public hearings. Then, once the annual plan has been approved, the funds which the State is entitled to under the Older Americans Act become available to the State.

The States have been divided into planning and service areas. They have done that themselves. All together, there are just under 600 planning and service areas. Each State may designate within each of the planning and service areas an area agency on aging. Up to the present time, there are approximately 500 area agencies on aging.

When a public or private body has been designated as an area agency on aging, it is its responsibility to develop an annual plan and a budget. Its budget will be based in most instances on an allocation

by the State agency with respect to the various area agencies on aging within the State. The plan and the budget will make provision for the area agency on aging being a focal point, acting as an advocate for older persons, taking the leadership in establishing priorities for the development of services for older persons and trying to coordinate the various private and public resources available for services to older persons. The plan in the budget will also include proposed expenditures for particular kinds of services for older persons. These services may include information and referral, homemaker services, home repair services, special transportation services, and other types of services, all designed to enable older persons to live for a longer period of time in their own homes or other places of residence and prevent, or at least postpone, the time when they may have to go into an institution.

When the area agency on aging has brought together its plan with the advice of an advisory council, it must also hold a public hearing. After the public hearing it submits its plan and budget to the State agency on aging which has the authority to approve or modify the plan and the budget. Once the State agency on aging has approved the plan and the budget, then the area agency on aging is in a position to commit and expend those funds. Under the law and the regulation, it normally can't become involved in the direct delivery of services for older persons. It must either contract or make grants for the delivery of those services. Having done that, it has a responsibility of monitoring and assessing the way the contractor or the grantee carries out the activities which have been assigned to it.

I am very much interested that your initial question dealt with the area agency on aging. I think the concept the Congress built into the law relative to the network is a very sound one in that the initial work in terms of developing the plan and a budget starts at the area level. It is the area agency on aging, generally in consultation with its advisory council, which decides which priorities will be reflected in its plan and in its budget. They really are the heart of this network. This network is really going to achieve the objectives which the Congress has in mind to the extent that the area agencies achieve their own local objectives.

We feel it is our job to do everything we can to help the State agency and in turn help the area agency achieve the type objectives set forth in the law.

AGING REQUESTS FOR FISCAL YEAR 1976 AND FISCAL YEAR 1977

Mr. NATCHER. Due to the late authorizing legislation we have not yet acted on your fiscal 1976 request for aging programs. We will, of course, be doing that in the second supplemental in the next few weeks.

If the Congress decides to appropriate more money in 1976 than you are requesting for area planning and social services, would it be necessary for you to take another look at your 1977 request and possibly amend it to take into account congressional action on the supplemental?

Mr. THOMAS. I think, Mr. Chairman, as you know, the President has submitted a budget request in 1976, which we think bears a direct relationship between our 1976 budget and our 1977 request. I think

it would be unfortunate for us to discuss a situation which has not occurred at this time. We are hopeful that, if Congress appropriates consistent with our request, we won't have to take another look at 1977.

AGING MODEL PROJECTS

Mr. NATCHER. Why are you proposing to eliminate the model projects?

Mr. THOMAS. We are taking the $5 million requested in the 1976 budget and building it right back into the State and area program. The reason is that we believe all wisdom is not located in Washington and the basic ethic of this program is that the States can make a determination as to the priorities in the States. So we are taking what we requested for model projects in fiscal 1976 and shifting it into the basic agency program. Then the determinations can be made by the State agencies which are closer to the needs of the aged in the area.

NUTRITION OPERATING LEVEL

Mr. NATCHER. There has been controversy as to the operating level for nutrition services for the elderly. The 1976 Appropriations Act made it clear $187,500,000 should be the level of operation. Is the program currently operating at that level, Mr. Thomas?

Mr. THOMAS. No; it is not, Mr. Chairman. With passage of the appropriations bill, we immediately began the process of making available to the States resources which will bring them to that level.

Mr. NATCHER. You are now in the process of bringing it up to that level?

Mr. THOMAS. Yes. The question is how quickly we will get there. We are currently discussing this within the Department and within the administration.

Mr. NATCHER. Mr. Thomas, why are you proposing to cut the nutrition program by $37 million? How do you justify that?

Mr. THOMAS. When the budget was put together our request was based on annualization of the program at $150 million. At that point in time, the Congress hadn't appropriated dollars for the program in fiscal 1976. When you did, as you noted, you increased the annualized level to $187 million. We would have been able, based on our original budget request, to maintain the program at $150 million with the request we made. Now that we are at the $187.5 million level, were you to continue that level of programing in fiscal 1977, we would have no objection to increased resources in our appropriation. We wouldn't have to reduce the program in 1977.

WEEKLY PARTICIPATION IN NUTRITION PROGRAM

Mr. NATCHER. In an average week, how many older Americans participate in the nutrition program?

Dr. FLEMMING. At the present time, Mr. Chairman, approximately 500,000. Right now the number of meals which are being served every day, 5 days a week, is approximately 300,000. But on the basis of reports which have come back to us, we believe approximately 500,000 older persons are participating in the program each week. This means

obviously that some older persons don't show up all 5 days, but rather 2 or 3 days a week.

Mr. NATCHER. Dr. Flemming, you believe in this program; don't you?

NUTRITION PROGRAM SUPPORT

Dr. FLEMMING. There is no question about it at all. I have said publicly a number of times that I feel it is one of the finest programs in the area of human services authorized by the Congress.

Mr. THOMAS. I might add, Mr. Chairman, not only do I agree with that, but Secretary David Mathews, in a recent discussion within the Department, noted his support of the program. I had occasion to visit Philadelphia a few weeks ago and, I might say within the Department there is support.

MEANS TEST REQUIREMENT

Mr. NATCHER. Is there a means test as to participation?

Dr. FLEMMING. No. The only criteria for eligibility is that the person be 60 or older. At the same time the Congress, in the Older Americans Act, stated that the highest priority should be given to serving low-income and minority groups. We achieve that objective by locating the services in a community where there are low-income and minority persons who need the service.

AGING TRAINING PROGRAMS

Mr. NATCHER. Why are you requesting no funds for training programs under the Older Americans Act, Mr. Thomas? Do you want to handle that or do you want the gentleman at the end of the table to handle that?

Mr. THOMAS. As you know, the Department has not requested an appropriation in this category because of our interest in having students use the resources in our other grant programs to receive training. The basic rationale has been that through the BEOG's program, the student loans programs, students are able to get resources to go to colleges and universities and can make the determination as to what field they wish to go into.

Mr. NATCHER. No other agency is picking up the funding?

Mr. THOMAS. No other sources would be available directly to provide training in these areas.

Mr. NATCHER. What is the current level of training under the continuation levels?

Mr. THOMAS. About $8 million, I believe.

FEDERAL COUNCIL ON AGING

Mr. NATCHER. Why does the Federal Council on Aging need $300,000 for contracts?

Mr. THOMAS. The Federal Council on Aging is involved in a number of studies. Some of the ones they are looking forward to doing relate to the relationship of benefit programs, and the tax structure. They are also interested in some of the long-term needs of the elderly, and they have been looking into training needs for the elderly. There may be some others. Dr. Flemming might want to submit.

REHABILITATION SERVICES ADMINISTRATION

Mr. NATCHER. You are requesting $776 million for the Rehabilitation Services Administration; $799,909,318 was appropriated for the present fiscal year. If these programs have been as effective in preparing the handicapped for employment as they seem, why the cutback?

Mr. THOMAS. In the innovation and expansion grant area, that reduction would be approximately $18 million. The innovation and expansion grant program was primarily utilized to tool the States up to provide services to the severely disabled. Our statistics bear out the fact we have learned how to provide such services. As a consequence, we think the basic program of $720 million would be sufficient to meet our objective. We have innovated and expanded and now we feel the basic program can handle this operation.

UNIVERSE OF HANDICAPPED

Mr. NATCHER. What is the total estimate of handicapped people who could benefit from vocational training?

Mr. THOMAS. I would defer to Dr. Adams.

Mr. ADAMS. We are estimating about 5 to 6 million, sir, who could benefit. Some sources estimate even more. I think you have to weigh whether or not you are talking about the more severely disabled or the less severely disabled. If you are considering the whole universe then certainly that 5 or 6 million figure would rise substantially.

Mr. NATCHER. The justifications indicate over 1.6 million individuals will be served in 1977. What happens to the other millions that will not be served?

Mr. THOMAS. As far as this particular program is concerned, they wouldn't receive services. If they are eligible, they can receive dollars or other services from the other HEW programs, such as the supplemental social security program, medicaid or medicare et cetera. But they wouldn't be able to receive services through the rehabilitation system. I am reminded of a former Secretary's statement: If HEW did everything for everyone who should have it done for them, the HEW budget might be twice that of the Federal budget. This is one of those situations when you can't do all but you can do as much as possible with the resources available.

NEW AUTHORIZATION FOR BASIC STATE GRANTS

Mr. NATCHER. Congress has approved the authorization for vocational rehabilitation programs. Do you know the amount authorized?

Mr. THOMAS. $740 million.

Mr. NATCHER. Since the budget request is for $720 million are you planning to submit any budget amendments?

Mr. THOMAS. No, Mr. Chairman, Mr. Miller may want to speak to that.

Mr. MILLER. No, we will not be submitting a budget amendment. The appropriation language would limit the appropriation within the authorization.

Mr. NATCHER. Can the States match the full authorization?

Mr. ADAMS. Our estimate is, generally, yes.

Mr. NATCHER. For the record, insert a chart by State of the matching funds required for both $720 and $740 million.

Mr. ADAMS. We have estimates as to what the States feel they can match. We will be glad to furnish that.

[The information follows:]

FEDERAL GRANTS AND STATE FUNDS REQUIRED FOR BASIC SUPPORT PROGRAM
UNDER SECTION 110 OF THE REHABILITATION ACT OF 1973 AS AMENDED

State or Territory	FY 1976 Estimate		FY 1977 Estimate	
	Allotment	State Funds Required	Allotment 1/	State Funds Required
Total	$720,309,318	$184,239,210	$740,000,000	$188,792,041
Alabama	17,538,748	5,571,000	18,031,409	5,571,000
Alaska	2,000,000	616,963	2,000,000	616,963
Arizona	7,796,858	1,949,215	8,015,871	2,003,968
Arkansas	10,307,043	3,110,398	10,596,567	3,110,398
California	53,039,116	13,259,779	54,528,976	13,632,244
Colorado	7,945,298	1,986,325	8,168,481	2,042,120
Connecticut	6,477,191	1,619,298	6,659,135	1,664,784
Delaware	2,000,000	500,000	2,000,000	500,000
District of Columbia	5,214,542	2,003,007	5,361,018	2,003,007
Florida	27,316,210	6,829,052	28,083,519	7,020,880
Georgia	20,056,853	5,014,213	20,620,248	5,155,062
Hawaii	2,070,838	546,497	2,129,008	546,497
Idaho	3,440,911	860,228	3,537,566	884,391
Illinois	26,273,145	6,568,286	27,011,154	6,752,789
Indiana	18,050,425	4,512,606	18,557,459	4,639,365
Iowa	9,595,104	2,398,776	9,864,629	2,466,157
Kansas	7,118,983	1,779,746	7,318,954	1,829,739
Kentucky	15,557,515	3,889,379	15,994,524	3,998,631
Louisiana	17,869,329	4,467,332	18,371,277	4,592,819
Maine	4,766,482	1,191,620	4,900,371	1,225,093
Maryland	10,725,194	2,681,298	11,026,463	2,756,616
Massachusetts	16,402,694	4,100,674	16,863,444	4,215,861
Michigan	24,191,409	6,047,852	24,870,943	6,217,736
Minnesota	13,080,477	3,300,996	13,447,907	3,361,977
Mississippi	12,693,266	3,173,317	13,049,819	3,262,455
Missouri	16,730,338	4,182,585	17,200,292	4,300,073
Montana	2,828,855	707,214	2,908,317	727,079
Nebraska	5,010,876	1,252,719	5,151,631	1,287,908
Nevada	2,000,000	573,133	2,000,000	573,133
New Hampshire	2,912,920	728,230	2,994,743	748,686
New Jersey	15,967,916	3,991,979	16,416,453	4,104,113
New Mexico	5,437,686	1,359,421	5,590,430	1,397,607
New York	41,308,011	10,327,003	42,468,349	10,617,087
North Carolina	23,017,886	5,754,471	23,644,456	5,916,114
North Dakota	2,472,049	750,318	2,223,482	750,318
Ohio	33,954,595	8,488,649	34,908,376	8,727,094
Oklahoma	11,465,716	2,866,429	11,787,787	2,946,947
Oregon	7,946,059	1,986,515	8,169,263	2,042,316
Pennsylvania	38,268,020	9,567,005	39,342,965	9,835,741
Rhode Island	3,109,046	777,262	3,196,379	799,095
South Carolina	13,583,337	3,770,131	13,964,891	3,770,131
South Dakota	2,874,518	718,629	2,955,263	738,816
Tennessee	18,721,884	4,680,471	19,247,780	4,811,945
Texas	46,783,992	11,695,998	48,098,149	12,024,537
Utah	5,272,054	1,318,013	5,420,145	1,355,036

State or Territory	FY 1976 Estimate Allotment	FY 1976 Estimate State Funds Required	FY 1977 Estimate Allotment 1/	FY 1977 Estimate State Funds Required
Vermont	$ 2,101,560	$ 525,390	$ 2,160,592	$ 540,148
Virginia	16,946,636	4,236,659	17,442,665	4,355,666
Washington	10,829,303	2,707,326	11,133,497	2,783,374
West Virginia	8,402,592	3,086,843	8,638,620	3,086,843
Wisconsin	16,326,038	4,081,509	16,784,635	4,196,159
Wyoming	2,000,000	500,000	2,000,000	500,000
American Samoa	216,371	54,093	222,449	55,612
Guam	670,750	167,688	689,592	172,398
Puerto Rico	20,403,789	5,100,947	20,976,929	5,244,232
Trust Territory	692,387	173,097	711,836	177,959
Virgin Islands	526,503	131,626	541,292	135,323

1/ Does not include an additional amount of $309,318 required to maintain the allotment for the State of North Dakota at the FY 1973 level as required by Section 110(b) of the Rehabilitation Act.

RENAL DISEASE ACTIVITIES

Mr. NATCHER. What kind of projects are currently being supported for rehabilitating individuals with kidney disease?

Mr. THOMAS. Our emphasis has been to pull together the basic elements of all those concerned. As a result, 29 State coordinators are sitting on advisory groups relative to renal disease.

Dr. Adams may wish to comment.

Mr. ADAMS. Yes. We are planning special research projects. We have done some survey work and attended the National Conference on Renal Dialysis.

I would like if I may, sir, to ask our Director of Research and Demonstration for some specifics in this area, in which he is very knowledgeable. May I do that with Dr. Garrett?

Mr. NATCHER. You certainly may. Dr. Garrett, we would be delighted to hear from you.

Dr. GARRETT. Our plan for this disease group is twofold. No. 1 is to try to determine the effect of the type of individualized care a person has to go through because of having renal dialysis and what effect that has on things like work hours, type of work that can be done and things of that nature. This type of information is not current.

We are also concerned about the effect which the disease has on the personal adjustment, and on the social adjustment. We find, for example, in some of what we are doing that a heavy contributing factor is is upset in the family. We know that the family and the support you get in the family is the single most important factor in the outcome of any rehabilitation process.

The other type of activity in which we are engaging is the development of patient education materials which tell them how to deal with their problems, particularly as it relates to their vocation.

These are largely the types of activities we are doing.

SPINAL CORD PROJECTS

Mr. NATCHER. What projects do you have for persons with spinal cord injuries?

Mr. THOMAS. Mr. Chairman, we have initiated a number of projects concerning spinal cord injuries. I believe there are about 12 projects that are specifically designed to work with spinal cord injuries. Again Dr. Adams and/or Dr. Garrett.

Mr. ADAMS. More specifically I would like to turn to Dr. Garrett. But just to add to Mr. Thomas' statement, we continue to emphasize these projects at a rather high level. We are talking of over $3 million. We have our spinal cord centers, costing approximately $1 million, which we started under research and demonstration and have since moved under the special project area. The next step is to implement them in our programs.

So in general we are emphasizing spinal cord injury research and expanding program development through special projects.

For the specifics I would like to call on Dr. Garrett.

Dr. GARRETT. I think the important thing that we have done is to telescope the system of services to individuals who suffer trauma of the spinal cord by getting the individual involved from point of accident through followup into the community.

Just by way of a few statistics, for example, in terms of costs, it has been possible to reduce the cost for the hospitalization and medical rehabilitation phase of the program from an average of $30,000 to an average of $11,000; to reduce the cost of post-hospital care from $3,000 a year to roughly $500 a year.

So, as Mr. Thomas has said, it is a cost-effective system.

We are now setting up a program to compare our model systems with the usual pattern of care in hospitals. The best evidence we have right now is that we save roughly about half the cost and roughly about half the time, but, as Dr. Adams has indicated, what we are doing now is providing for the transition of that system from research over to special projects. Then the next step is that the State agencies will pick this us and incorporate this into our regular program.

Mr. ADAMS. May I make just a quick statement?

Mr. NATCHER. Yes.

Mr. ADAMS. Because of your keen interest, we are finding that if we can start the rehabilitation for the spinal cord injury from the point of trauma, we can cut down tremendously on those costs and expedite the rehabilitation process. I am talking about immediate care right at the scene of the accident to treat that spinal cord injury.

INNOVATION AND EXPANSION GRANTS

Mr. NATCHER. Again, the budget proposes to terminate innovation and expansion grants. Explain how the States have used these funds in the past.

Mr. THOMAS. Basically the States have utilized those resources to tool up and improve the delivery of their services to the severely disabled, which is a result of the Congressional mandate.

Mr. NATCHER. Could the States, Mr. Thomas, use part of their basic grants for supporting innovation and expansion projects?

Mr. THOMAS. The States have the flexibility to do that, Mr. Chairman, but at the same time we are obviously most interested in their meeting our objective which is the rehabilitation of handicapped people. Through our own research programs we are in a position to learn new techniques and new methods, and we can transfer that information to the States.

While they have the flexibility to make that determination, the great emphasis will be on actual service delivery.

REHABILITATION RESEARCH

Mr. NATCHER. You are proposing a $6 million reduction in vocational rehabilitation research. Describe the kind of project that you plan to terminate.

Mr. THOMAS. I suspect, Mr. Chairman, and Dr. Adams may wish to expand on this, that our basic action in research will be to reduce proportionately those activities in which we are currently engaged, so that no one activity will be harmed to the ultimate degree.

Mr. ADAMS. You appropriated an additional $4 million to us in 1976 for planning. About $1 million will be used for research and training centers, rehabilitation engineering about $1 million, spinal cord injury another $1 million, and renal, half a million—and incidentally these

are the areas that you were concerned about earlier—international research special project at about $400,000 and other research projects has $150,000.

That equals the $4 million you added.

Basically, what we plan to do is to have those as 1-year projects. Therefore, that $4 million will be a part of the total $6 million reduction and, as Mr. Thomas said, the additional $2 million will result in an approximate 10 percent across-the-board decrease in our ongoing projects in fiscal year 1977.

DEVELOPMENTAL DISABALITIES

Mr. NATCHER. In development disabilities programs you are proposing appropriation language earmarking $30 million for grants under part C. What is going to happen if this is deleted, Mr. Thomas?

Mr. MILLER. This is merely a proposal to the Congress to put a ceiling on it. If you deleted it, it would not be a serious matter.

NEW DEVELOPMENTAL DISABILITIES INITIATIVES

Mr. NATCHER. How much of the 1977 budget relates to new activities recently authorized by the Developmentally Disabled Assistance and Bill of Rights Act?

Mr. THOMAS. Basically, Mr. Chairman, the major initiative that would be part of the new act would be the support for advocacy grants. Under the new statute the States are required to have in place, by the beginning of fiscal year 1978, systems to be concerned with advocating the rights of the developmentally disabled. This is one of the most important issues and will be a $3 million expenditure.

Mr. NATCHER. The new developmental disabilities law authorizes new and expanded programs but the budget proposes $53.6 million which is less than the 1976 appropriation. It is even less than the 1975 appropriation, I believe, Mr. Thomas.

Mr. THOMAS. As you know, we came before the Congress for a rescission request of $2 million for fiscal year 1976. I don't know if that period has runout yet. We obviously are hoping the Congress will rescind those dollars. This would mean that our 1977 request would be comparable to our 1976 request.

Mr. NATCHER. Mr. Thomas, does the rescission that you speak of expire today?

Mr. MILLER. I believe it expired several days ago.

Mr. THOMAS. In that regard, Mr. Chairman, we had proposed to use some special projects dollars to support the $2 million that the Congress had put in for the advocacy program.

We feel that we have sufficient flexibility in our special projects areas so don't think there will be any diminution of activity as a result of our request.

SPECIAL PROGRAMS FOR NATIVE AMERICANS

Mr. NATCHER. You are requesting $32 million for special programs for native Americans. Frankly, Mr. Thomas, it is hard for us to believe that at least part of this program isn't duplication of what other Federal agencies are doing.

Is this a duplicative program?

Mr. THOMAS. No, it is not, Mr. Chairman, and perhaps I could explain why it is not.

The basic goals and objectives of the native American program is to build the capacity of the Indian tribes and urban Indian groups to effectively plan and manage the resources that are coming from other Federal agencies, whether they be in the natural resource area, from the Bureau of Indian Affairs or if they be in human service activities such as our Indian Health Service.

I think we are really only making lip service to the basic presidential and congressional interest in self-determination without the capability of planning and management.

So our basic intent is to build the planning and management capability of the native American community so they can effectively integrate, coordinate, and establish priorities in meeting the needs of Indian people.

They can also use those resources to fill the gaps. There are going to be occasions when none of the resources available to them meet their needs, and in those instances they will be able to provide services through this program.

I might add that we have established evaluation standards so that we can monitor those programs against our basic intent of building management capabilities.

It is not duplicative, Mr. Chairman. It is designed to improve what is made available to Indian people, Alaskans, or native Hawaiians, whether they are on the reservation or whether they are in urban areas.

BUDGET REQUEST FOR RESEARCH AND EVALUATION

Mr. NATCHER. Describe your research and evaluation program for native Americans and tell us why you need $2,400,000 for this program in 1977.

Mr. THOMAS. Again, Mr. Chairman, this is an opportunity that I have to demonstrate the relationship between our program goal and our research activity.

In terms of providing the kinds of assistance and information that we need to provide to native American communities and groups, we first of all, have to know where is the shortfall, why are they not able to effectively plan and manage as they would want to.

So we have to do assessments of where they stand, and some of our research will consist of that.

We have to look at the best techniques for doing needs assessment among Indian communities and tribes which vary substantially. We need to develop tools to effectively analyze the programs, to see that they meet the standards that we have established.

In other words, we can't just put together a haphazard questionnaire. We need to have the document that can give us the kind of information we need. Those are the basic objectives of our research activities which again are directly related to the program goals.

We know, as we are planning, this that the results will be able to be translated, just as we are trying to do with spinal cord injury centers and rehab, back into the program.

WHITE HOUSE CONFERENCE ON HANDICAPPED INDIVIDUALS

Mr. NATCHER. When will the White House Conference on Handicapped Individuals take place?

Mr. THOMAS. We believe that the Congress has passed an extension date. Up until recently we were required to have it in December. Now we expect it will be held sometime in April of 1977, as a result of the congressional action and the recommendations of the advisory committee to the White House.

SALARIES AND EXPENSES

Mr. NATCHER. You are requesting $47,725,000 for salaries and expenses for 1977. For the record give us a breakdown by dollar amount of the positions by organizational unit within the Office of Human Development.

[The information follows:]

Distrbution of Authorized Positions & Funds, by Office
And by location - 1976 & 1977
($ in thousands)

	1976		1977	
	Pos.	Funds	Pos.	Funds
Headquarters				
Immediate Office of the Assistant Secretary	28	697	28	723
Planning & Evaluation	21	521	21	542
Office for the Handicapped	14	548 1/	14	561 1/
Architectural & Transportation Barriers Compliance Board	11	573 1/	11	584 1/
Office of Manpower	10	548 1/	10	758 1/
Office of Rural Development	5	124 1/	5	129
Office of Administration and Management		9,092		10,227
Staff Support	102	(2.532)	110	(2,873) 1/
OHD-Headquarters and Regional Overhead		(6,560)		(7,354)
President's Committee on Mental Retardation	18	447	18	465
Office of Child Development	170	4,220	170	4,389
Office of Youth Development	38	943	38	981
Administration on Aging 2/	126	3,128	126	3,253
Rehabilitation Services Administration	203	5,339 1/	203	5,541 1/
Developmental Disabilities Office	31	769	31	800
Office of Native American Programs	29	720	29	751
Subtotal, Headquarters	806	27,667	814	29,704
Regions				
Region I	61	1,514	61	1,575
II	72	1,787	72	1,859
III	76	1,886	76	1,962
IV	96	2,383	96	2,479
V	88	2,184	88	2,272
VI	71	1,762	71	1,833
VII	59	1,464	59	1,523
VIII	55	1,365	55	1,420
IX	69	1,713	69	1,781
X	51	1,266	51	1,317
Subtotal, Regions	698	17,324	698	18,021
Total, OHD	1,504	44,993	1,512	47,725

1/ Includes the following project contract funds:

	1976	1977
Office of Handicapped Individuals	200	200
Architectural Trans. Barriers Compliance Board	300	300
Office of Manpower (CETA)	300	500
Rehabilitation Services Administration	300	300
Office of Administration and Management	---	33

2/ Positions include 6 full-time permanent positions for Federal Council on Aging. Funds exclude amounts to support these staff.

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COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

Mr. NATCHER. What does your Office of Manpower do with respect to the Comprehensive Employment and Training Act?

Mr. THOMAS. Mr. Chairman, the CETA program, as you know, is under the Department of Labor. The prime sponsors are developing comprehensive manpower programs for a given community. In many instances we in the Department of Health, Education, and Welfare are also involved in providing resources for manpower training, and the basic mission of the Office of Manpower is to provide whatever assistance is necessary to those prime sponsors to insure that, as they comprehensively plan, they are aware of what the Department of Health, Education, and Welfare is doing.

Conversely, they provide information to the Department about what prime sponsors are doing so that we can adapt our activities as we should appropriately.

The basic interest is to have CETA comprehensive manpower programs which are not duplicative of and which are effectively coordinated with resources of programs funded under the Bureau of Occupational and Adult Education, Office of Education, the vocational rehabilitation program or health manpower program.

TECHNICAL ASSISTANCE TO PRIME SPONSORS

Mr. NATCHER. Why do you need $500,000 for contract funds for technical assistance to prime sponsors under that act?

Mr. THOMAS. Mr. Chairman, in order for a prime sponsor to be able to comprehensively plan and to know what is available under HEW programs—they may not have familiarity with HEW resources in the communities—we need to give them information about what is being done.

As they begin to plan, we have to provide them with some of the tools they can use to say how do we find out what are the most important manpower needs in this community and how can we find the best way of utilizing DOL resources or HEW resources to meet those needs.

We want to interact with them as they develop these comprehensive plans and encourage coordination in planning with planning for HEW funded services in their communities. That is really what those resources are utilized for. In effect we can't ask sponsors to plan comprehensively—considering HEW resources—if we don't provide them assistance to do that.

Mr. Natcher. The Labor Department I believe also provides technical assistance to the prime sponsors. Isn't that correct?

Mr. THOMAS. They do, Mr. Chairman, but their technical assistance is primarily related to other than HEW programs. In other words, the prime sponsors are not as familiar with what we are doing as we would like them to be.

In addition, many of their activities are in such areas as financial management, and accounting systems, where we are saying, here is how you do good needs assessment, here is how you analyze the resources that are available.

RATIONALE FOR TRAVEL INCREASE

Mr. NATCHER. You are requesting $3,266,000 for travel in 1977 which is an increase of 23 percent more than the present fiscal year. How much of that increase is attributable to the increase in per diem rates and how much of it is actual increase in the amount of travel in your agency?

Mr. THOMAS. I would defer to Mr. Sutton on that. I would say the bulk would be in those two areas.

Mr. SUTTON. Primarily we have annualized the requirements in 1977 to not reflect other years. Some of that growth is related also to the travel for White House Conference activities but primarily our request is just to annualize the rates in 1977.

Mr. THOMAS. I might add that we have really had to pull in our belts on travel, and to just maintain what we are doing is already a decrease in some of the things we would like to do.

In the Head Start program, for example, we wanted to validate the self-assessments done by grantees at about 33 percent of the sites. As a result of travel limitations we had to reduce that 33 percent to somewhere in the neighborhood of 20 percent.

We recognize in the future we are going to have to live with those figures. I am sure each one of the members around this table could repeat this.

We are dealing with a hold-the-line budget in that regard.

Mr. MILLER. My understanding is that the increase for the White House Conference is $699,000 and for the rest of the whole agency it is a decrease. So the entire increase is attributable to the White House Conference.

Mr. NATCHER. If you will, at this point in the record place an analysis or some computation as to how you reach this figure.

[The information follows:]

ANALYSIS OF 1977 TRAVEL ESTIMATES

[In thousands of dollars]

	1976	1977	Increase	Explanation of increase
1. Salaries and expenses	2,527	2,527	----------	No increase.
2. Federal Council on Aging	30	30	----------	Do.
3. White House Conference on Handicapped Individuals	90	709	+619	Increase will provide funds to travel selected State representatives to the national conference now planned for April 1977.
Total	2,647	3,266	+619	

Mr. NATCHER. Your agency seems to do a lot more traveling when compared with other agencies in the Department of Health, Education, and Welfare.

Mr. THOMAS. I don't know if that is true.

Mr. NATCHER. The cost, Mr. Thomas, as you know is considerably higher than other sections in HEW. Isn't that true?

Mr. THOMAS. I don't know that for a fact.

Mr. NATCHER. I am speaking of cost per man-year now.

Mr. MILLER. I don't think so, Mr. Chairman. I think the figures are distorted by the fact that this is the only account in which there is a White House conference, and there is a great deal of travel associated with that. I really don't think that comparison is accurate.

FEDERAL TELECOMMUNICATIONS SYSTEM

Mr. NATCHER. You show FTS going up next year by $120,000 or 38 percent.

Mr. THOMAS. The Federal telecommunication system is the system the Federal Government uses to call to other elements within the Federal Government across the country. I think the user charges have gone up there.

Mr. SUTTON. Those are the estimates of the user charges for 1977.

MANAGEMENT INFORMATION SYSTEMS

Mr. NATCHER. On page 60 of your justification you show a request of $955,000 for management information systems. What is this money to be used for?

Mr. THOMAS. The bulk of that money is for implementing an information system primarily in the Headstart program—we already have information systems, perhaps the best in the Nation for the rehabilitation program—so that we can know how many kids there are, what their backgrounds are, how much is the cost per child—information along those lines. The same is the case of the Office of Youth Development.

Those are the two areas where most of those resources will be spent. We can't effectively manage if we don't know what is going on.

Mr. NATCHER. For the record give us a breakdown, Mr. Thomas, in some detail of your request of $3,584,000 for other services; your request of $19,433,000 for project contracts; your request of $625,000 for equipment.

[The information follows:]

Distribution of 1977 funds for other services by activity

	Thousands
Working capital fund (reimbursements to Department for the provision of services—headquarters and regions)	$2,700
Check charges (includes consultants, advisory committees, etc.)	89
Employee training	50
Data processing (excludes supplies and leasing of equipment)	495
Special purchases (exhibits, film, writing/editing, art work, etc.)	250
Total	3,584

Breakout of project contracts, estimates for 1977

	Thousands
Office of Child Development	$12,300
Office of Youth Development	1,000
Administration on Aging	500
Rehabilitation services and facilities	1,000
Developmental Disabilities Office	500
Office of Native American Programs	2,400
White House Conference on Handicapped Individuals	200
Federal Council on Aging	200
Salaries and Expenses:	
Architectural Trans. Barriers Comp. Bd	300
Office of Handicapped Individuals	200
Office of Manpower (CETA)	500
Rehabilitation Services Administration	300
Other	33
Subtotal	1,333
Total	19,433

Distribution of 1977 estimates for equipment, by category

	Thousands
Work stations for South Portal Building not included in GSA estimates and relocation of Administration on Aging and Office of Child Development. This expenditure required to conform to the open work space concept established for the South Portal and other new regional office buildings occupied by Office of Human Development staff	$400
Special TTY's (telecommunications systems) for the deaf	28
Replacements of lost or damaged equipment	80
New equipment (typewriters, adding machines, calculators, card punch machines, card sorters, etc.)	75
Books, periodicals, etc. (including publications in braile for the blind)	42
Total	625

BUDGET REQUEST FOR HUMAN DEVELOPMENT

Mr. NATCHER. Going back by way of review, Mr. Thomas, as you stated to the committee in the beginning when we started the hearings this morning, your request is for a total of $1,572,689,000. Is this amount adequate, Mr. Thomas?

Mr. THOMAS. Mr. Chairman, based on what our goals and objectives in our programs are, we believe with that amount of money we will be able to meet them.

RESEARCH IN THE DEVELOPMENTALLY DISABLED FIELD

Mr. NATCHER. Mr. Shriver, I yield to you at this point.

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. Thomas, you have in excess of $53 million in this request for programs for the developmentally disabled. I know there are some research efforts being made in this same field by the National Institute of Child Health and Human Development, and the Maternal and Child Health Office also has a program. Is that all of the Federal agencies dealing with this?

Mr. THOMAS. That are dealing with the developmentally disabled? I don't know.

Mr. SHRIVER. In research.

Mr. THOMAS. No. We have the National Institutes of Health in the research area. There would be activities conducted by the Alcohol, Drugs Abuse and Mental Health Administration.

To distinguish between our activities and theirs, we are looking at how the needs of the developmentally disabled can be met through existing services. For example, many developmentally disabled individuals receive services through the Medicaid program, through State-run programs for the mentally ill and other programs for the developmentally disabled.

In terms of resources available to meet the needs of the autistic, the epileptic, or the dyslexic, there aren't many programs that are involved in actually providing services to these individuals.

We do have an interaction with the National Institute of Child Health in the university-affiliated program, but their emphasis is primarily on children, and we are interested in the developmentally disabled, regardless of their age.

HEALTH BLOCK GRANT

Mr. SHRIVER. We have heard a great deal in this committee recently about the request for consolidation. Would consolidation be a good idea in the field of developmentally disabled?

Mr. THOMAS. Mr. Shriver, the President has submitted a health block grant program which includes the developmental disabilities program.

OPERATING LEVEL FOR THE NUTRITION PROGRAM

Mr. SHRIVER. You are proposing to knock out language earmarking $187.5 million for nutrition services for the elderly, with the reason given that specific program levels can be achieved administratively. I suppose that is true, but the Congress put in $187.5 million to be spent for nutrition programs, and you are administratively setting it at $150 million.

Mr. THOMAS. Yes. When we submitted our budget request the Congress had in fiscal 1975 established a level of $150 million as an annualized amount to be spent for nutrition. The $88 million request in our budget would have allowed us to reach that $150 million level since this is a forward funded budget.

Subsequent to the submission of the budget the Congress, in its appropriation process, said that we should annualize the program at $187 million, which we could not do in fiscal year 1977, based on our budget request.

I did state for the record that were the Congress to again mandate that the States should be programed at the $187 million level, and were you to appropriate funds so that we could achieve that, which would be above our budget request, we would not object to that action.

Mr. SHRIVER. It is one of the most important and popular efforts.

Mr. THOMAS. Yes. The President has made it clear that he does not want to reduce the $187 million level you have established in 1976.

EFFECT OF APPROPRIATION LANGUAGE

Mr. SHRIVER. Why do you want to limit the allotment level to which States are entitled in the developmental disability program?

Mr. THOMAS. The chairman asked what would happen if that language were eliminated, and Mr. Miller's response was the omission would not be of any consequence.

Mr. MILLER. You can do the same thing by appropriation action, Mr. Shriver.

RATIONALE FOR CETA INCREASE

Mr. SHRIVER. You have an increase from $300,000 to $500,000 to provide technical assistance under contract to prime sponsors under the Comprehensive Employment and Training Act.

What is that for?

Mr. THOMAS. The Comprehensive Employment and Training Act is under the Department of Labor, and it is concerned with manpower programs. We have been very interested and, as a matter of fact, the statute requires there be coordination of resources the Department of Labor makes available and resources made available by the Department of Health, Education, and Welfare.

The resources that we are requesting will be utilized to insure when a prime sponsor in a local community plans comprehensive manpower services for that community, that they are able to include in that planning the resources that are being made available by HEW.

In other words, for the limited amount we are requesting we hope to insure that the Federal dollar is not duplicated, that a prime sponsor doesn't spend money on health manpower if there are those dollars available under HEW, or for vocational education if there are vocational education dollars available.

AGING AREA PLANNING AND SOCIAL SERVICES

Mr. SHRIVER. How will the $6 million for area planning and social services for the aged be used?

Mr. THOMAS. That additional $6 million will be basically utilized for those area agencies to provide increased services to older persons who are within that area agency.

It can be in the area of transportation, in the area of counseling, information referral, whatever they at the local level decide is needed.

EFFECT OF HEADSTART DECREASE

Mr. SHRIVER. What will be the effects at the local level of a cut of $27 million in the Headstart program?

Mr. THOMAS. The effect will be that it will be harder for them to continue to deliver the same quality and amount of services.

But we are hopeful that with improvements in our performance standards, and our technical assistance to the Headstart projects, they will be able to do that with reduced resources. We know it is a difficult request, but we are hopeful that they will be able to achieve it.

RATIONALE FOR POSITIONS

Mr. SHRIVER. Your overall request is down more than $100 million, yet you show an increase in personnel.

Mr. THOMAS. I think we show an eight-person increase. If history is any indication, our request and your appropriation may not be the same so I might look at that as a reduction in staff.

Mr. MILLER. It is not really eight persons. I think it was a technical error on our part. It is a transfer of function. It should have been shown in the 1976 column, so there is no real personnel increase in 1977.

PROJECTS WITH INDUSTRY

Mr. SHRIVER. At the direction of last year's Senate report, you are spending $1 million for something called Projects with Industry.

What is that?

Mr. THOMAS. Those are special projects under the rehabilitation services program where we work directly with private industry to place handicapped people in a particular kind of job. It is one of the more effective activities in which we are engaged.

Dr. Adams may want to tell the number of projects we are involved in and the number of people we expect to be rehabilitated.

Mr. ADAMS. I am really pleased on that question because it is very significant. We are talking about in the Department of Labor 30,000 occupational titles in our rehabilitation programs. We are realistic in knowing that our facilities can not train for anything near those 30,000 jobs, so the answer to give a broadened opportunity to handicapped people is to try to work closer with industry and business and even government sources in expanding opportunities for training that will result in employment.

I say this program is of top priority to us because I think it is an answer for tremendously expanding opportunities.

We have now about 10 projects underway with industry, most of them east of the Mississippi, and Congress has been concerned that we spread those westward. We are now in the process of doing that, and we have proposed projects now in Kansas City, in Wichita, in Los Angeles, San Francisco, Portland, Seattle.

There again I am delighted you asked that question and you are concerned about that program because, as I say, I think it is the future for rehabilitation.

Mr. SHRIVER. I am glad, too, because you mentioned Wichita.

SIGNIFICANT ITEMS IN SENATE REPORT

On page 9 of the justification you indicate you could not initiate several other efforts called for in the 1976 Senate report while you were operating under the Continuing Resolution. Now that you have an appropriation, have you done anything in regard to those items?

Mr. MILLER. I have a note, while they are looking it up, that on item 3 we have a reprograming letter before you to correct that situation.

Mr. THOMAS. That is the whole issue of spinal cord injury activities. We made reference to those before and we are going to be making these activities available to the environment project which is located in Alaska.

Mr. SHRIVER. What have you done on the spinal cord injuries problem?

Mr. ADAMS. We have set up our model centers in spinal cord injury under our research and development program.

We are transferring a great deal of that work into our special projects to move into our delivery systems to get research into practice.

We have some innovative projects dealing with early treatment of spinal cord injuries including as I said earlier, efforts to actually begin treatment on the spot of the injury if possible by helicopter or some other expediting mechanism.

We are finding if we can get hehabilitation into the process quickly on spinal cord injury we reduce the cost and we speed up the recovery of those patients.

Mr. THOMAS. I might say for the record, Mr. Shriver, in any instance in which as a result of the appropriation there were requirements in the conference report, we have implemented those requirements. When this was put together there was no appropriation.

SPECIAL PROGRAMS FOR NATIVE AMERICANS

Mr. SHRIVER. With reference to the special programs for native Americans, what are you doing for them?

Mr. THOMAS. When the Congress passed that title of the Community Service Act, they specifically mentioned that in addition to the provision of services to native Americans and Alaskans that we also provide resources for programs of native Hawaiians.

As a result we gave a grant deal of approximately $230,000 to an organization in Hawaii which at the present time is doing the groundwork for defining exactly what are some of the most pressing needs of native Hawaiians. We felt that kind of planning emphasis was imperative prior to the implementation of any direct service delivery activity.

We expect the results of that planning effort will be made known to us sometime in July or August, at which time we will look at what we should be doing.

Mr. SHRIVER. How long have they been working at it?

Mr. THOMAS. They started working last July or August. The reason I know is that was the time the grant was made and we expected the results of that grant at the end of that year. This is a program in which our regional office in San Francisco has played a very important role in working with the various organizations over there and trying to come to grips with them.

Mr. SHRIVER. Who has the grant?

Mr. BLUE-SPRUCE. It is an organization that was formed as the result of 86 native Hawaiian organizations coming together and forming a coalition. It is a native Hawaiian word—Alu-Like, Inc.

Mr. SHRIVER. Thank you.

HEAD START

Mr. MICHEL. What is the total amount being spent for Head Start in fiscal year 1976, counting the supplemental appropriation at the end of fiscal year 1975 and the regular appropriation bill?

Mr. THOMAS. The regular appropriation bill makes available $454,500,000 for Head Start programs in fiscal year 1976. In addition, of the $15 million appropriated in fiscal year 1975 for handicapped children, $7 million was made available through October 31, 1975. Therefore, the total fund availability for Head Start programs in fiscal year 1976 is $461,500,000.

Mr. MICHEL. Does your budget request of $434 million reflect the actual amount that will be spent in 1977, or will there be some carryover funds?

Mr. THOMAS. The budget request of $434,300,000 reflects the actual amount that will be spent in fiscal year 1977. There will be no carryover funds.

Mr. MICHEL. According to your justification, despite the lower budget level, there will not be any reduction in the program level. The same number of children will be served at the same average cost per child, is that correct?

Mr. THOMAS. It is our hope, Mr. Michel, that as a result of more efficient and effective management, we can serve the same number of children in 1977 as will be served in 1976. To maintain present enrollment and to continue to provide the quantity and quality of services rendered will require extraordinary efforts on our part and on the part of each grantee. The reduction could involve serving fewer children in some programs, less technical assistance, delays in filling vacan-

cies, no salary increases, and less resources for travel and parent development.

Mr. MICHEL. The budget reduction includes $7 million for a "reduction in the level available to support the succeeding school year enrollment from fiscal year 1977 funds." What does this involve in specific terms?

Mr. THOMAS. In 1975, $15 million was appropriated for handicapped children; $7 million of that amount was made available through October 31, 1975. In 1976, $20 million was appropriated for handicapped children. This amount, added to the $7 million which had extended availability, resulted in a total availability in 1976 of $27 million for handicapped. The 1977 budget includes $20 million for handicapped, maintaining the 1976 appropriation level.

Mr. MICHEL. Are you currently meeting the requirement that 10 percent of the Head Start enrollment be comprised of handicapped children, and if not what is the current percentage and when do you expect it to reach the 10-percent level?

Mr. THOMAS. Yes, we believe we are meeting that mandate. We have conducted surveys of Head Start programs. A preliminary review of the data compiled in preparation for the fourth annual report to Congress indicates that we are continuing to meet the 10-percent requirement.

More definitive data are available as a result of last year's effort. The third annual report to Congress on services provided to handicapped children in Project Head Start indicated that 10 percent of all children enrolled in reporting Head Start programs were definitely diagnosed as handicapped by the end of February 1975. In addition, some portion of the children reported as "believed to be handicapped" were subsequently diagnosed and confirmed as handicapped, based on a nationwide sample survey of 78 programs.

Mr. MICHEL. How do your parent involvement programs operate, and are they proving to be effective in developing better parents?

Mr. THOMAS. Parent involvement in Head Start is one of four integrated components which comprise the total program of comprehensive child development. The others are health, social services, and education. Each Head Start grantee has the responsibility to involve the Head Start parents in all phases of the program, including making policy decisions which affect all aspects of program operation, planning the curriculum, working as volunteers in the classroom, and selecting Head Start staff. Participation of parents in all aspects of program planning and operation is absolutely essential to the operation of a successful Head Start program.

A great deal of evidence accumulated during the 10-year history of Head Start indicates that parent involvement is one of the outstanding features of Head Start. The ultimate test of the effectiveness of parent involvement comes after the parents' child leaves Head Start. There is a strong indication that Head Start parents are significantly more involved in all aspects of their children's development as compared to non-Head Start children and parents. A 2-year evaluation of parent involvement in Head Start is currently in progress.

CHILD DEVELOPMENT RESEARCH AND DEMONSTRATION

Mr. MICHEL. You are budgeting a $4 million reduction in research and demonstration, from $14.7 million to $10.7 million. Does this indicate that we have pretty much reached the limits of our research capabilities in this area, and can now begin reducing our emphasis?

Mr. THOMAS. We have not reached the limits of our research capabilities in the area of child development. What the reduction means is that, in the interest of reduced Federal spending, we will have no new starts in research. We will not be able to develop new models and materials to help families and institutions function better to increase child development; we will not be able to study the support needs from society for infants and toddlers. We will not be able to identify critical times to intervene in child development; nor will we be able to develop measures which predict future development problems.

We will not be able to survey the need for day care for school-age children and the quality of services now available; nor will be able to examine various systems of day care financing to study the alternatives available such as voucher, vendor payments, and sliding fees.

In other child welfare areas we will be precluded from funding several demonstrations which are under consideration. Children often suffer from inappropriate placement resulting from poor diagnostic procedures. A demonstration would create high-quality diagnostic teams that would assess the family and child whom community agencies or courts refer for placement, leading to appropriate placement for these children and development of guidelines for use for all clients.

Another project being considered would have provided grants to several States which would review their foster care caseload, find those children who are inappropriately placed, and return them, where possible, to their biological family. If this is not possible the State will seek other stable long-term arrangements, including adoption for these children. This project could not only better the environment for children but could reduce State costs since foster care costs could be eliminated for many children.

CHILD ABUSE AND NEGLECT

Mr. MICHEL Has the child abuse/neglect program made any headway at getting at the problems of child abuse?

Mr. THOMAS. There are several major needs which confront us in the mounting an effective program to prevent, identify, and treat child abuse and neglect. First, the scope and severity of the problem must be determined. Second, we must acquire and disseminate knowledge concerning the causes of the problem. Third, States and local communities must be provided with assistance to strengthen their capability to provide services which prevent, identify, and treat child abuse and neglect. Fourth, information concerning new or improved service delivery techiques, practices, and procedures must be developed and disseminated.

We have made progress in satisfying each of those needs. A feasibility study has been completed which provides us with knowledge con-

cerning the most effective means of determining the scope, severity, and trends of child abuse and neglect on a national scale. The National Center on Child Abuse and Neglect is now prepared to initiate a national incidence study as mandated in section 28(c) of Public Law 93-247.

A national clearinghouse has been established which has developed an inventory of current child abuse and neglect programs, contains program information on each, and has developed a summary of all recent research in the field of child abuse and neglect.

Concurrently the center has funded 16 research efforts which are directed toward the development of new knowledge concerning the causes of abuse and neglect, the impact which mood changing substances have on the problem, factors which influence changes in parental behavior, and methods to measure the effectiveness and efficiency of various modes of service delivery.

Forty-two different projects have been funded to embark upon a nationwide demonstration effort to develop new and/or improved methods of providing services to children and families. Uniformly these demonstrations emphasize the need for interagency coordination and multidisciplinary involvement in service delivery systems. As information becomes available from each of these projects, it is shared through the medium of evaluation reports.

A 40-hour curriculum has been developed which underscores the importance of a team approach in which training provided by the Center has actively integrated a variety of professional disciplines in problem solving.

Technical assistance has been provided to the field in the areas of public awareness and the development of State central registers.

For the first year of the act's existence only three States were found to be eligible for grant moneys under section 4(b)(1). Last year that number increased to 17. This year we expect that there will be 32 eligible States. Other efforts to help improve the handling of child abuse and neglect cases at the State and local levels include the development of a Model Child Protective Services Act as well as the drafting of Federal Standards on Child Abuse and Neglect, Prevention and Treatment.

In summary, we have initiated a variety of activities which, although still in their early stages of development, provide evidence that headway has been made in addressing the problem of child abuse and neglect.

RUNAWAY YOUTH

Mr. MICHEL. What about the runaway youth program? What kinds of successes can you point to under that program?

Mr. THOMAS. The Office of Youth Development, which was assigned responsibility for the implementation of the Runaway Youth Act in October 1974 has undertaken and completed several major activities to carry out this legislative mandate.

In fiscal year 1975, OYD funded a network of 65 runaway youth projects located in 32 States, Guam, Puerto Rico, and the District of Columbia. These projects provide emergency shelter care, crisis coun-

seling, and after care services, as required, to runaway youth and their families designed to resolve family problems and to reunite youth with their families. Additionally, a grant was awarded for the operation of a National Runaway Switchboard, which served as a vehicle both for facilitating communication between runaway youth and their parents and for referring youth to emergency services.

Approximately 32,000 runaway youth are being served annually by the 65 runaway shelters funded by OYD. The National Runaway Switchboard is also meeting the need for a neutral communication channel for runaway youth, their families, and service resources. In its first year of operation, the National Runaway Switchboard received a total of 15,874 calls from runaway youth and from individuals or agencies seeking assistance on runaway-related matters.

To assist in developing and strengthening the capability of runaway service providers to more effectively plan, deliver, and evaluate programs and services for runaway youth and their families, technical assistance is being provided to grantees and nongrantees by OYD central and regional office staff and by the two OYD contractors. These efforts include training and consultation in areas such as program planning and operations and the implementation of Federal regulation requirements.

To gather more accurate data on the incidence, prevalence, and nature of the runaway youth problem and to determine the areas of the action which are most affected, the Office of Youth Development has awarded a contract to conduct a Comprehensive National Statistical Survey. As mandated by part B of the Runaway Youth Act, the conduct of this survey will provide national data on the age, sex, and socioeconomic background of runaway youth, the places from and to which they run, and the relationship between running away and illegal behavior. The survey is being conducted through a telephone survey of over 60,000 households followed by in-depth interviews with youth who have run away from home and parent, with a matched control group. Additionally, in-depth interviews will be conducted with 400 runaway youth who have not returned home.

In addition to implementing the Runaway Youth Act in fiscal year 1975, the Office of Youth Development continued to chair the Intra-Departmental Committee on Runaway Youth. Established by secretarial directive in September 1974 in response to the Houston tragedy, the six agency members of the committee have undertaken and/or initiated 21 separate activities designed to generate basic information about runaway youth. These initiatives included the conduct of a study to determine the feasibility of compiling national data on the incidence of running away; the development of a compendium of State statutes and of legal interpretations and procedures as they relate to minors, including runaway youth; the conduct of a survey of traditional community agencies to determine the level of services currently being provided to runaway youth and their families; the conduct of a study to determine the need for a national hotline which serves as a vehicle both for facilitating communication between runaway youth and their parents and for referring youth to needed emergency services; and, the support of demonstrations designed to test and evaluate the provision of services to runaway youth and their families.

PROGRAMS FOR THE AGING

Mr. MICHEL. Moving to the programs for the aging, it is my understanding, Dr. Flemming, that your regulations governing the title III program provide that no individual social service activity may be funded for longer than 3 years unless the Commissioner on Aging approves an exception. Is that correct?

Dr. FLEMMING. Yes, Mr. Michel; that is correct.

Mr. MICHEL. Does the law require such a time limit, or was this something you initiated through the regulatory process?

Mr. THOMAS. The act makes no express provision relative to time limits on support of social service activities with title III funds. However, the rule relative to the 3-year limitation was derived from the provisions of the statute and the express congressional intent relative to the overall objective of the title III program.

For example, the act assigns responsibilities for the evaluation of actions taken under State plans to the State agencies on aging and, in addition, responsibilities for the evaluation of programs financed under area plans to the area agencies on aging. This evaluation requirement was linked with the overall objective of title III which was clearly identified in the report which accompanied the 1973 amendments to the act by the Senate Committee on Labor and Public Welfare which states:

> The purpose of concentrating 80 percent of a State's funds in areas in which an area agency on aging is established is to develop an approved plan for a system of comprehensive, coordinated services for older persons is to achieve maximum impact of limited resources. The title III funds will not be sufficient to fund such a system completely, but are intended to be used as an incentive and catalyst. Such funds should be able to draw in increasing commitments from public and private service providers.

In brief, the rule was developed in light of one of the tests of the effectiveness of title III programs relative to the speed with which support for the programs is obtained from other public and private sources.

Mr. MICHEL. I understand you have in the works a revision of this regulation which would allow the States the option of whether to impose this limit. When do you expect this regulation to take effect?

Mr. THOMAS. We intend to issue proposed regulations shortly. Final regulations should be published well before the current rule would have any practical effect; that is October 11, 1976.

MEALS ON WHEELS

Mr. MICHEL. Can title VII funds be used for a separate meals on wheels program, or does such a program have to be part of an overall nutrition program?

Mr. THOMAS. Title VII does not provide for support of independent meals on wheels programs. Home delivered meals may be provided where necessary and feasible but only as part of a larger title VII congregate meals program.

Mr. MICHEL. In lieu of title III funds, could an aging agency use social security title XX funds for a meals on wheels program or a friendly visitors' program?

Mr. THOMAS. Yes; if these services were included in the State social services plan for title XX.

Mr. MICHEL. Would there be any other funds in your agency to fund such programs?

Mr. THOMAS. No, sir, none other than those already mentioned.

AREA PLANNING AND SOCIAL SERVICES

Mr. MICHEL. The 1975 appropriation for the area planning and social services program was $82 million, your 1976 request was $76 million and your 1977 request is $82 million. This looks like a rollercoaster operation. Does it really make sense for us to reduce the funding level for 1976, only to boost it back up again in fiscal year 1977?

Mr. THOMAS. It does appear to be a rollercoaster operation. However, the following circumstances obtained: The President's budget request for fiscal year 1975 of $96 million for title III allotted $15 million for State agency activities, $76 million for area planning and social services, and $5 million for model projects. However, Congress increased the appropriation to $105 million for title III, of which $82 million was allotted to the area planning and social services activity. The President requested a rescission of the additional funds appropriated by Congress in fiscal year 1975 and the fiscal year 1976 budget was formulated and forwarded to Congress during the period of the rescission action. After the rescission was denied, we had committed ourselves to the former pattern of funding, $76 million for area planning and social services. At this time we no longer had the flexibility to redistribute the title III funds to provide added support of area planning and social services for fiscal year 1976. However, in formulating the fiscal year 1977 budget we were able to request $82 million for area planning and social services by redistributing the title III request, which, in effect, closes out the model projects part of title III.

NUTRITION

Mr. MICHEL. You recently announced that the 1976 level of funding for the nutrition program will be increased to the $187.5 million level Congress provided for. How does this affect you 1977 budget request, which provides for $150 million level? Are you going to amend your request?

Mr. THOMAS. If Congress were to annualize the nutrition program in fiscal year 1977 as it did in fiscal year 1976 of $187.5 million, there would have to be additional moneys available to meet that $187.5 million figure. As I mentioned, were Congress to do that, I think the President would be most interested in not having a reduced program.

Mr. MICHEL. Will the decision to fund the program at a $187.5 million level reduce the $62 million you originally planned to carry over into 1977 by $37.5 million?

Mr. THOMAS. Yes, the decision to fund the program at a $187.5 million level will impact on the carryover into fiscal year 1977. The degree of impact of this directive on the 1977 budget is under consideration by the Department. The issue at this time is unresolved as to full or part-year funding in 1976. The decision for fiscal year 1976 will determine the carryover to be either $33,975,000 or $21,475,000.

Mr. MICHEL. How many daily meals will be funded at the $187.5 million level, and how does this compare with the 1975 level?

Mr. THOMAS. The $187.5 million operating level will fund approximately 375,000 meals per day, 5 days a week. In fiscal year 1975, we operated for three quarters of the fiscal year at the $100 million level and initiated implementation of meals delivery rate at the $150 million operating level in the final quarter of the year. We averaged 209,000 meals per day, 5 days a week for fiscal year 1975. We were serving 240,000 daily meals on June 30, 1975, and had estimated serving approximately 300,000 daily meals at the $150 million operating level.

REHABILITATION SERVICES

Mr. MICHEL. Moving to the rehabilitation field, I assume you are familiar with the Rehabilitation Institute of Chicago. They are concerned that they are one of the largest institutes, but are receiving the smallest core grant—$375,000—while smaller centers are receiving grants up to $1.3 million. What would your explanation be for this seeming discrepancy?

Mr. THOMAS. The Northwestern University Research and Training Center was designated in fiscal year 1968, several years after the beginning of the research and training center program in fiscal year 1962. Our long-range plan was to graduate the funding of all of the centers to an equitable level. We were able to do this with the earlier designated centers, but not the later ones because of budgetary constraints.

The overall RSA research budget of $20 million, of which $10.3 million is allocated to the 19 research and training center program, has remained the same for several years. In view of the fiscal problem, and with full recognition of its inadequacies, it was possible to elevate the original developmental grant to the Northwestern University Center from $50,000 in 1968 to at least $375,000 in fiscal year 1975.

Mr. MICHEL. I have a letter here in which they indicate their desire for additional funds. I'd like to have your response for the record.

Mr. THOMAS. The total RSA research budget for fiscal year 1976 has been increased from $20 million to $24 million. We are presently in the process of determining the distribution of this additional $4 million. The fiscal year 1977 budget request limits RSA research to $18 million, a decrease of $6 million from the fiscal year 1976 appropriation level.

POSITIONS FOR ATBCB

Mr. MICHEL. Last year, we had language in our committee report calling for you to allocate $1 million and 20 full-time positions for the Architectural and Transportation Barriers Compliance Board. The work I get is that you are not complying with this directive. Is it true, and if so, why not?

Mr. THOMAS. Last year, the committee suggested that additional manpower and support funds be allocated to ATBCB. In response to the committee's interest and out of our concern and desire to see the Board move ahead in the direction of fulfilling its important mission, we conducted a thorough analysis of all of our available resources and were able to provide four additional positions.

Mr. MICHEL. What are you including in your 1977 budget for the Board?

Mr. THOMAS. Our budget estimates for 1977 includes funds to continue to support 11 permanent full time positions for the Board and $300,000 for contract support.

GAO REPORT ON SOCIAL SECURITY DISABILITY

Mr. MICHEL. There was a report prepared by GAO on the Social Security disability program which indicated that the rehabilitation programs have not been overly successful in rehabilitating the handicapped and placing them in jobs. Do you have any observations in this regard?

Mr. THOMAS. The GAO report did not imply that we were not rehabilitating handicapped people and placing them in jobs, the main criticism had to do with many of the clients in their sample not meeting the special selection criteria, and therefore should not have been provided services from the trust fund. We are in basic agreement with many of the major findings and recommendations given in the report and several corrective actions are now underway to make the program more effective and cost beneficial.

However, we do differ with GAO on certain aspects of their audit. While the GAO sample may have been representative of a significantly large part of the population because they reside in the four States in which the review was conducted—about 23 percent of the Nation's social security disability beneficiaries—it does not provide an adequate sample of agency practices nationally. There are 80 vocational rehabilitation agencies in the Nation that provide VR services to disability beneficiaries. We understand of course that GAO could not make an indepth review in a large number of agencies. Therefore, we do not believe that the sample actually provided national representation. Even though the sample from the four States represented 23 percent of the population, 77 percent reside in other States and territories and are served by the other 76 vocational rehabilitation agencies. RSA and SSA are jointly conducting program administrative reviews (PAR) of the program in all 80 agencies during fiscal year 1975. Our PAR findings from a limited number of agencies—37—at this point in time would indicate that improvements are occurring. Presumably, the improvements are the result of the corrective actions that have already been started. We also believe that since the cases were more recently closed than in the GAO audit, they are more indicative of current agency practices. Cases in our PARs were closed within the 12-month period just prior to the review. Cases in the GAO sample were closed during the period January 1, 1971 to December 31, 1973.

Mr. NATCHER. Mr. Conte.

HEAD START HANDICAPPED ENROLLMENT

Mr. CONTE. Has the proportion of severely or substantially handicapped enrollees in the Head Start program changed since last year?

Mr. THOMAS. At the present time, the Office of Child Development is conducting an extensive survey of services to handicapped children

enrolled in Head Start. This survey deals with the individual handicapping conditions and the data compiled from this survey will be used to comprise the fourth annual report to Congress. The data will be available in October 1976. The survey will specifically deal with the question of enrollment of substantially handicapped children.

Earlier findings, as reported in the June 1975 Third Annual Report to Congress on Services to Handicapped Children in Project Head Start, indicated that a higher proportion of multiple-handicapped children were enrolled in full year Head Start programs in November-December 1974, than in the same period in 1973.

The third annual report further states that in 1974 one out of every four of our handicapped children had multiple handicaps as compared to one out of every five in 1973. In addition, 57 percent of the handicapped children were reported to receive a fair amount or practically constant special assistance. Thus, the enrollment of severely handicapped children in Head Start has increased.

Mr. CONTE. What is the average cost of assisting a handicapped child in Head Start?

Mr. THOMAS. The Office of Child Development estimates that the average cost of providing needed special services to handicapped children in Head Start full-year programs is approximately $1,150 per child over and above the average base cost of $1,352 per child for the normal range of Head Start services provided to all children.

Mr. CONTE. How widely does the cost vary between types of handicaps?

Mr. THOMAS. The costs of serving different types of handicaps vary considerably. The estimated cost of providing additional services for a deaf child is $1,802; for a blind child, $1,628; for an emotionally disturbed child, $620; for a child with impaired hearing, $585; for a child who is visually impaired, $248; and for a child having a speech impairment, $155.

FEDERAL COUNCIL ON AGING

Mr. CONTE. What has the Federal Council on Aging done in the past year?

Dr. FLEMING. On January 16, 1976, the Federal Council on Aging submitted its second annual report to the President which included the following activities during 1975. Studies were completed on: "The Impact of the Tax Structure on the Elderly" which was submitted to the President on December 29, 1975; and "The Interrelationship of Benefit Programs," which was also submitted to the President on December 29, 1976. The Council is in the process of developing recommendations for national policies for a system of care for the frail elderly. During 1975, the Council took policy positions on a number of matters such as appointment of advocates for the elderly on health advisory bodies, coordinated social service planning for the elderly, construction loans for the elderly and handicapped, women and social security, and social security and the decoupling issue. The Council has also directed attention toward the special problems of older women and personnel needs in the field of aging and has drafted a "Bicentennial Charter for Older Americans."

NATIONAL DAY CARE CONSUMER STUDY

Mr. CONTE. What were the results of the "National Day Care Consumer Survey"?

Mr. THOMAS. While the study is not complete, preliminary data indicate that there are approximately 25 million households in the United States with at least one child 13 years old or younger. Although 90 percent of these households report using some form of child care, only about two-thirds use care provided by someone outside the family nucleus. The most frequent external arrangement, used by 35.2 percent of households, is care by a relative in the relative's own home. About 1 in 4 use care in the child's home by a nonrelative. About 1 in 8 of all children receive full-time equivalent care, or 30 or more hours a week. The majority of children receive care so infrequently as to average less than an hour per week. About 40 percent of all households use child care related to the parents employment or education. The most freequent reason for care is so the parent can go out for social reasons. The most satisfying care arrangement, from the parents' viewpoints are those provided by relatives. There is substantial latent demand for nursery-school and day-care-centers care, most often barred by high cost. Care in the child's home is preferred over care in the homes of others. Approximately 55 percent of those using child care pay in cash; the remainder compensate by services or favors or receive free care. Of 10 children receiving care away from the home 9 are transported by family members. About 1 in 4 users of child care would prefer some other method of care if they were able to have any type they wanted. About 45 percent of those wishing to change would prefer day care centers or nursery schools over their current arrangement. Nearly one in three would select care in the child's own home. Only 3 percent would prefer family day care homes.

An overwhelming majority of consumers agree with the need for standards and licensing requirements for child care programs. About one-third would be willing to have their taxes raised in order to support child care activities. Public opinion favors, by about 4 to 1, funding providers rather than making direct cash payments to working parents. The sliding fee scale concept as a measure to handle the costs of child care is widely acepted as desirable.

RSA RECIPIENTS ON WELFARE

Mr. CONTE. Will the proportion of RSA service recipients on welfare remain relatively constant again this year.

Mr. THOMAS. About 19 percent of RSA service recipients are on public assistance. This proportion is anticipated to remain constant for 1976 and 1977.

HEAD START STAFF TRAINING

Mr. CONTE. The justification on page 17 indicates that more than 9,000 local program staff will be trained in Head Start supplementary training. How does this compare to last year?

Mr. THOMAS. During fiscal year 1976 we were able to provide training for approximately 9,500 local Head Start staff.

HEAD START EXPERIMENTAL PROGRAMS

Mr. CONTE. What do your experimental efforts in Home Start Training Centers and Child Care and Family Resource programs hope to accomplish?

Mr. THOMAS. These are two of our experimental demonstration programs. In the Home Start Training Centers we expect to accomplish several things. These include demonstrating methods for providing training and technical assistance to Head Start grantees which have begun or wish to begin a home base option as part of the Head Start program. The training and technical assistance will cover organizations and management of home base options, home visitation, child and family development, and parenting. In addition, these centers will demonstrate the provision of alternative training models which emphasize field-based experience-oriented training. We expect to demonstrate that, with appropriate support, local grantees can develop both training competence and useful training materials which can be used by other Head Start grantees in implementing the home base option.

The Child and Family Resource Center program demonstration provides methods and models for comprehensive services to children from birth to 8 and their families. An important part of CFRP is that the family as a unit is the focus and services are planned on an individual assessment of the needs and strengths of each child and family. This demonstration program is showing that a continuity of comprehensive services can be made available to chldren and their families by the creation of a linked program network which incorporates Head Start and other community-based programs serving children and families. In doing this the CFRP is developing multidisciplined and flexible systems for service delivery based on the premise that no single approach is universally suitable to all low-income children. The knowledge gained from CFRP will be available to Head Start and other programs for children to incorporate in their operation.

REDUCTION IN HEAD-START REQUEST

Mr. CONTE. Why is there a $27,200,000 cut in full-year and summer programs?

Mr. THOMAS. First of all, of the $27,200,000, $7 million was actually appropriated in 1975 with extended availability into 1976. Therefore, the reduction is actually $20,200,000.

On several occasions the President has indicated his desire to hold down Federal spending. It is in the nature and spirit of the President's interest in holding down the Federal budget, while at the same time providing sufficient funds to continue important programs, that we are requesting $434,300,000 for the Head Start programs for fiscal year 1977.

YOUTH DEVELOPMENT

Mr. CONTE. You are requesting $1 million for research and development for the Office of Youth development. What do you hope to learn from this research and how will it be utilized?

Mr. THOMAS. These funds will be used to study the causes of running away, to seek solutions to these serious problems, and to identify the critical needs of young people. The results of this research will enable the Department of refine its approaches in solving the problems of runaway youth, thus making more efficient use of the Federal dollar.

NUTRITION

Mr. CONTE. How much do you propose to spend on title VII, Elderly Nutrition?

Mr. THOMAS. In 1976 we will have an operating level of $187.5 million with an appropriation of $125 million. Support of the $187.5 million operating level will be provided from both fiscal year 1975 and fiscal year 1976 appropriations.

Mr. CONTE. How many meals did you provide in 1976? How many people participated?

Dr. FLEMMING. For the first quarter of fiscal year 1976, States have reported serving an average of 245,000 meals on a daily basis, 5 days a week. Approximately 500,000 persons participated in the program in the first quarter of fiscal year 1976.

Mr. CONTE. Last year you indicated that there was evidence that a number of people who have applied to participate in the title VII program are turned away. Do you have figures on that?

Dr. FLEMMING. No. We do not collect information of this type and, therefore, are unable to give an estimate of the number of people turned away. However, agencies have indicated that, in several areas throughout the country, there are significant numbers of eligible elderly who cannot be served due to the shortage of available places.

Mr. CONTE. What action are you taking to correct this?

Dr. FLEMMING. Since then, Congress has raised the operating level of the program to $187,500,000 annually. I estimate that an additional 125,000 older persons will be served a week, raising the weekly participant total to 625,000.

Mr. CONTE. What is the rates of funds spent on meals as opposed to supportive services?

Dr. FLEMMING. Approximately 5.4 to 1.

EMPHASIS ON HUMAN DEVELOPMENT

Mr. CONTE. What areas of human development do you feel need greater attention?

Mr. THOMAS. Two areas of special concern come to mind. The implementation and development of human services programs in the past have been undertaken in the absence of careful planning and assessment to deetermine precisely the most urgent or priority needs to be addressed. In addition to the lack of careful planning is the absence of appropriate measurement tools to insure that the anticipated or desired impacts are being achieved. As a result of our desire to correct these problems, we are currently engaged in a vigorous effort to establish clear performance standards for all programs within the Office of Human Development. A critical element of our approach

involves the targeting of available discretionary resources in areas such as training, research and demonstration, and technical assistance on problems that preclude the attainment of established performance goals. It is our opinion that human service porviders need a much clearer understanding of what is expected of them and how their performance is to be measured.

The Office of Human Development provides funds to programs which are directed to meeting the social, educational, physiological, emotional, and vocational needs of special and diverse populations. Our programs serve children, youth, the aging, ethnic minorities, the physically and mentally handicaped, the developmentally disabled, and rural populations. We believe that with better planning we will be able to greatly improve the services provided to these segments of our population.

MULTI-PURPOSE SENIOR CENTERS

Mr. ROYBAL. Why has the Administration not requested funds for construction and staffing of multi-purpose senior centers under title V of the Older Americans Act?

Mr. THOMAS. Title I of the Housing and Community Development Act of 1974 authorizes the funding of community development programs. One of the eligible activities which may be included in such programs is the acquisition, construction, reconstruction or installation of senior centers.

Funds may also be available for staffing and delivery of services depending on how a State elects to allocate resources available, under the Comprehensive Employment and Traniing Act, the title IX older Americans act senior community services employment program, and the title XX program of social services to individuals and families.

Title XX of the Social Security Act provides funds for social services that a State elects to fund and includes as part of its State plan for social services. Several States are supporting services provided in senior centers under current title XX programs.

CONCLUDING REMARKS

Mr. NATCHER. Mr. Thomas, we want to thank you and Dr. Flemming and your other associates for appearing before our committee at this time in behalf of your budget request for the fiscal year 1977.

Mr. ADAMS. Just one statement I would like to mention for the record, sir, that in your great State of Kentucky our State VR director, Ben Kaufman, is retiring after a long service this year, and we are very proud of him, and we want you to know that.

Mr. NATCHER. Dr. Adams, I appreciate your mentioning that and certainly I concur with your statement. He is an able man and certainly has rendered real service not only to Kentucky but to the United States.

Thank you, Dr. Adams.

The committee will now adjourn until 2 o'clock Monday.

JUSTIFICATION OF THE BUDGET ESTIMATES

HUMAN DEVELOPMENT

For carrying out, except as otherwise provided, section 426 of the Social Security Act, the Act of April 9, 1912 (42 U.S.C. 191), [Title VII of] the Older Americans Act of 1965, *as amended*, the Child Abuse Prevention and Treatment Act, the [Juvenile Justice and Delinquency Prevention Act of 1974] 1/ *Runaway Youth Act*, 1/ the Community Services Act of 1974, sections 106, 107 and 306 of the Comprehensive Employment and Training Act of 1973, the Rehabilitation Act of 1973, *as amended*, the International Health Research Act of 1960, *the Developmental Disabilities Services and Facilities Construction Act, as amended*, 2/ *the White House Conference on Handicapped Individuals Act*, 3/ [and section 303(a)(2) of the Public Health Service Act,] 4/ [$1,666,928,000], *$1,572,689,000*, of which $720,000,000 shall be *the maximum amount available* 5/ for activities under section 110(a) of the Rehabilitation Act of 1973 [,]; [$309,318 shall be for section 110(b) of such Act, and for carrying out sections 301 and 304(b)(3) of such Act, $1,500,000, to remain available until expended: Provided, that there may be transferred to this appropriation from the appropriation under the heading "Alcholol, drug abuse, and mental health" an amount not to exceed the sum of the allotment adjustment made by the Secretary pursuant to section 202(c) of the Community Mental Health Centers Act;] 6/ *and $30,058,000 shall be for grants under Part C of the Developmental Disabilities Services and Facilities Construction Act, as amended*, 7/ together with not to exceed $600,000 to be transferred from the Federal Disability Insurance Trust Fund and the Federal Old-Age and Survivors Insurance Trust Fund as provided by section 201(g)(1) of the Social Security Act [Provided further, that the level of operations for the nutrition services for the elderly program shall be $187,500,000 per annum] 8/.

[For carrying out the White House Conference on Handicapped Individuals Act, $1,370,000, to remain available until June 30, 1977, and for carrying out the Developmentally Disabled Assistance and Bill of Rights Act, $55,625,000, of which $18,500,000 shall be provided from funds otherwise available for fiscal year 1976 for developmental disabilities service projects.] 9/ *(Supplemental*

Appropriations Act, 1976; additional authorizing legislation to be proposed , or $776,500,000.)

Explanation of Language Changes

1/ Language is included to cite only the specific portion of the Juvenile Justice and Delinquency Prevention Act of 1974 (P.L. 93-415) required to carry on the Runaway Youth program.

2/ This language authorizes programs for the developmentally disabled. This language was not in the conference bill because authority had expired on June 30, 1974 and extension legislation was passed after the Congress had considered that bill.

3/ This language authorizes continuation of the White House Conference. The 1976 budget request was not considered in the regular 1976 appropriation bill due to late transmittal.

4/ This authority for developmental disabilities service projects has been superseded by part D of the Developmental Disabilities Services and Facilities Construction Act.

5/ Language is included to limit the amount of the appropriation for Rehabilitation State grants in 1977.

6/ Language earmarking funds to hold States harmless to the 1973 allotment is not required in 1977, since the $40 million increase over the 1976 level will ensure that no State receives less than its 1973 allotment. Language earmarking funds for construction projects is also deleted since the budget does not propose funding construction projects. Language which authorizes the transfer of construction funds from the Alcohol, Drug Abuse and Mental Health appropriation to the Developmental Disabilities program is also deleted since recent legislative amendments have eliminated authority for that transfer.

7/ Language is included to limit the allotment level to which the States are entitled in the Developmental Disability State Grant program.

8/ Language specifying the program level of the Nutrition program is deleted since specific program levels can be achieved administratively. The 1977 budget proposes continuation of a $150,000,000 program level.

9/ Language from the first Supplemental of 1976 has been deleted.

Language Provision	Explanation
..., of which $720,000,000 shall be the maximum amount available for activities under section 110(a) of the Rehabilitation Act of 1973.	Legislative authority for activities under section 110(a) -- the Basic State Grant program -- expires on June 30, 1976. Extension legislation is proposed which includes an authorization of $720,000,000 for section 110(a).

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Office of Human Development

Human Development

Amounts Available for Obligation

	1976	1977
Appropriation	$1,628,433,318	$1,572,689,000
Enacted supplemental appropriation	38,495,000	---
Subtotal, appropriations	$1,666,928,318	$1,572,689,000
Comparative transfer from:		
"Departmental Management" for personnel and contract services (+ 16 positions)	+258,000	---
Comparative transfer to:		
"Departmental Management" for RSA support staff and regional fire safety operations (+8 positions)	-186,000	---
Subtotal, budget authority	$1,667,000,318*	$1,572,689,000
Unobligated balance, start of year	+11,150,000	+25,000
Unobligated balance, end of year	-25,000	---
Receipts and reimbursements from:		
"Trust funds"	+600,000	+600,000
Total, obligations	$1,678,725,318*	$1,573,314,000

*Totals include $2,000,000 proposed for rescission for developmental disabilities.

Summary of Changes

1976 Estimated Obligations	$1,678,725,318
1977 Estimated Obligations	1,573,314,000
Net Change	-105,411,318

	1976 Base Pos.	1976 Base Amount	Change from Base Pos.	Change from Base Amount
Increases:				
A. Built-in:				
1. Annualization of 1976 pay raise	1,504	$1,070,000	---	$+385,000
2. For 38 man-years lapsed in 1976 which made possible the absorption of a portion of the 1976 pay raise	---	---	---	+851,000
3. Annualization of 8 positions authorized in 1976	8	417,000	---	+139,000
4. Annualization of Costs for positions transferred from Departmental Management	8	72,000	+8	+23,000
5. For mandatory within grade increases	---	---	---	+323,000
6. Rent, Communications and Utilities and Other Services				
a. Rent (SLUC)	---	3,064,000	---	+153,000
b. FTS	---	320,000	---	+120,000
c. Renovations including special equipment installations for the handicapped	---	---	---	+100,000
d. Reimbursements to Department's Working Capital fund	---	2,476,000	---	+224,000
Subtotal	1,504		+8	+2,318,000
B. Program:				
1. Management Information Systems including AoA Titles III & VII Statistical Analysis; RSA Case 300 report; and program reporting systems for the Child Development Head Start program; Native American program data bank; and the Youth Development runaway youth survey	---	625,000	---	+330,000
2. White House Conference on Handicapped Individuals	---	1,370,000	---	+91,000

	1976 Base		Change from Base	
	Pos.	Amount	Pos.	Amount
3. To provide an increase in Contract funds for technical assistance to prime sponsors under sections 106, 107 and 306 of the Comprehensive Employment and Training Act of 1973	---	300,000	---	+200,000
4. Programs for the Aging - Area Planning and Social Services	---	76,000,000	---	+6,000,000
State Agency Activities	---	15,000,000	---	+1,235,000
5. Developmental Disabilities - State grants	---	32,845,000	---	+213,000
Subtotal				+8,069,000
Total increases	1,504		+8	+10,387,000
Decreases:				
A. Built-in:				
1. For one-day less pay in 1977	---	116,000	---	-116,000
B. Program:				
1. Child Development:				
a. Head Start	---	461,500,000	---	-27,200,000
b. Research and Demonstration	---	14,700,000	---	-4,000,000
2. Youth Development:				
a. Runaway Youth	---	7,000,000	---	-2,000,000
3. Programs for the Aging:				
a. Model Projects	---	5,000,000	---	-5,000,000
b. Nutrition	---	125,000,000	---	-37,000,000
c. Research, demonstration and manpower	---	15,000,000	---	-9,235,000
4. Rehabilitation Services and Facilities:				
a. Basic State grants	---	720,309,318	---	-309,318
b. Service Projects				
(1) Innovation and Expansion	---	18,000,000	---	-18,000,000
(2) Special projects	---	9,700,000	---	-700,000
c. Research	---	24,000,000	---	-6,000,000
d. Training	---	22,200,000	---	-2,200,000
5. Developmental Disabilities				
a. Special projects	---	19,232,000	---	-2,915,000
b. University Affiliated Facilities	---	4,373,000	---	-123,000
6. Special Programs for Native Americans	---	33,000,000	---	-1,000,000
Subtotal				-115,682,318
Total decreases				-115,798,318
Net Change	1,504		+8	-105,411,318

Obligations by Activity

Page Ref.	1976 Revised Budget Pos.	1976 Revised Budget Amount	1976 Appropriation Pos.	1976 Appropriation Amount	1977 Estimate Pos.	1977 Estimate Amount	Increase or Decrease Pos.	Increase or Decrease Amount
Child Development:								
a) Head Start.....	---	$ 441,300,000	---	$ 461,500,000	---	$ 434,300,000	---	$ -27,200,000
b) Research & demonstration..	---	14,700,000	---	14,700,000	---	10,700,000	---	-4,000,000
c) Child abuse....	---	18,928,000	---	18,928,000	---	18,928,000	---	---
Youth Development:								
a) Runaway Youth Program.....	---	5,000,000	---	7,000,000	---	5,000,000	---	-2,000,000
b) Research & demonstration..	---	1,000,000	---	1,000,000	---	1,000,000	---	---
Programs for the Aging:								
a) Community Services.....	---	96,000,000	---	96,000,000	---	98,235,000	---	+2,235,000
b) Nutrition.....	---	99,600,000	---	125,000,000	---	88,000,000	---	-37,000,000
(Program level)	---	(150,000,000)	---	(187,500,000)	---	(150,000,000)		(-37,500,000)
c) Research, demonstration & manpower.....	---	7,000,000	---	15,000,000	---	5,765,000	---	-9,235,000
d) Federal Council on Aging.....	---	575,000	---	575,000	---	575,000	---	---
Rehabilitation services and facilities:								
a) Basic State grants.....	---	680,000,000	---	720,309,318	---	720,000,000	---	-309,318
b) Service projects								
1) Innovation and expansion	---	---	---	18,000,000	---	---	---	-18,000,000
2) Deaf-blind Center.....	---	2,100,000	---	2,100,000	---	2,100,000	---	---
3) Special Projects....	---	7,700,000	---	9,700,000	---	8,500,000	---	-1,200,000
4) Training Services and Facility improvements	---	6,900,000	---	6,900,000	---	7,400,000	---	+500,000
c) Research.....	---	20,000,000	---	24,000,000	---	18,000,000	---	-6,000,000
d) Training.....	---	22,200,000	---	22,200,000	---	20,000,000	---	-2,200,000
Grants for the developmentally disabled:								
a) State grants...	---	31,345,000 1/	---	32,845,000	---	33,058,000	---	+213,000
b) Special projects	---	18,732,000 1/	---	19,232,000	---	16,317,000	---	-2,915,000
c) University affiliated facilities.....	---	4,373,000	---	4,373,000	---	4,250,000	---	-123,000
Special Programs for Native Americans	---	32,000,000	---	33,000,000	---	32,000,000	---	-1,000,000
White House Conference for Handicapped Individuals	---	1,370,000	---	1,370,000	---	1,461,000	---	+91,000
Salaries & Expenses	1,504	45,097,000	1,504	44,993,000	1,512	47,725,000	+8	+2,732,000
Total Obligations	1,504	1,555,920,000	1,504	1,678,725,318	1,512	1,573,314,000	+8	-105,411,318

1/ Assumes enactment of proposed rescission of $1,500,000 in the State Grant activity and $500,000 in the Special Projects activity

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Total number of permanent positions	1,504	1,512	+8
Full-time equivalent of all other positions	151	151	---
Average number of all employees	1,584	1,592	+8
Personnel compensation:			
Permanent Positions	$27,928,000	$29,461,000	$ +1,533,000
Positions other than permanent	1,860,000	1,863,000	+3,000
Other personnel compensation	361,000	361,000	---
Subtotal, Personnel Compensation	30,149,000	31,685,000	+1,536,000
Personnel Benefits	2,828,000	2,971,000	+143,000
Travel	2,647,000	3,266,000	+619,000
Transportation of things	75,000	100,000	+25,000
Rent, Communications and Utilities	3,436,000	3,954,000	+518,000
Printing and Reproduction	1,319,000	1,349,000	+30,000
Other Services	3,032,000	3,584,000	+552,000
Project contracts	19,200,000	19,433,000	+233,000
Supplies and materials	760,000	787,000	+27,000
Equipment	612,000	625,000	+13,000
Grants, subsidies and contributions	1,614,667,318	1,505,560,000	-109,107,318
Total obligations by object	1,678,725,318	1,573,314,000	-105,411,318

Significant Items in House and Senate
Appropriations Committee Reports

Item	Action taken or to be taken
1976 Senate Report	
Programs for the Aging	
Nutricion Services for the Elderly	
1. Committee directed that the Department spend the full $200,000,000 for the program in fiscal year 1976 (page 86)	1. In FY 1976 the nutrition program will maintain a $150,000,000 operating level.
Rehabilitation Services and Facilities	
Projects with Industry	
2. Committee directed that out of the amount provided $1,000,000 be allotted to the Projects with Industry program (page 86)	2. During FY 1976 Projects with Industry are being funded at $1,000,000 and the FY 1977 budget request proposes to continue the program at the FY 1976 level.
Special Projects	
3. The committee recommended $9,400,000 for training and facilities grants for construction of rehabilitation facilities in the areas of greatest need. The Committee intended the increase of $2,500,000 to remain available until expended. (page 86-87)	3. Under the Continuing Resolution the increase provided by the Congress was not available.
Research	
4. The Committee urges expanded research efforts, particularly in the area of spinal cord injury and renal disease and that at least $1,000,000 shall be for developing and expanding model projects for spinal cord injury rehabilitation and $250,000 for a model demonstration project in the geater New England area where no such projects presently exists. (page 87).	4. Under the Continuing Resolution funds are not available for new or expanded projects although some new initiatives in the area of spinal cord injury and renal desease are under way.
Native Americans	
5. Funds should be directed toward successful programs such as: continuing the Kenai Native Association's Controlled Environment Project ($1,200,000); the Pyramid Lake Project; the Vejas Campground; the Organization of Forgotten Americans; and the Blackfoot Writing Project. (page 87)	5. Under the Continuing Resolution funds have not been made available for these projects.

1976 House Report Rehabilitation Services and Facilities Rehabilitation Research	
1. The Committee urged that maximum effort be directed toward studies in the areas of end-stage renal disease, spinal cord injuries and other severe handicaps. (page 67)	1. Some new initiatives were undertaken in these areas in 1976 under the amounts provided by the Continuing Resolution.
Programs for the Aging Nutrition Services for the Elderly	
2. The Committee expressed concern about delays in expanding the program to a $150,000,000 operating level as the Congress intended. (page 66).	2. In FY 1976 the nutrition program will maintain a $150,000,000 operating level.

Authorizing Legislation

	Amount Authorized	1977 Budget Request
Human Development:		
1. Child Development		
(a) Head Start (Title V, Part A of the Community Services Act of 1974)	Indefinite	$434,300,000
(b) Research and demonstration (Section 426 of the SSA)	Indefinite	10,700,000
(c) Child abuse (Child Abuse Prevention and Treatment Act)	$25,000,000	18,928,000
2. Youth Development		
(a) Runaway Youth Program (Runaway Youth Act)	10,000,000	5,000,000
(b) Research and demonstration (Section 426 of the SSA)	Indefinite	1,000,000
3. Programs for the Aging		
(a) Community services (Title III of the Older Americans Act)	231,000,000	98,235,000
(b) Nutrition programs (Title VII of the Older Americans Act)	250,000,000	88,000,000
(c) Research, demonstration and manpower (Title IV of the Older Americans Act)	Indefinite	5,765,000
(d) Federal Council on Aging (Title II of the Older Americans Act).	Indefinite	575,000
4. Rehabilitation services and Facilities		
(a) Basic State grants (Section 110 of the Rehabilitation Act)	1/	720,000,000
(b) Special projects (Titles III and IV of the Rehabilitation Act)	1/	18,000,000
(c) Research (Section 201 of the Rehabilitation Act and the International Health Research Act of 1960)	1/	18,000,000
(d) Training (Section 202 of the Rehabilitation Act)	1/	20,000,000
5. Grants for the developmentally Disabled		
(a) State grants (Section 131 of the Developmental Disabilities Services and Facilities Construction Act)	50,000,000	33,058,000
(b) Special Projects (Section 145 of the Developmental Disabilities and Facilities Construction Act)	22,000,000	16,317,000

1/ Authorization expires June 30, 1976. Extension legislation is proposed.

	Amount Authorized	1977 Budget Request
(c) University affiliated facilities (Section 123 of the Developmental Disabilities Services and Facilities Construction Act.....	18,000,000	4,250,000
6. Special programs for Native Americans (Title VIII, of the Community Services Act of 1974.....	Indefinite	32,000,000
7. White House Conference on Handicapped Individuals (Sections 305 and 306 of the White House Conference on Handicapped Individuals Act).....	3,400,000 2/	1,436,000
8. Salaries and expenses.....	Indefinite 3/	47,250,000 3/
Other unfunded authorizations:		
Older Americans Act -		
Section 204 - National Clearing House.....	Indefinite	---
Section 308 - Model Projects....	Indefinite	---
Section 401 - Training.....	Indefinite	---
Section 421 - Multidisciplinary Centers of Gerontology.....	Indefinite	---
Section 505 - Multipurpose Senior Centers.....	Indefinite	---
Section 707(c)(1) - Commodity Program....	Indefinite	---
Developmental Disabilities Services and Facilities Construction Act -		
Section 127 - Construction of University Affiliated Facilities...	3,000,000	---

2/ $3,400,000 is the maximum which can be appropriated for all fiscal years.

3/ Except for $500,000 authorized by the Rehabilitation Act (legislation pending).

Human Development

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1972	$1,107,895,000	$1,211,567,000	$1,235,459,000	$1,227,732,000
1973	1,402,548,000	1,416,377,000	1,551,852,000	1,494,739,000
1974	1,433,939,000	1,435,366,000	1,525,896,000	1,479,481,000
1975	1,471,768,000	1,503,568,000 1/	1,577,488,000 1/	1,614,327,000
1976	1,543,307,000	1,500,049,000 2/	1,528,358,000 2/	---
Supplemental	38,080,000	40,080,000	38,495,000	38,495,000
1977	1,572,689,000			

1/ Grants for the Developmentally Disabled, $41,125,000, not considered by the House or the Senate due to lack of authorizing legislation.

2/ Excludes programs totalling $138,625,000 which were not considered due to lack of authorizing legislation.

Justification

Human Development

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
1. Child development....	$474,928,000	$495,128,000	$463,928,000	$-31,200,000
2. Youth development....	6,000,000	8,000,000	6,000,000	-2,000,000
3. Programs for the aging	203,175,000	236,575,000	192,575,000	-44,000,000
4. Rehabilitation services and facilities.....	738,900,000	803,209,318	776,000,000	-27,209,318
5. Grants for the developmentally disabled	54,450,000	56,450,000*	53,625,000	-2,825,000
6. Special programs for native Americans...	32,000,000	33,000,000	32,000,000	-1,000,000
7. White House conference on handicapped individuals.....	1,370,000	1,370,000*	1,461,000	+91,000
8. Salaries and expenses	45,097,000	44,993,000	47,725,000	+2,732,000
Total obligations....	1,555,920,000	1,678,725,318	1,573,314,000	-105,411,318

General Statement

The Office of Human Development (OHD) provides services to special populations including children, youth, older Americans, the physically and mentally handicapped, the developmentally disabled, and native Americans.

The Child Development program provides for activities and services designed to have a major impact on the development of young children. In 1977, the Child Development program will continue to focus attention on converting Head Start into a more flexible system for delivering services to children and to improve the local capacity to plan and manage children's services.

Youth Development will provide continued support for projects for runaway youth under the Runaway Youth Act and research and demonstrations which directly support youth development activities.

Programs for the aging will continue to pursue the national goal of securing and maintaining independence and dignity in a home environment for older persons capable of self-care with appropriate supportive services. The nutrition program will provide about 290,000 meals per day, 5 days per week.

The rehabilitation program provides services to mentally and physically handicapped people to enable them to prepare for and engage in gainful employment. A wide range of services are provided including counseling, vocational evaluation, work adjustment, medical and physical restoration, vocational training, job placement and post employment services.

Grants for the developmentally disabled are made to States to assist in developing a program of assistance for persons with mental retardation, autism, epilepsy, dyslexia, cerebral palsy and other neurological conditions. Support will also be provided for special projects and university affiliated facilities.

The Native American program applies innovative approaches to deal with the special needs of native Americans to promote their social and economic development. It provides grants to tribes, tribal groupings, Indian communities, Alaskan villages, urban Indian organizations, and native Hawaiians.

*First supplemental for FY 1976 included $37,125,000 for developmental disabilities and $1,370,000 for the White House Conference on Handicapped Individuals. $2,000,000 of the $56,450,000 is proposed for rescission.

1. Child Development

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Head Start.....	$441,300,000	$461,500,000 1/	$434,300,000	$-27,200,000
Research and Development.....	14,700,000	14,700,000	10,700,000	-4,000,000
Child Abuse.....	18,928,000	18,928,000	18,928,000	---
Total obligations..	474,928,000	495,128,000	463,928,000	$-31,200,000

1/ Includes $7,000,000 appropriated in FY 1975 with extended availability through October 31, 1975.

General Statement

The activities of child development are directed at the improvement of child care delivery systems and the design and implementation of programs to improve the quality of life for children and their families. The primary programs are focused on meeting the developmental needs of preschool children from low income families and on developing better services for specific groups of vulnerable children particularly children in need of child care, of adoptive homes or foster care, children who are in institutions or those who are abused or neglected. Child Development also funds research and demonstration activities, which are designed to improve the quality of children's programs and to measure the impact of such programs on children and their families.

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Head Start.....	$441,300,000	$461,500,000	$434,300,000	$-27,200,000

Head Start is a comprehensive preschool program which encompasses a wide range of developmental activities in full year and summer programs and has a particular emphasis on parent involvement. Ten percent of all enrollment opportunities in each State are made available to handicapped children. Technical assistance and training activities are provided to local program staff to enhance the quality and effectiveness of the services offered. Head Start also conducts experimental programs such as the Child and Family Resource Program which is developing and testing methods for delivery of family oriented child development services using linkages with other community resources and the Comprehensive Parent Involvement Program which is developing and testing new methods to strengthen the role of parents of the prime educators of their children. Grants to carry out the Head Start program are awarded to public and private non-profit agencies. The agencies so funded must meet established criteria for receiving Federal funds. Grants to operate Head Start centers provide an 80 percent share and the grantee is required to contribute a 20 percent non-Federal share. Head Start grants are awarded and administered primarily by the regional offices in accordance with national policies.

Accomplishments FY 1976

During FY 1976, approximately 349,000 children were provided Head Start services in Head Start full-year, summer, Parent and Child Center, and experimental programs. Major emphasis during the year were on:

(1) meeting the Congressional mandate by insuring that 10% of all enrollment opportunities are made available for handicapped preschool children; (2) improving the quality of services delivered by all Head Start programs through implementation of Program Performance Standards; and (3) improving and refining administrative and management policies. In addition, there was a continuing effort to assure that Head Start is a flexible system for delivering comprehensive services to children.

OBJECTIVES FOR FY 1977

Full-year and Summer Programs - During FY 1977 Head Start activities will center on continued improvement in the comprehensive services delivered to the 288,000 children in Full Year Programs and the 46,000 children in Summer Programs. These services, in addition to providing a learning experience tailored to the individual child's needs, also provide:

- medical and dental screening and follow-up and health education to children and families
- nutritious meals and nutrition education for children and parents
- social services including emergency assistance and referral
- activities which enhance the parental role as the principal influence in their children's lives and education.

Efforts will be directed to those activities designed to strengthen the administration and management of all local Head Start Programs as well as improved delivery of services through each of the program components. Continuing to improve the quality of service to all handicapped children, who will make up at least 10 percent of total enrollment will be a priority task for the Office of Child Development. Handicapped children will receive the full range of services normally available to all children in Head Start, in addition to the special services tailored to their special needs. In FY 1977 the handicapped program will continue at the FY 1976 operating level of $20,000,000. Incorporation of the results of selected experimental and demonstration projects which can serve to improve the effectiveness of Head Start will be a primary goal during FY 1977.

Parent and Child Centers -- The Parent and Child Centers which serve children age 0-3, will serve approximately 4,000 children and their families during FY 1977. The 33 Parent and Child Centers will provide comprehensive services to very young children from low-income families as well as training in parent skills for their parents, and serve as an important vantage point form which to study the needs and problems of children who will later constitute the Head Start population. The activities of the Parent and Child Centers underscore the importance of very early and formative years in a child's development, and the necessity of preventive action against the debilitating effects of poverty.

Career Development and Technical Assistance -- Training of local program staff members, both in program and management areas in support of improving Head Start performance, will continue to be an important activity during FY 1977. Proper training of new staff and improving the skills of continuing staff, particularly in working with handicapped children and improving program performance where needs are identified as a result of self-assessment in program and administrative areas, will be an important priority. Provision of both training

and technical assistance will, for the most part, be obtained from providers who have the experience and expert knowledge required to raise the skill levels of local program staff to enable them to serve adequately the special needs of this population. All grantees must have available to them quality training and technical assistance in order to operate quality programs.

More than 9,000 local program staff members will be trained in the Head Start Supplementary Training System at an average cost of approximately $466 per trainee. Another example of services made available to grantees is the approximately 50 dental and medical person years provided under this activity to local programs.

Head Start Research and Development - Experimental efforts in 1977 will include six Home Start Training Centers, eleven Child and Family Resource Programs, fourteen projects developing and testing new approaches to serving handicapped children, six Bilingual-Bicultural preschool curriculum development programs, and eight Comprehensive Parent Involvement Programs. The Parent Involvement Programs are developing and testing methods for strengthening the parent's role as the prime educator of their children, primarily through programs of parent education in Child Development. The result of these programs will be made available for incorporation in all Head Start programs.

Summary - The FY-1977 budget request for Head Start programs is $434,300,000, a decrease of $27,200,000 below the FY-1976 obligation level. Of this total, $7,000,000 relates to a reduction in the level available to support the succeeding school year enrollment from FY-1977 funds. Further, one-time support totalling $20,200,000 will be provided to grantees for facility improvement and for enhancing program quality. This support will not be repeated in FY 1977.

	1976 Appropriation	1977 Estimate	Increase or Decrease
Budget Data			
Subactivities:			
a. Full-year and summer.....	$426,416,000	$399,216,000	$-27,200,000
(Handicapped).....	(20,000,000)	(20,000,000)	(---)
b. Head Start R&D.....	6,000,000	6,000,000	---
c. Career development and technical assistance.....	19,150,000	19,150,000	---
d. Evaluation.....	3,000,000	3,000,000	---
e. Parent and Child Centers..	6,934,000	6,934,000	---
Total obligations....	461,500,000	434,300,000	-27,200,000

The following tables reflect Head Start's program data and characteristics:

	FY 1976		FY 1977	
	Number of Children	Average Cost per Child	Number of Children	Average Cost per Child
Program Data				
Full Year Head Start.....	288,000	$1,352	288,000	$1,352
Summer Head Start.....	46,000	226	46,000	226
Head Start R&D.....	11,000	---	11,000	---
Parent and Child Centers....	4,000	1,565	4,000	1,565
Total Children Served.....	349,000	---	349,000	---

Note: The one-time increase of $20,200,000 in FY 1976 was not included in the calculation of the average cost per child. Hence, the average cost per child is the same in FY 1976 and FY 1977.

Program Characteristics

	1977 Estimate
Number of Grants:	
Full-year programs	1,122
Summer programs	200
Parent and child centers	33
Number of Classes:	
Full-year programs	15,920
Summer programs	2,389
Average number of children per class:	
Full-year programs	18
Summer programs	19
Number of professional staff:	
Full-year programs	21,367
Summer programs	3,452
Parent and child centers	430
Number of non-professional staff:	
Full-year programs	35,568
Summer programs	5,765
Parent and child centers	1,000
Number of volunteers:	
Full-year programs	85,000
Summer programs	9,500
Parent and child centers	957
Total adult/child ratio: 1/	
Full-year programs Summer programs Parent and child centers	Average 1 to 5

1/ Adult/child ratio is based on those staff and volunteers that interact directly with the child. Volunteers are calculated on a part-day, part-year intermittent basis.

Research and Demonstration

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Research and Demonstration.....	$14,700,000	$14,700,000	$10,700,000	$-4,000,000

The Research and Demonstration program is funded under Section 426 of the Social Security Act. Financial support is provided for research and demonstration projects in the areas of child welfare, child development and day care. Research or demonstration grants are made to public or other non-profit agencies and organizations engaged in research or child welfare activities. Grantees are required to provide at least five percent of total direct costs.

Accomplishments in FY 1976

Child Welfare Services

- Assisted 16 States to joining and implementing a program under the Interstate Compact for the Placement of Children;
- Developed and disseminated nationwide foster care standards and assisted 20 States with plans for implementation ;
- Assisted 45 States and communities in assessing, planning, developing, and implementing 24-hour emergency service programs;
- Supported a special program for the adoption of handicapped children, resulting in increased numbers of adoptions.

Day Care

The National Day Care Cost-Effects study and the National Day Care Consumer study were continued. The studies are examining the supply of day care as effected by changing regulations and economic conditions.

Child Development and Family Life

Research and demonstration in this area focused on: (1) descriptions and analyses of ways families deal with social circumstances including divorce, remarriage, employment of the mother or family, and unemployment; (2) how families interact with or are treated by social institutions for child development, and (3) how families and institutions work to assure the needs of children are met over the years so that development is continued and not impaired.

Objectives in FY 1977

The budget request of $10,700,000 will allow OCD to continue priority projects in the areas of child development, child welfare, and services to and programs for children. Particular emphasis will continue to be placed on day care, child development and the family and child welfare services.

Child Welfare Services - $4,600,000

Activities focused on Child Welfare Services include:

- Implementation in cooperation with 10 States of system designs for more positive and productive patterns of the delivery of child welfare services. These projects will be funded for three years, with an average cost of $75,000 per grant in FY 1977. The grants will range from $40,000 to $90,000.

- Development and testing of child welfare self-assessment tools for public and voluntary agency self-evaluation.

- Development and dissemination of a child welfare program and information exchange in order to assist public and nonprofit agencies.

- The provision of technical assistance to States around the implementation of:

  --- The Interstate Compact for the Placement of Children.

  --- The development and testing of in-service and professional child welfare training programs.

  --- Modifications of laws and their enforcement which will diminish risks in independent adoptions and will maximize the protection of children, and others involved in the adoption process.

Activities focused on individuals involved with the child welfare system will include:

- The development of programs for the training of foster care workers and parents serving foster care children, including special programs for the foster parents of adolescent and mentally retarded children.

- Continued assistance to States and local agencies in utilizing and adopting:

  --- A model law for freeing children for permanent placement.

  --- The Model State Subsidized Adoption Act and Regulations.

  --- Dissemination and technical assistance to States and localities in the initiation and implementation of 24-hour comprehensive emergency service programs.

Day Care - $2,400,000

The objectives of the research in Day Care are to provide information for policy makers and the continuation of a sequence of activities designed to provide improved delivery of day care services. These will include examining alternative arrangements of networks for providing day care services; financial arrangements for services; supportive mechanisms to assist parents in making decisions and choosing alternative types of day care which will best fit the family's needs; and analysis of information about day care services supplied to assist State, local and Federal governments in making effective use of available services.

Child Development and Family Life - $3.700.000

Research and demonstration projects funded in this area will address problems of child development within different types of families and the implications of these differences for social institutions and services. More specifically the research and demonstration will develop models for helping both families and institutions to change in such ways as to resolve conflicts between family differences and institutional practices. The institutions of particular concern are schools, hospitals, courts and general social service institutions.

Another focus for research and demonstration will be the development of models which recognize the parent as the critical persons in the development of children. These models will demonstrate ways to help parents acquire the knowledge and skills to utilize services over time to assure the continuity of development of their children. These models will be disseminated in such a way as to ensure utilization.

Child Abuse

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Child Abuse.....	$18,928,000	$18,928,000	$18,928,000	---

The Child Abuse and Neglect Prevention and Treatment Program conducts activities under the Child Abuse Prevention and Treatment Act (P.L. 93-247). Operating through the National Center on Child Abuse and Neglect, the program supports demonstration programs and projects which are designed to prevent, identify, and treat child abuse and neglect. The program also supports research into the causes of child abuse and neglect. The Center serves as a catalyst for child abuse and neglect identification, and treatment programs. The center operates a clearinghouse, develops and publishes an annual summary of research: develops and publishes training materials, and provides technical assistance and training. The center also provides grants to States to assist them in developing, strengthening and carrying out child abuse and neglect prevention and treatment programs.

Accomplishments for FY 1976

During Fiscal Year 1976 the National Center on Child Abuse and Neglect developed the following:

- Training curricula and associated materials for the training of professional and paraprofessional personnel in the fields of medicine, law, education, social work, and other relevant fields who are engaged in the prevention, identification and treatment of child abuse and neglect.

- The publication of three related volumes on child abuse and neglect: "An Overview of the Program"; "The Roles and Responsibilities of Professionals"; and "The Community Team: An Approach to Case Management and Prevention."

- The training of 1,700 professional and paraprofessional personnel in the various professional fields engaged in child abuse and neglect programs throughout the Nation.

- Continued support of a 35 demonstration programs in developing and improving services in Child Abuse and Neglect and 6 research projects in the causes of abuse and neglect.

- Grants to improve abuse and neglect services to 20 States currently eligible under the provision of the Act.

Objectives for FY 1977

The budget request of $18,928,000 for Child Abuse and Neglect Prevention and Treatment will assist the National Center on Child Abuse and Neglect to continue to support previously funded activities. These include:

- 12 demonstration centers, conducting a variety of direct service programs necessary for the identification, prevention and treatment of child abuse and neglect, including direct investigation of cases, provision treatment, referral and follow-up services to families. These centers also will conduct public education on child abuse and neglect and operate 24-hour hotlines to receive reports and provide counseling in child abuse cases. The average grant is for $228,000 with a total of $3,035,000 to be obligated in FY 1977.

- 16 resources projects, providing a range of supportive activities to service providers in communities in order to assist them in more effective use of resources to increase the identification, prevention, and treatment of child abuse and neglect. Technical assistance will be provided by these projects to State and local agencies to help them establish or improve child abuse programs. They will also send teams of professionals to handle child abuse and neglect problems in isolated rural areas which lack resources. These 16 projects will be funded at an estimated total cost of $4,370,000, an average of $273,000 for each grant.

- 6 research projects, investigating the causes of child abuse and neglect, the relationship, if any, between drug and alcohol abuse and child abuse and neglect, and developing methods of assessing the effectiveness of child abuse and neglect treatment services. The FY 1977 estimate for these projects is $925,000, an average cost of $126,000 per project.

- Continued support of the program information and research information clearinghouse at an estimated cost of $425,000 in FY 1977.

- Grants to eligible States for the purpose of assisting them in developing, strengthening, and carrying out programs for the prevention and treatment of child abuse and neglect. Section (4)(b)(1) of the Child Abuse Prevention and Treatment Act (P.L. 93-247) provides that not less than 5 percent or more than 20 percent of the funds appropriated under the Act may be used for this purpose. It is anticipated that most States will be eligible in Fiscal Year 1977 and would be entitled to an allotment of $3,786,000. The average State grant will be about $68,000. In order to qualify for these grants, States must meet certain requirements including such provisions as immunity for persons reporting abuse, prompt investigations and action on cases, and confidentiality of records.

- The demonstration of training materials nationwide for professional and paraprofessional personnel in the fields of medicine, law, education, social work, and other relevant fields who are engaged in the prevention, identification and treatment of child abuse and neglect. Approximately $1,000,000 will be expended for 10 projects, each averaging about $100,000.

- The funding of a survey to obtain data on the national incidence and severity of child abuse and neglect, which is estimated to cost up to $1,300,000 in FY 1977.

- 8 Demonstration projects providing a variety of direct services for the identification, treatment and referral of child abuse and neglect for populations with special obstacles to service delivery, i.e. military, Native American and isolated rural children and their families. These 8 projects will be funded at an average cost of $178,000 with total estimated cost of $1,425,000.

- Technical assistance to public and nonprofit private agencies and organizations in the development of central registries, public awareness progwams, assistance to States to become eligible under P.L. 93-247 for State grants, and other activities to strengthen State and local child abuse and neglect services. An estimated amount of $1,600,000 will be obligated during FY 1977. This will provide an average of $145,000 per region and for the Native American and Migrant group.

- Costs related to evaluation projects and dissemination of information is estimated at $1,062,000, including $950,000 for evaluation.

2. Youth Development

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Youth development:				
(a) Runaway youth program...	$5,000,000	$7,000,000	$5,000,000	$-2,000,000
(b) Research and demonstration.....	1,000,000	1,000,000	1,000,000	---
Total obligations.....	6,000,000	8,000,000	6,000,000	-2,000,000

General Statement

Under the authority of the Runaway Youth Act (Title III of P.L. 93-415) the Office of Youth Development awards grants to provide temporary shelter and specialized services essential to meet the immediate emotional, psychological, physical, and social needs of youth who run away.

Programs funded are designed to create safe and secure environments conducive to addressing the crisis situations which precipitated the act of running away. The services provided attempt to reunite youth with their families by encouraging the resolution of intra-family problems through counseling and other services, and to help youth develop the ability to resolve their crisis situations and to decide upon a future course of action. All runaway houses are located in areas frequented by runaways or easily accessible to them. The projects operate apart from the law enforcement and juvenile justice systems. In addition to grants for shelter care, technical assistance is furnished to assist in the development and implementation of runaway facilities and services.

The Research and Development Program authorized by Section 426 of the Social Security Act will continue in FY 1977 at the same operating level as in FY 1976.

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Change
Runaway youth program	$5,000,000	$7,000,000	$5,000,000	$-2,000,000

Accomplishments in FY 1976

In 1976, approximately 76 grants will be awarded to localities and non-profit agencies to establish or strengthen existing or proposed runaway houses, and to locally-controlled facilities providing temporary shelter care and counseling services to those runaway youth at the shelter facility. Technical assistance will be provided to runaway houses to enable them to develop linkages with appropriate youth serving agencies and organizations in the community. A statistical survey will be completed, as mandated in the Act, to define the major characteristics of the runaway youth population and to determine the areas of the Nation most affected.

The following table shows what the $5,000,000 and $7,000,000 funding levels will provide in FY 1976:

	$5,000,000	$7,000,000
Runaway facilities	76	107
Young people served	48,000	67,200
Technical assistance	$200,000	$280,000
Evaluation	$150,000	$210,000

Objectives for FY 1977

FY 1977 funds for the Runaway Youth Program will seek to further enhance the capacity of local projects to meet the needs of runaway youth. It is projected that 76 grants will be continued from the previous fiscal year--based upon the continued demonstration of need for Federal support, having met the legislative requirements and standards and having demonstrated a satisfactory level of performance. It is estimated that these facilities will continue to serve approximately 48,000 youngsters annually.

Technical assistance will continue to be provided by OYD staff to enhance the capacity of local projects to provide effective services to runaway youth; to assist grantees in developing linkages with appropriate youth serving agencies and organizations in their local communities in order to provide the range of services required to effectively focus on the needs and problems of runaway youth and to ameliorate the problems which contribute to their running away; and, to allow for the mutual exchange of information between runaway service providers generated through program experience and evaluative activities through conferences, workshops, and related vehicles.

Evaluation funds will be used to assess the effectiveness of various service components and methodologies for use in formulating program models for wide dissemination.

In summary, the $5,000,000 requested for Runaway Youth projects will enable the Office of Youth Development to continue to fund approximately 76 Runaway facilities serving more than 48,000 young people annually. Of this total, $200,000 is requested for technical assistance and $150,000 for evaluation.

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Research and demonstration..	$1,000,000	$1,000,000	$1,000,000	---

Accomplishments in FY 1976

The research and demonstration program of the Office of Youth Development in 1976 will be focused on the development and utilization of a data base that include a comprehensive analyses of selected youth needs and problems. Additional research and evaluation projects will analyze and evaluate various services to approximately 48,000 runaway youth, and examine critical components of youth development. Collectively these efforts will facilitate and improve the coordinated planning for youth, for the formulation of strategies that will impact on needs and problems identified, and for describing crucial information gaps relevant to youth development.

Objectives for FY 1977

In FY 1977 the Office of Youth Development's Research and Demonstration Program will focus on three specific areas of knowledge development. These areas are discrete but will be interrelated through the utilization of the youth development theory. The specific areas include: (1) Secondary analyses of available data and key studies to identify emerging issues and problems, to determine knowledge gaps and new knowledge relative to youth necessary for establishing both short and long term priorities. The budget allocated to this purpose is $300,000.

(2) The second area of priority is the systematic development of knowledge essential for strengthening State and local services delivery to runaway youth and their families. This information will include aftercare for youth and their families for youth returning home, and alternative care for those unable to do so, as well as identifying and describing diverse normative models of runaway houses and their services. The amount budgeted for this priority is $575,000.

(3) The third area of focus is that of identifying and describing major youth programs supported by the private sector and initiating definition, analysis and description of effective methods for facilitating youth participation and identifying barriers to effective youth participation. Each of these areas of research are strategic to policy and program development at the Federal, State and local levels. The amount budgeted for this initial examination of a crucial area in youth development is $125,000.

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3. Programs for the Aging

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Community Services.....	$ 97,235,000	$ 96,000,000	$ 98,235,000	$+2,235,000
Nutrition Program.....	99,600,000	125,000,000	88,000,000	-37,000,000
(Program Level).....	(150,000,000)	(187,500,000)1/	(150,000,000)	(---)
Research, Demonstration and Manpower....	5,765,000	15,000,000	5,765,000	-9,235,000
Federal Council on Aging.....	575,000	575,000	575,000	---
Total Obligations.....	203,175,000	236,575,000	192,575,000	-44,000,000

General Statement

An appropriation of $192,575,000 is requested for FY 1977 for the purpose of conducting programs for the Aging under the Older Americans Act of 1965, as amended.

The FY 1977 Programs for the Aging continue to place emphasis on assisting State and Area Agencies to develop area comprehensive, coordinated services systems, tailored to the needs of the older persons in State-designated planning areas. They will aim to secure and maintain independence and dignity in a home environment for older persons capable of self-care with appropriate supportive services; and remove individual and social barriers to economic and personal independence for older persons. Particular emphasis will be placed on encouraging the development and provision of services needed by the low income and minority elderly; and the development of services which can prevent or delay institutionalization of the physically and mentally impaired elderly.

Overall budget policy will be to provide the necessary funds for maintaining the Nutrition Program at a $150,000,000 operating level, phase out forward funding for the Nutrition Program, phase out the Model Projects Programs and maintain the State Agency and Area Planning and Social Service program, along with the Research and Demonstration program and the Federal Council on Aging at a continuation level through FY 1977.

Community Services --- State Agency Activity

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
State Agency Activities..	$16,235,000	$ 15,000,000	$16,235,000	$+1,235,000

Federal resources are available through formula grants to each State with an approved State Plan on Aging under Title III to pay up to 75 percent of the cost of the staffing and operating of its designated State Agency on Aging:

- to serve as State Focal points on Aging, providing leadership towards identifying the needs and problems of older people in the State, and mobilizing resources from other State local, public and private agencies to resolve them;

1/ The Conference agreement provides a $187,500,000 program level. However, the Department intends to request a rescission which will reduce the program to $150,000,000 level.

- to provide leadership at the State level to Area Agencies on Aging in their development of comprehensive and coordinated service systems for the elderly, and

- to engage in a continuing process of reassessment of priorities and approaches in terms of progress toward established goals.

Accomplishments in FY 1976

The management capability of the State Agencies was developed and strengthened with added person year support from a level of 950 to 1200 person year provided for the intensified program effort and expanded leadership responsibilities resulting from the increase of Area Agencies to 462 and the transfer of responsibility for the administration of the Title VII Nutrition Program to this Title III activity that occurred in the second half on FY 1974. The FY 1975 level of operation was maintained in the first half of FY 1976, covering the 462 Area Agencies on Aging and the increase in Nutrition projects to 785. State Agency funds support staff in such areas as executive leadership and overall direction of the State plan, public information, grants and fiscal administration, administrative services, coordination, research, computers, field representation, aging, nutrition, home economics, training, model project program administration, and clerical support.

Objectives for FY 1977

The $16,235,000 requested for FY 1977 will provide Title III support for approximately 1,300 person years of effort to State Agency Staffs in their leadership and management role for approximately 462 area agencies and 800 Nutrition Projects.

Community Services -- Area Planning and Social Services

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Area Planning and Social Services.....	$76,000,000	$76,000,000	$82,000,000	$+6,000,000

Area Agencies on Aging receive Federal support to carry out the following responsibilities:

serve as the focal point on aging for a State-designated planning and service area;

develop and carry out an annual plan to:

- identify the needs and problems of older people in the area, establish goals and priorities, mobilize resources from other public and private agencies to meet the needs and problems, and use purchase of service funds strategically to facilitate access to services and fill service gaps;

- provide leadership toward the development of a comprehensive and coordinated service system for the area to assure that the needs of older persons are met, and that resources are used effectively and efficiently; and

- engage in a continuous process of reassessment of priorities and approaches in terms of progress toward established goals.

Federal resources are available through formula grants to States to pay part of the cost of the administration of area plans by Area Agencies on Aging, including the preparation of area plans on aging and the evaluation of activities carried out under such plans; and the development of comprehensive and coordinated

systems for the delivery of social services. Fifteen percent of the State's allotment is available for paying not more than 75 percent of the cost of the development and administration of area plans. The State Agency may use up to 20 percent of its allotment to pay for social services which are provided in planning and service areas for which no area agency has been designated and no area plan has been approved. The Federal share may not exceed 75 percent. The remainder of the allotment is available to the Area Agencies for paying up to 90 percent of the cost of social services provided as a part of the developing comprehensive and coordinated service systems plans approved by the State Agency.

Supporting services include information and referral, transportation escort and outreach services. In FY 1975, States estimated approximately 3,600,000 elderly persons used these services. Gap-filling services such as counseling, health, screening and evaluation, homemaker-home health aides, chore services, friendly visiting, telephone reassurance, protective services, housing assistance, recreation, continuing education, and legal services . States estimate approximately 1,700,000 elderly persons used these services in FY 1975.

Accomplishments in FY 1976

Consolidations by States of some planning and service areas resulted in a 4% reduction in the number (from 612 to 585) in FY 1975. Fifty new Area Agencies on Aging (from 412 to 462) were established due to the increase of funds for Area Planning and Social Services from $68 million in FY 1974 to $82 million in FY 1975. Thus in FY 1976 there has been an increase of 11.5% in the number of planning and service areas in the nation which have a designated Area Agency on Aging and an area plan approved by the State. The increased coverage by area agencies will provide an 80% nationwide coverage of 60 plus population that will continue through FY 1977. Due to this increased coverage by Area Agencies, the Community Projects Grants for areas without approved area plans were reduced from 327 to 287. This will also continue at the same level for FY 1977.

Objectives for FY 1977

This activity will operate at $82,000,000 during FY 1977.
This request will support the coordination and development of services by approximately 462 Area Agencies. It will also support the funding of approximately 287 Community Project Grants by State Agencies in areas without an Area Agency. The average level of funding for Area Agencies of $163,000 and Community Project Grants of $23,000 will continue. A continuing effort will be made through the Title III program to concentrate resources on the needs of low income and minority older persons. In FY 1977 the Area Agencies on Aging will continue to provide so - cial services such as homemaker and other services designed to assist older persons to continue living independently in a home environment, legal and other counseling services and residential repair and renovation programs.

Community Services - Model Projects

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Model Projects.....	$ 5,000,000	$5,000,000	---	$-5,000,000

Federal funds are made available through grants to any public or non-profit private agencies or organizations or through contracts to any agency or organization for paying part or all of the cost of developing or operating national, statewide,

regional, metropolitan area, county, city or community model projects which will improve, expand or increase efficiency and effectiveness of social services or otherwise promote the well-being of older persons.

Accomplishments in FY 1976

In FY 1976, Model Project funds are being used to continue projects begun earlier such as housing pre and post retirement education, and improvement of services for the physically and mentally impaired.

Objectives for FY 1977

The FY 1977 budget proposes to phase out this program. State and Area Agencies have now progressed to the point where they can carry on similar activities at their own discretion under the State and Area Agency levels. This is especially true since the recent legislative amendments now require State plans to concentrate on several priority services including transportation, home services, legal and other counseling services, and residential repair and renovation.

Nutrition Programs

	1976 Revised Estimate	1976 Appropriation	1977 Estimate	Increase or Decrease
Nutrition.....	$99,600,000	$125,000,000	$88,000,000	$-37,000,000
(Program level)..... 1/	(150,000,000)	(187,500,000)	(150,000,000)	(-37,500,000)

The Nutrition Program is designed to provide older Americans with low cost, nutritious meals, served primarily in congregate settings and with supportive social services. Each Title VII project must provide a hot meal at least once per day, five or more days per week. Supportive social services include outreach, transportation, information and referral services, health and welfare counseling, nutrition education, and recreational activities.

Funds under this program are allocated by formula grant to States to pay up to 90% of the cost for the establishment, maintenance, operation, and expansion of low cost meal projects. Funds allocated to States are to be awarded by grant or contract, to public or private non-profit institutions, organizations, agencies, or political sub-divisions of the State which meet the conditions of the Act.

Accomplishment in FY 1976

In FY 1975, $125,000,000 was obligated to the States in order for them to reach a $150,000,000 program level of operation by June 30, 1975. By June 30, States reached a level of operation which supported 685 projects and provided 240,000 meals daily, 5 days per week at 4,400 meal sites. In FY 1976, it is estimated that approximately 785 projects will be funded, supporting about 4,941 sites serving 280,000 to 300,000 meals daily. Continued effort will be made to concentrate Title VII resources on the needs of low income and minority older persons. Special emphasis is also being placed on outreach to those older persons in need living in remote and rural areas and on social services in every nutrition project. In addition, State and Area Agencies on Aging are being strongly encouraged to work out mutually satisfactory agreements with contractors and grantees under Title VII designed to bring about coordination between the

1/ The Conference Agreement provides a $187,500,000 program level in FY 1976. However, the Department intends to request a rescission which will reduce the program to the $150,000,000 level.

providers of services under Title VII and providers of services under Title III and other programs.

Objectives for FY 1977

Forward funding of the Nutrition Program is to be phased out in FY 1977. However, the program level at $150,000,000 is to be maintained by combining $62,000,000 forward funded from prior years with the new appropriation of $88,000,000. This will support approximately 800 projects, serving 280,000 to 300,000 meals daily 5 days per week at approximately 4,980 sites.

The Secretary of Agriculture is authorized to purchase foods to be donated to a recipient of a grant or contract under the Nutrition Program. In FY 1976, the annual programmed level of assistance is not less than 15¢ per meal and 25¢ per meal in FY 1977. This program will result in an increase of approximately 17,000 meals in FY 1976 and 26,000 meals in FY 1977. This program not only increases the number of meals which can be served, but also expands the variety of foods and, due to the extremely high standards of USDA, assists in ensuring the quality of foods available.

In FY 1975, 63 percent of all sites were located in urban areas and 37 percent in rural areas. The breakdown by types of sites was as follows:

church and synagogue	29%
senior center	20%
low rent housing	15%
school	5%
domiciliary	1%
other	30%

Approximately 13% of the meals served were home-delivered.

The average per meal cost for food, labor and other costs related to food-preparation is $1.64. The average cost per meal including transportation, administration, social services and capital expenditures is $2.26.

As of the end of the first quarter of FY 1976 approximately 64% of the participants were in the low income category. It is estimated that there will be 500,000 elderly participating in the nutrition program per week.

Research, Demonstration and Manpower

Research and Demonstration

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Research & Demonstration	$5,765,000	$15,000,000	$ 5,765,000	$-9,235,000

Research and demonstration funds support projects which add to existing knowledge in a wide variety of areas that are critical to the development and improvement of aging programs, and serve as a Federal focal point for coordination of research on aging by Federal agencies.

Under Title IV-B Research and Demonstration project grants are made to any public or non-profit private agency, organization, or institution and contracts with

any agency, organization, or institution or with any individual to carry out Research and Demonstration efforts.

Accomplishments in FY 1976

In FY 1975, AoA sought through its Research and Development Program to develop research activities focused around two principal themes: 1) information critical to effective planning and management of Title III, State and Community Programs on Aging, and Title VII, the Nutrition Program for the Elderly $4,595,000; and 2) knowledge on aging and old age instrumental to achieving the general objectives for older Americans outlined in Title I of the Older Americans Act $2,405,000. This effort of FY 1975 was supported by 68 R&D project grants and contracts, including 27 new grant awards.

In FY 1976, 9 contract awards and some 30 continuation grants are projected for funding support at a level of $3,800,000. The other $3,200,000 was originally planned for new projects for FY 1976. Instead, $1,235,000 will be used to increase the level of support to State Agencies as requested in the FY 1976 Second Supplemental Budget Request. The balance of $1,965,000 will be used for new projects in the priority areas of Aging Processes; Descriptions of the Older American population; Aging Social Structures and Social Change; and Intervention Mechanisms.

Objectives for FY 1977

This project grant activity is to be continued at the $5,765,000 program level. The focus of AoA s Title IV-B program in FY 1977 will be to continue to fund research projects which are designed to provide information needed by State, Area, and local agencies on aging which are charged with the implementation of Title III and VII, and to draw upon other Federal research for information pertinent to the national network of agencies on aging.

The latter activity requires that research planning be closely coordinated with such agencies as the National Institute of Mental Health and the National Institute on Aging.

The AoA research program will concentrate its attention on four areas of particular concern:

Aging Processes - Identification of the changes and conditions experienced by the elderly which are associated with the social and psychological process of aging at an estimated cost of $1,647,000.

Descriptions of the Older Americans Population - Approximately $824,000. will be allocated to identification, description, and enumeration of current elderly populations and subpopulations as well as projections on:

a) population size

b) distributional characteristics and mobility

c) demographic characteristics (e.g. -, age, sex, income, education, living arrangements, etc.) related to target group planning.

Aging, Social Structures and Social Change - Identification, assessment, and interpretation of those social, economic, and environmental conditions which impact on the elderly, particularly the low income and minority elderly. An estimated $1,235,000 will be used for this area.

Intervention Mechanisms - Identification and assessment of those activities, policies, rules, regulations, and programs of agencies and institutions, designed to modify, improve and/or ameliorate the problems and conditions of the elderly. Approximately $2,059,000.

will be spent on this activity.

Continuations in FY 1977 will be approximately $2,500,000 and new awards will be approximately $3,265,000.

Federal Council on Aging

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Federal Council on Aging.....	$575,000	$575,000	$575,000	---

The Federal Council on the Aging was established by Congress in 1973 to advise the President, the Secretary of DHEW, the Commissioner on Aging and the Congress on matters related to the special needs of older Americans. The Act requires the FCA to:

1. Evaluate the impact of Federal policies and programs.
2. Serve as a spokesman for older Americans.
3. Inform the public about the problems of the elderly.
4. Provide public forums, hearings, conferences and workshops to discuss and publicize the problems and needs of older Americans.

Accomplishments in FY 1976

The Federal Council on the Aging (FCA) has been actively involved in the initiation of studies mandated by Congress in Section 205 of the Older American Comprehensive Services Amendments of 1973. The Council has studied and taken positions on a number of major policy issues affecting the elderly. The process has included hearings and seminars. Much of the supportive work for all of these activities has required contract services. In FY 1975 and FY 1976 a study on the "Interrelationships of Benefit Programs for the Elderly" was completed at a cost of $143,420. In FY 1976, $10,450 was used to support a study on "the Impact of the Tax Structure on the Elderly."

Objectives for FY 1977

During FY 1977, the FCA intends to continue such activities requiring contractual assistance as: (1) hearings and studies on manpower needs in the field of aging, (2) measuring the impact of the White House Conference on Aging and (3) initiating new studies and program emphasis in areas such as impact of extension of life technology.

In addition, two new contract efforts will be funded in FY 1977:

1. A study on how Government Benefits and Taxes Impact on the Elderly ($175,000) ; and

2. Policy Studies on the Frail Elderly ($125,000),

Funds authorized for the FCA include $275,000 to cover all personnel compensation benefits and related services for staff of 6 permanent full-time employees, approximately 2 person years for temporary staff and 18 experts and council members. $300,000 will be used for contract efforts for the council.

4. Rehabilitation Services and Facilities

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Basic State grants.....	$680,000,000	$720,309,318	$720,000,000	$ -309,318
Service projects:				
Innovation and expansion grants.....	-	18,000,000	-	-18,000,000
Training services and facility improvement....	6,900,000	6,900,000	7,400,000	+500,000
National deaf/blind center	2,100,000	2,100,000	2,100,000	-
Special projects.....	7,700,000	9,700,000	8,500,000	-1,200,000
Research.....	20,000,000	24,000,000	18,000,000	-6,000,000
Training.....	22,200,000	22,200,000	20,000,000	-2,200,000
Total obligations.....	$738,900,000	$803,209,318	$776,000,000	$-27,209,318

An amount of $776,000,000 is being requested for Fiscal Year 1977 to provide services authorized under the Rehabilitation Act of 1973 as amended, to prepare physically and mentally handicapped persons for gainful employment and for research and training in the rehabilitation field. Any realistic vocational goal may be pursued, based upon a thorough evaluation of the individual's potentials and with his concurrence.

There are two major goals established to best achieve this mission. The first goal is to provide quality vocational rehabilitation service to eligible handicapped individuals, with priority given to the severely handicapped, leading to maximum participation in gainful employment. The second goal is to increase the capacity of rehabilitation programs to meet the needs of handicapped individuals through national leadership and the development and utilization of tools, resources, and new knowledge.

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Basic State grants.....	$680,000,000	$720,309,318	$720,000,000	$-309,318

The function of the Rehabilitation Services Administration is to provide national leadership, direction and financial resources to State rehabilitation agencies and to public and voluntary agencies to stimulate and administer programs leading to maximum participation by handicapped persons in their gainful employment.

State agencies will continue to provide priority to the severely disabled. The long range goal is to increase the percentage of severely handicapped individuals to 50 percent and through improved services achieve quality rehabilitations.

The funds requested for the basic support program for FY 1977, with those planned under the Social Security Act ($92,332,000 under the Beneficiary Rehabilitation Program and $48,933,000 under the Supplemental Security Income Program) will enable the States to serve 1,652,000 handicapped individuals and rehabilitate 361,700. The 361,700 will include 151,300 severely handicapped individuals, or 42% of the total.

In the administration of the programs, increased attention will be directed toward improvement of operational efficiency and effectiveness of the program, with strong emphasis being given to placement of the severely handicapped in gainful employment.

A summation of available funds is:

	1975	1976	1977
Total Federal Resources			
Basic State Grants	$680,000,000	$720,309,318	$720,000,000
SSDI program (trust funds)	83,206,485	102,591,510	92,332,000
SSI program	49,020,760	54,370,000	48,933,000
Sub-total	$812,227,245	$877,270,828	$861,265,000
Total State Resources	$170,000,000	$180,000,000	$180,000,000

Accomplishments, Fiscal Year 1975-76

The Rehabilitation Act of 1973, as amended, mandates that priority services be given to the severely handicapped. In compliance with this mandate, the national rehabilitation program was forced to undergo some major changes and during fiscal year 1975 went through a transitional period.

Rehabilitations for Fiscal Year 1975 were 324,039 (including 115,746 or 36% severely handicapped persons), a decrease from estimates made prior to the start of the fiscal year. Several factors account for this decline: (1) the average time required to rehabilitate a severely handicapped person is approximately 2 to 3 months longer than for a non-severely handicapped individual; (2) the current economic posture of the country has made placement of handicapped persons (particularly those with severe handicaps) especially difficult; and (3) continuing increased costs in all segments of program activity has restricted the number of persons able to be served.

During Fiscal Year 1976 an estimated 335,400 handicapped persons (including 129,400 or 39%, severely handicapped persons) will be rehabilitated.

Objectives, Fiscal Year 1977

Program activity in Fiscal Year 1977 will be directed toward overall improvement in management with heavy emphasis and priority placed on rehabilitation of the severely handicapped. It is estimated that the States will serve approximately 1,652,000 individuals of which over 50% will be severely disabled. This is the first time in the history of the program that more severely disabled will be served than non-severely disabled. An estimated 361,700 handicapped persons will be rehabilitated including 151,300 (42%) severely handicapped.

Number of Handicapped Individuals Served and Rehabilitated (Actual and Planned) by Program and Fiscal Years

I. Rehabilitations	1976 Revised Budget		1976 Appropriation		1977	
Severely Disabled						
Section 110	106,000		106,000		128,600	
Trust Fund	15,400		15,400		15,200	
SSI (Title XVI)	8,000		8,000		7,500	
Total	129,400	(36%)	129,400	(39%)	151,300	(42%)
Non-Severely Disabled						
Section 110	206,000	(64%)	206,000	(39%)	210,400	(58%)
Grant Total	335,400	(100%)	335,400	(100%)	361,700	(100%)
II. Served						
Severely Disabled						
Section 110	606,000		624,000		650,000	
Trust Fund	124,000		124,000		112,000	
SSI	95,500		95,500		81,000	
Total	825,500	(38.2%)	843,500	(46.1%)	843,000	(51.0%)
Non-Severely Disabled						
Section 110	964,000	(61.8%)	982,000	(53.9%)	809,000	(49.0%)
Grant Total	1,789,000	(100%)	1,825,500	(100%)	1,652,000	(100%)

Service Projects

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Innovation and expansion..	$ -	$17,000,000	$ -	$-17,000,000
Comprehensive Needs Study.	-	1,000,000	-	-1,000,000
Client Assistance projects	240,000	240,000	1,000,000	+760,000
Training Services and Facility Improvement....	6,900,000	6,900,000	7,400,000	+500,000
Projects with Industry....	475,000	950,000	839,000	-111,000
Migratory workers projects	170,000	195,000	450,000	+255,000
Technical assistance.....	170,000	170,000	252,000	+82,000
National Center for Deaf/ Blind Youths & Adults...	2,100,000	2,100,000	2,100,000	-
Evaluation.....	1,000,000	1,000,000	2,500,000	+1,500,000
Special projects for severely disabled.....	2,345,000	2,345,000	3,459,000	+1,114,000
Construction of facilities	3,300,000	4,800,000	-	-4,800,000
Total obligations....	$16,700,000	$36,700,000	$18,000,000	$-18,700,000

Rehabilitation Service Projects provide the resource for specialized programs, services, studies and activities over and above those possible under the Basic State Grants program. Programs and estimated appropriations are stated above. Grants and contracts are authorized to be made to States and public or nonprofit organizations and agencies to pay part of the cost of approved projects.

In 1977 we are requesting $18,000,000 for Service Projects which is $18,700,000 below the FY 1976 obligation level. This is due to $18,000,000 reduction in Innovation and expansion grants and the Comprehensive needs study, and a $4,800,000 non-recurring amount for construction of facilities. These decreases are offset by increases in other projects, primarily in Evaluation and Special projects for the severely disabled.

Client Assistance Projects

Twelve new projects and 7 continuation projects will be funded in FY 1977. Preliminary impact studies of these pilot projects indicate that both clients and agency administrators are appreciative of this ombudsman approach to service delivery problems. It is anticipated that 5 additional States will initiate pilot projects and 7 current States will wish to broaden their client assistance project experience with new projects elsewhere in their States.

An average of 335 clients receive services from a project during 1 year. Impact is measured by a variety of outcomes such as changes or adjustments in the service delivery system; changes in attitude about services which will be provided to individuals; resolutions of complaints; and better inter-agency understanding of available services.

Projects are usually staffed by 3-5 professionals with 1 or 2 clerical support personnel. Volunteers, graduate students, and other social agency professionals collaborate in outreach and interaction for VR clients or client-applicants within defined project areas.

Training Services and Facility Improvement

Vocational Training Services Grants - Section 302(b) are designed to train severely disabled individuals in specific occupational skills within a rehabilitation facility. Among the services provided are: work evaluation, work testing and specific job training. Vocational training services include provision of occupational tools and equipment and weekly training allowances.

During 1977, $5,000,000 of the $7,400,000 for these two programs will be used to fund approximately 40 Vocational Training Services projects serving 4,000 severely handicapped individuals in 56 different types of skill training in over 225 courses.

Facility Improvement Grants - Section 302(c) are made to nonprofit rehabilitation facilities for a maximum of three years to enable them to improve their management effectiveness and services. Funds are used primarily for the addition of professional and technical staff and the purchase of specialized equipment.

In addition to the 40 Vocational Training Services projects, $2,400,000 will be used to fund approximately 55 Facility Improvement grants. These grants have enabled sheltered workshops to improve their technical competence to perform contracts and to upgrade their professional services in order to serve as a resource for the state vocational rehabilitation agencies.

Changing program emphasis in the Vocational Training Services grant program to serve the more severely disabled at a higher per client cost will absorb part of the $500,000 increase over the 1976 budget. However, the bulk of the $500,000 increase will be used to support and continue projects of national significance such as the recently created National Industries for the Severely Handicapped which is the agency that assists sheltered workshops for the severely handicapped other than the blind to participate in the Wagner O'Day program of government contract awards.

Projects With Industry

In 1977, 12 projects will be in operation serving a total of 2,000 clients of which 1,500 will be placed in employment into competitive industry. Half of these projects will be new starts and the remainder will be continuations. The continuous 75% placement rate is due to the following factors:

a. Training provided by private industry is compatible with the needs and requirements of the job market;

b. Training environment within industry develops more career opportunities for the handicapped;

c. Rehabilitation costs are significantly reduced by the addition of private industry as an active partner in the training and placement of the handicapped.

The estimates for projects with industry will be reduced by $111,000 in FY 1977 to meet minimum legislative requirements for client assistance projects under Section 304.

Migratory Workers Projects

Projects for migratory agricultural workers and seasonal farmworkers provide leadership, technical assistance and financial support to stimulate and expand vocational rehabilitation services for these workers in cooperation with State rehabilitation agencies. Such workers, (Blacks, Chicanos, Puerto Ricans, Native Americans), are the most underserved and vulnerable minority group in the nation, and have an incidence of disabling conditions estimated at three times that of the general population in the U. S.

Technical Assistance

Technical Assistance has provided skilled professional consultant services on a short-term basis to rehabilitation facilities for the past several years. Any part of the operation of a rehabilitation facility is eligible for consultation from administration through program and production. More than 300 experts are available on a personal service contract to provide consultative services either as an individual or as part of a team when requested by a rehabilitation facility. The average consultation is of 3 days duration.

In 1977, 250 consultations will be made on a variety of subject including safety, accounting and advice on the removal of architectural barriers. The increase in consultations in 1977 is due to the extension of this program to the removal of architectural barriers, as well as the increased demand for consultation associated with the addition of Wagner O'Day subcontracts to workshops where advice is urgently needed to raise the production capacity and quality to meet the standards required.

National Center for Deaf/Blind Youths and Adults

As specified in the original legislation the National Center for Deaf/Blind Youths and Adults has three major responsibilities: (1) to provide a full range of training services for the most severely disabled and disadvantaged deaf/blind persons in the Nation; (2) to train workers employed by State agencies and local facilities to communicate with deaf/blind persons and their families and thus provide counseling services to these persons as required; and (3) to conduct extensive research to develop training techniques, innovative social services, and special communicative devices to be used by deaf/blind persons as aids to employment.

Extensive efforts are currently underway to develop an accurate register of deaf/blind individuals in the country. Preliminary estimates indicate that there are approximately 15,000 deaf/blind children, youths and adults. Of the 10,000 who are of an age which would make them eligible for vocational rehabilitation services, many have additional severe disabilities which would make training for employment or for independent living difficult, if not impossible. A more accurate projection of those who can profit from the services either at the National Center or local rehabilitation facilities is 5,000 to 7,000.

The Center will be fully operational this year. With the estimated budget of $2,100,000, it is expected that the Center will provide rehabilitative and vocational training services for at least 150 deaf/blind clients at the facility during FY 1976, and will serve in excess of 500 deaf/blind clients throughout the Nation during the first year of full operation, and approximately 700 each year thereafter.

Evaluation

The Rehabilitation Act of 1973, as amended, includes the requirement to "measure and evaluate the impact of all programs authorized by the Act, in order to determine their effectiveness in achieving stated goals in general, and in relation to their cost, their impact on related programs, and their structure and mechanisms for delivery of services..."

The basic purpose of program evaluation in RSA is to: (a) provide a systematic approach for studying the impact, effectiveness, and efficiency of State agency operations; (b) use information gained from evaluations for the purpose of policy planning and program management; (c) develop a process of technical assistance to State agencies found to be deficient in service delivery operations; and (d) provide an opportunity for increasing the capacity of States to conduct evaluations of their own operations.

RSA evaluation activities in FY 1975 and 1976 examined: the extent to which benefits from participation are derived, client satisfaction achieved, and results sustained; use of resources and the extent of the eligible population of handicapped individuals; the development of evaluation instruments to be used for on-going evaluations of critical aspects of the program, such as the development and refinement of the General Standards, modules for evaluating specific program components, and the evaluation of specially mandated projects.

The Rehabilitation Act of 1973 has been in force for almost three years. During this time numerous studies have been conducted by the HEW Audit Agency, by RSA and the Office of the Assistant Secretary for Planning and Evaluation, and

by State Agencies themselves. The results of these investigations, in addition to identifying many desirable achievements of the VR Program, have isolated various programmatic and administrative issues which require in depth analysis in order to improve the quality of VR services. In order to enable these problems to be addressed promptly and thoroughly, evaluation activities of the VR program are being increased by $1,500,000 in FY 1977.

The promulgation by June 30, 1974, of General Standards for the Evaluation of Programs and Projects was required in the Rehabilitation Act of 1973. On December 19, 1975, a final set of standards was published as regulations in the Federal Register. These standards consist of indicators which suggest the impact, effectiveness, efficiency and quality of the VR program. However, to insure that these indicators thoroughly reflect those program facets which are the prime targets of the enabling legislation, it is necessary to revise and expand the standards, as appropriate, over time. Such revisions will require the development of theoretical approaches for the measurement of issues of concern, as well as the design and conduct of field tests to assess the feasibility of implementing new data requirements and/or collection techniques. Further, the effects upon program performance of the implementation of such standards should be assessed.

The second focus for activities will be on the evaluation of elements of the Federal program and projects. A thorough understanding of the contribution of these elements to the effectiveness of the Federal coordination and administration of the VR Program is required to achieve improved program performance. Candidate topics which may be addressed include a study of the nature and effectiveness of communications between State and Federal operations, evaluations of the RSA long and/or short-term training programs, assessment of the RSA management information and/or evaluation utilization system, and examination of the available opportunities for and occurrence of consumer involvement in the VR planning and service delivery processes.

The development of evaluation techniques and methodologies is required to support the work in the first two areas. Central questions to be addressed include the development of more sensitive measures of non-employment related benefits derived from program participation, and the development of a more complete information system for recording the extent of these various types of gains actually realized by clients.

Though the performance of centrally coordinated evaluation studies can yield valuable insights into program behavior, much of the actual change in program performance will depend upon the capabilities of the State program staff. Therefore, a comprehensive program to facilitate the interchange and dissemination of program evaluation methodologies and results is planned. Further, a central clearinghouse for evaluation information will be maintained.

Finally, there exists a continuing need to assess the size and the characteristics of the VR target population. Such information is essential to enable effective planning to meet the needs of the potential VR program clientele.

Special Projects for the Severely Handicapped

Section 304(b)(1) of the Rehabilitation Act authorizes grants to expand or improve rehabilitation services for severely handicapped groups, and cites the spinal-cord injured, the older blind, and the deaf who have been unable to achieve their maximum vocational potential as included among the target populations that projects under this authority are intended to serve. In FY 1976, eight projects for the older blind are expected to achieve approximately 60 rehabilitations, and seven projects for the underachieving deaf about 30 rehabilitations. Five Regional Spinal Cord Injury Systems were transferred from the Research and Demonstration to the Section 304(b)(1) authority in FY 1976, and rehabilitated an estimated 100 individuals in that year.

In FY 1977, two new projects for the older blind will be initiated, and three for the underachieving deaf, at an approximate cost of $466,000. It is expected that the six active projects for the blind will achieve 80 rehabilitations, and the eight projects for the deaf 80 rehabilitations. An additional five Regional Spinal Cord Injury Systems are scheduled for transfer from R & D to Section 304(b)(1) support in FY 1977 at an estimated cost of $1.1 million, and are expected to rehabilitate approximately 100 individuals.

Additional expansion is planned for the severely-handicapped mentally ill, primarily psychotic and psychoneurotic individuals. The mentally ill have been selected as an appropriate target, because of (1) the magnitude of need among this population; (2) the fact that rehabilitations for this group have remained at a virtual plateau for the past seven years; and (3) the projects should assist the cooperative NIMH-RSA effort in developing Community Support resources for the mentally ill. These three projects will cost approximately $280,000, and will serve about 120 mentally ill individuals, rehabilitating approximately 30 of them in FY 1977.

Research

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Research.....	$20,000,000	$24,000,000	$18,000,000	$-6,000,000

The Rehabilitation Act of 1973, as amended, places emphasis on services to those with the most severe handicaps and directs and authorizes a research program to develop new and innovative methods of applying the most advanced medical technology, scientific achievement, and psychological and social knowledge to make this emphasis a reality. Thus, rehabilitation research is goal oriented and is constantly working to improve those linkages between the service provider, the professional worker, and the researcher so that improvements may be incorporated into the service delivery system as quickly as possible.

A wide range of activities are provided for--investigations into the nature of disability and restorative techniques, studies and analyses of various factors affecting rehabilitation, homebound and institutionalized, and architectural and engineering design adapted to special needs of the disabled--to increase knowledge and improve methods in rehabilitation. In addition, certain "institutional" programs are provided: research and training centers, rehabilitation engineering centers, spinal cord injury research, end-stage renal disease research, and international research. One-quarter of appropriated funds are devoted to the rehabilitation engineering program in keeping with the provisions of Section 201(a)(1).

The budget request for FY 1977 is $18 million, a reduction of $6 million below the FY 1976 appropriation level. In FY 1976 a number of new initiatives were started, including demonstrations in the area of end-stage renal diseases, spinal cord rehabilitation and international activities. The FY 1977 request will provide for continuation of only the highest priority projects initiated in FY 1976 and prior years, including demonstrations mandated by Section 130 of the Rehabilitation Act, i.e., the Comprehensive Needs Study. The average grant in FY 1976 was $160,000, with a range from $5,000 to $750,000. The average Research and Training Center grant was $544,000, with a range from $250,000 to $1.3 million.

In the medical rehabilitation area, research in 1977 will continue to focus on improving vocational rehabilitation (VR) services to the severely handicapped. Special emphasis will be on cardiovascular disease, neurological disabilities and the spinal cord injured.

The rehabilitation engineering program will continue at a lower level to make technological advancements in several areas leading toward VR. Examples of this area include: (1) work on a new active seat cushion that relieves pressure; (2) a neuromuscular assist device which assists stroke patients to overcome drop-foot paralysis; (3) an early seizure warning system for epileptics; (4) a floatation bed which shows great potential in preventing tissue breakdown of patients; and (5) the evaluation of promising electronic equipment which permits voice control of machines and other devices by individuals with severe speech disabilities.

In FY 1976, Rehabilitation Engineering projects accounted for approximately $6.2 million, as required by the legislation. Grants are made to Rehabilitation Engineering Centers located in University Medical Schools, hospitals, and special Research Organizations such as the National Academy Science and some Research and Training Centers. Grants range from $14,000 to $750,000. The average size is $400,000. Such grants are usually for five years, based on satisfactory progress.

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Projects in psycho-social rehabilitation research are designed to evaluate the effect of family acceptance and involvement in the treatment of persons with spinal cord injuries, and to examine outcome measures of services. These projects are leading to a series of rehabilitation indicators which will be useful in assessing client status at every key point in the VR process.

The Research and Training Centers Program is an integrated, coordinated program of research, training and services which closes the "loop" from discovery of new knowledge to improved services to the severely disabled through the medium of training programs for rehabilitation personnel and direct clinical application to individuals. The number of these Centers over the past several years has remained the same. There are currently 19 Research and Training Centers. The average grant is for $544,000. The grant period is 5 years, based on satisfactory progress.

New knowledge to meet program goals continues to flow from Research and Training Centers. Examples of accomplishments include: placement of 24 clients, functionally classified as quadriplegics, in information handling jobs where 21 of them are working 40 hours per week and earning salaries ranging from $5,000 to $30,000 annually, a transportation project, studying ways and means of bringing the severely disabled persons from their homes to their places of work, which can be replicated in any part of the country, thus solving one of the most difficult problems in the vocational rehabilitation of the severely disabled; projects involving the stimulation of paralyzed muscles electrically (Functional Electrical Stimulation) as part of the overall plan in the area of rehabilitation engineering, techniques which, once perfected, can be utilized in helping stroke victims make use of their paralyzed limbs.

Training

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Long-term training.....	$20,325,000	$20,325,000	$18,185,000	$-2,140,000
Short-term training.....	1,750,000	1,750,000	1,750,000	-
Research fellowship.....	125,000	125,000	65,000	-60,000
Total.....	$22,200,000	$22,200,000	$20,000,000	$-2,200,000

Rehabilitation training grants are made to increase the number of rehabilitation personnel qualified to provide vocational rehabilitation services to handicapped individuals, especially those with the most severe handicaps and to improve and maintain the skills of employed rehabilitation personnel. Included are: (1) long-term training grants which provide institutional and traineeship support in a broad range of rehabilitation disciplines and areas of professional practice; (2) experimental or innovative training projects designed to train new types of rehabilitation manpower or develop innovative training methodologies; (3) short-term training courses related to technical aspects of vocational rehabilitation service delivery; (4) in-service training grants for the staff development of State vocational rehabilitation agency employees; and (5) continuing education programs to upgrade the skills of new and experienced rehabilitation workers in both the public and private rehabilitation sectors. Approximately 12,000 persons were assisted under the program during the 1975-1976 academic year.

The rehabilitation training program will emphasize the training of State vocational rehabilitation agency personnel and other employed rehabilitation workers in FY 1977. Priority attention will be directed to training activities directly supporting the service objectives of the State vocational rehabilitation agencies.

On the basis of State vocational rehabilitation agency program and financial planning and U. S. Department of Labor estimates, it is evident that there continues to be manpower needs in those professional fields which contribute to the vocational rehabilitation of the disabled. Rehabilitation long-term training grants during the 1976-1977 academic year will continue to assist institutions of higher education to establish and develop instructional programs in the rehabilitation professions. Federal training grant support of faculty and instructional costs will be gradually reduced, however, after the initial establishment of the instructional programs has been completed and the institutions of higher education have developed financial resources necessary to ensure program continuity.

Rehabilitation long-term training grants will be directed towards the training of professional workers with skills in working with special disability groups, such as the blind and the deaf, and will also be used to develop experimental and innovative training approaches which could point the way to improved training programs in the future.

Support for students enrolled in training programs at the undergraduate level will be gradually phased out as other support becomes available from other aid programs. No new traineeships will be awarded to undergraduate students under the rehabilitation training program in FY 1977 but traineeship support will be available to those continuing undergraduate students who were previously awarded traineeships.

The level of support of training in each rehabilitation discipline and the awarding of research fellowships will take into consideration the extent to which alternative Federal training assistance may be available.

The $5,500,000 in interim period funds will augment $20,000,000 in FY 1977 funds for support of training projects in the 1976-1977 academic year. A tentative distribution of funds for the period from July 1, 1976 through June 30, 1977 follows:

	FY 1977	Academic Year 76-77	
	Amount	Amount	Estimated No. Trainees
LONG-TERM TRAINING			
Rehabilitation Counseling	$ 5,200,000	$ 7,525,000	1,700
Rehabilitation of the Blind	615,000	725,000	90
Rehabilitation of the Deaf	965,000	1,100,000	185
Rehabilitation of the Mentally Ill	150,000	175,000	160
Rehabilitation Facilities Administration	1,195,000	1,350,000	615
Vocational Evaluation	340,000	400,000	365
Rehabilitation Social Work	125,000	150,000	35
Undergraduate Education for Rehabilitation Services	700,000	800,000	225 1/
Rehabilitation Psychology	110,000	125,000	20
Rehabilitation Medicine	2,050,000	3,550,000	350
Rehabilitation Nursing	60,000	75,000	10
Occupational Therapy	475,000	550,000	110 1/
Physical Therapy	565,000	650,000	135 1/
Prosthetics-Orthotics	675,000	925,000	850
Speech Pathology and Audiology	1,225,000	1,400,000	250
Therapeutic Recreation	60,000	75,000	25
Other	225,000	350,000	160
TOTAL LONG-TERM TRAINING	$14,735,000	$19,925,000	5,285
EXPERIMENTAL AND INNOVATIVE TRAINING	400,000	500,000	90
STAFF DEVELOPMENT AND TRAINING FOR EMPLOYED REHABILITATION WORKERS			
Rehabilitation Continuing Education Programs	550,000	750,000	685
State VR Agency In-Service Training	2,500,000	2,500,000	2/
Short-Term Training	1,750,000	1,750,000	3,180
RESEARCH FELLOWSHIPS	65,000	75,000	10
GRAND TOTAL	$20,000,000	$25,500,000 3/	9,250

1/ Number of students supported greatly reduced to reflect consideration of other sources of support for pre-baccalaureate students.

2/ State vocational rehabilitation agency in-service training grants make staff development resources available to all state agency employees and do not include individual traineeships.

3/ Includes $5,500,000 from the interim period.

5. Developmental Disabilities

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
State grants.....	$31,345,000	$32,845,000	$33,058,000	+213,000
Special projects.....	18,732,000	19,232,000	16,317,000	-2,915,000
University affiliated facilities.....	4,373,000	4,373,000	4,250,000	-123,000
Total Obligation.	54,450,000	56,450,000	53,625,000	-2,825,000

General Statement

Public Law 94-103, the Developmentally Disabled Assistance and Bill of Rights Act, was signed into law on October 4, 1975. This Act revised and extended the Developmental Disabilities Services and Facilities Construction Act. The 1977 estimate takes into consideration the changes which have been included in the new legislation.

Developmental disabilities are disabilities such as mental retardation, cerebral palsy, epilepsy, autism, dyslexia, and other neurological conditions, which originate in childhood, continue indefinitely, and constitute a substantial handicap to the affected individual. There are over six million people in the United States suffering from mental retardation and several million more suffering from other developmental disabilities. These individuals need support and assistance with learning and living so that they may function in our society. Through the programs administered by the Developmental Disabilities Office, these individuals receive necessary assistance to aid in achieving their maximum potential.

The Developmental Disabilities Office was established as a separate component of the Office of Human Development on August 21, 1975. This new Office has three basic purposes: 1) to improve the planning capacity at the State and local levels to effectively utilize all of their resources currently available to aid the developmentally disabled; 2) to serve as a catalyst to stimulate the expansion of services for developmentally disabled persons at the State and local levels; and 3) to establish an integrated network within which services at the State and local levels will be coordinated. These goals will be achieved through four grant mechanisms--formula grants to States and territories; project grants for demonstrations, training, and other special purposes; State formula grants for personal advocacy systems; and grants for the support of university affiliated facilities.

State Grants

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Formula grants.....	$30,760,000	$30,760,000	$30,058,000	-702,000 1/
Advocacy grants.....	---	1,500,000	3,000,000	+1,500,000
Projects of national significance.....	585,000	585,000	---	-585,000
Total obligations...	31,345,000	32,845,000	33,058,000	+213,000

1/ Decrease due to construction funds obligated in 1976 from prior year appropriations.

Formula grants are awarded to strengthen existing services to persons with developmental disabilities by providing financial assistance to designated State agencies through State planning councils. In order to receive Federal assistance under the Act, States are required to submit an approved State plan that sets forth priorities, policies and procedures for the expenditure of funds. On the basis of the plan, funds are allocated to support planning, administrative costs, construction of facilities, and delivery of services through both non-profit private and public agencies serving persons with developmental disabilities.

The formula is derived from State population, per capita income, and the number of individuals in the State receiving Social Security benefits under the Adults Disabled in Childhood program. Each factor has equal weight. There is a minimum allotment of $150,000 for each State, the District of Columbia, and Puerto Rico, and a minimum allotment of $50,000 for each territory.

One of the major thrusts of the formula grant program is the development of a comprehensive plan for delivery of services. The plan must include all the developmental disabilities to be served and must provide for technical assistance to poverty areas. This planning is a continuing process reaching all levels for adequate administration of the program as well as delivery of services. Services are those specialized services or special adaptations of basic services directed toward the alleviation of a developmental disability or toward the social, personal, physical, or economic habilitation of an individual affected by such a disability. These services include diagnosis; evaluation; treatment; personal care; day care; domiciliary care; special living arrangements; training; education; sheltered employment; recreation; counselling; protective and other social and socio-legal services; information and referral; follow-along; and transportation.

Accomplishments in 1976

In fiscal year 1976, State expenditures for services were made in all designated agencies under the program reaching some 48,000 developmentally disabled persons. Most programs developed were comprehensive combinations of inter-agency programs with emphasis on day care. The objective is to complete the systematic implementation of the State plans with respect to improving the quality of residential care and deinstitutionalization, with increasing emphasis on institutional reform. This includes the development of a comprehensive array of community-based generic and specialized services, and community living arrangements to enable institutionalized developmentally disabled persons to return to the community and to avert new institutionalization.

Distribution of Funds

	Estimate 1976	Estimate 1977
Planning	$ 4,872,045	$ 3,780,248
Administration	2,971,412	2,305,536
Services	18,926,023	14,684,810
Construction	314,086	385,676
*Deinstitutionalization	2,974,387	8,901,683
Total	30,057,953	30,057,953

*This is a new requirement in the law which states that 10% of the total allotment to a State must be utilized for developing and implementing plans designed to eliminate institutionalization in 1976 and 30% in 1977.

Objectives for 1977

The amount requested in 1977 for formula grants is the same as the 1976 request. Formula grants are based on the adjustments to the formula for both the increase in minimum allotments and any changes in the other elements comprising the formula.

A new program of personal advocacy is being established. The new Act mandates this program to assist the States in establishing a system to protect and advocate the rights of persons with developmental disabilities. This advocacy system must be instituted by the States in order to receive allotments under the formula grant program. Funds are distributed based on the formula used for State grants with a minimum allotment of $20,000.

Funds provided to the States in fiscal year 1976 made possible the determination as to the most advantageous location and structure of the Protection and Advocacy Service System. In FY 1977, the full authorization of $3,000,000 will be made available to the States and territories. This will enable them to meet the October 1977 deadline required by the new Act to have such a system in operation.

Projects of national significance are now a part of the Special Projects activity. In 1976, one project was supported under the ten percent set-aside for projects of national significance contained in the formula grant authorization of the revised Developmental Disabilities Act, Public Law 91-517. This project was funded prior to the enactment of the new legislation, Public Law 94-103.

Service Projects

	1976 Revised Budget	Appropriation	1977 Estimate	Increase or Decrease
Project grants.....	$13,631,850	$13,631,850	$11,460,565	$-2,171,285
Projects of national significance.....	4,543,900	4,543,900	3,820,185	-723,715
Program evaluation and special studies.....	556,250	1,056,250	1,036,250	-20,000
Total Obligations....	18,732,000	19,232,000	16,317,000	-2,915,000

Public Law 94-103, the Developmentally Disabled Assistance and Bill of Rights Act, authorized grants for special projects to public or nonprofit private entities for: 1) demonstrations for establishing programs or expanding or improving services to developmentally disabled persons; 2) public awareness and education programs; 3) coordinating and using all available community resources, 4) demonstrations for providing services to disadvantaged persons with developmental disabilities; 5) provision of technical assistance; 6) training of specialized personnel; 7) development of new or improved techniques for providing services; 8) gathering and disseminating information; and 9) improving the quality of service delivery and the administration of such service programs. Not less than 25% of the funds available for these special projects is to be used for projects of national significance.

Accomplishments in 1976

In 1976, under the new Act, continuations of rehabilitation service projects and hospital improvement projects are being refunded within the Special Project authority. These projects have been continued under this authority because of their relationship to the deinstitutionalization goal as well as complying with the criteria included above. In 1976, about 213 projects will be supported, at an average grant level of $60,000.

Objectives for 1977

In 1977, the $11,460,565 will support about 191 project grants averaging about $60,000. Of this total approximately 107 grants will be for continuations and 84 grants will support new projects. The new projects will emphasize the deinstitutionalization of developmentally disabled clients and the improvement

of management and planning capabilities of State Advisory Councils. This is in keeping with the thrust of the recent legislation.

Projects of National Significance

Grants for projects of national significance are designed to assist States and nonprofit organizations in developing and implementing a comprehensive effort to extend and improve programs serving developmentally disabled persons. The areas of immediate importance are: 1) developing a national data collection system to identify individuals receiving services in various States, track these individuals on a longitudinal basis, evaluate progress, assess service effectiveness, and conduct cost effectiveness and cost benefit analyses; 2) developing and demonstrating client advocacy program models that can be replicated in other States; 3) providing technical assistance to State Advisory Councils in the areas of information and public awareness, program development, organizational development, program planning and evaluation, and resources development; and 4) establishing community alternatives and institutional reform by identifying and researching issues involved in securing the rights of the handicapped, providing legislative and legal assistance, and developing and implementing organizational controls and delivery systems for the purpose of effectively and efficiently insuring the attainment of legal rights of handicapped persons.

There will be approximately eight continuations of projects of national significance and five new projects. Of these thirteen projects, three will be in the area of developing a national data collection system; three on developing and demonstrating client advocacy models; four for providing technical assistance to State Advisory Councils; and three in the area of establishing community alternatives and institutional reform.

Special Studies and Evaluation

Included in this Special Projects activity are the special studies mandated by the new law. Contracts for the initiation of the three mandated studies are to be awarded in 1976. These studies are:

1. The development of a comprehensive system for the evaluation of services provided to developmentally disabled persons. This is a two-year study, at the conclusion of which, each State must make assurances that they have implemented this evaluation system within the State plan required for formula grants.

2. The review and evaluation of the standards and quality assurance mechanisms applicable to residential facilities and community agencies. This eighteen month study will include the development of recommendations for standards to assure individual rights and compliance with the evaluation system and the development and recommendation for any required changes in Federal law and regulations.

3. A report is to be made on the conditions of persons to be included as developmentally disabled eligible to receive assistance under this Act. The final report is to include the basis of the definition of the developmental disabilities; the determination of an appropriate basis for deciding which disabilities should be included and which should be excluded; and the nature and adequacy of services provided under other Federal programs.

These three studies are required to assure full conformance to the new Act. The evaluation systems are to be implemented by the States as a condition to receive assistance under the Act and the States must provide assurances that such systems are in place. The standards study will assist in assuring the rights of developmentally disabled persons to receive quality care and the criteria for measuring and evaluating the developmental progress of such persons.

Additional efforts will include the collection and analysis of nationwide data on trends in the quality, extent and scope of services to the developmentally disabled, the development of methods and procedures for assessing the effectiveness of State Developmental Disabilities Councils and the design of a cooperative interagency evaluation of the university affiliated facilities programs.

Funding for these studies is as follows:

	1976	1977
Evaluation system.....	$300,000	$250,000
Standards review.....	200,000	150,000
Definitions.....	-	100,000
Total.....	500,000	500,000

University Affiliated Facilities

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Change
Grants.....	$4,373,000	$4,373,000	$4,250,000	$-123,000 1/

1/ Decrease due to construction funds obligated on 1976 from prior year appropriation.

Grants are made to university affiliated facilities to assist in meeting the costs of administering and operating these demonstration facilities and supporting interdisciplinary training programs for personnel needed to render specialized services.

This comprehensive and interdisciplinary training assists in updating skills for a broad range of professional and paraprofessional persons working with the developmentally disabled. The facilities are located at or affiliated with leading colleges and universities throughout the country. A key mission of university affiliated facilities is to develop model systems incorporating a full range of services such as screening, evaluation, treatment planning, and educational programming. Through these facilities, the needs of mentally retarded and other developmentally disabled persons can be approached and met on the basis of the entire individual--his or her capabilities and talents as well as handicaps. Through training of professionals and paraprofessionals sensitive to and knowledgeable about the full scope of problems confronting each individual, a major step forward is being made in the habilitation of these persons.

In 1977, about thirty-seven university affiliated facilities will continue to receive partial core support for demonstration facilities and comprehensive interdisciplinary training. This support includes demonstration of individual and group services, new techniques and concepts in services, research and training related to those services, as well as overhead expenses. Approximately 16,600 post-graduate and graduate students receive short-term, non degree oriented training each year. Most of these trainees remain in community based facilities serving the developmentally disabled.

In 1977, the program will be strengthened by funding new facilities which provide a broader range of exemplary services, include all ages for such services, provide a greater emphasis on community outreach services, as well as other specialized programs. Facilities will be located on a more equitable geographical basis so that they are more accessible to the developmentally disabled of all ages.

6. Special Programs for Native Americans

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Special Programs for Native Americans.....	$32,000,000	$33,000,000	$32,000,000	$-1,000,000

General Statement

The Office of Native American Programs (ONAP) was established in 1973 through the transfer of the Office of Economic Opportunity Indian Division and the HEW Indian Desk into the Office of Human Development, to provide Departmental focus for concern for Indians and Alaskan Natives with primary responsibilities (1) to develop policy, legislative guidance and advice to the Secretary (2) to administer a grant program to eligible Indian groups and tribes, and (3) to provide liaison with other Federal agencies on Indians affairs. P.L. 93-644, the Community Services Act of 1974, authorized the extension of the Native American Program in Title VIII, "The Native American Program Act of 1974."

The purpose of Title VIII is to promote the goal of economic and social self-sufficiency for Native Americans while recognizing the special and complex relationship existing between the Federal Government and Indian people and the issues and conditions unique to this vulnerable target group. The Act allows for direct funding of Native American tribes and organizations which include Federally recognized tribes, state reservation tribes, Alaskan regional corporations and villages, organizations serving Native Hawaiians, urban Indian organizations, coalitions of Indian tribes, and historical Indian communities. Grants are based on 80 percent Federal share and 20 percent non-Federal share.

Programs are planned and operated by the grantee, based on the community priorities, although final approval for all funding documents rests with the Office of Native American Programs. Review of the grantee programs is made in order to ensure that grantee utilizes awarded funds in line with the mission and goals of the Native American Program.

Grants are made directly to Native American governing bodies for the purposes of (1) strengthening tribal governments to enable them to effectively manage and utilize available resources; (2) support for establishment and operation of urban Indian centers serving Native Americans living off-reservations; (3) support of a wide range of services to meet community economic development efforts; (4) funding to encourage self-help and community development efforts; and (5) development and implementation of information sharing systems. Assistance is provided through grants and contracts to tribal organizations or other public and private non-profit agencies. Basic grants to reservations are based on the number of residents; those grants to urban Indian centers are based on service population of 1,000 or more Native Americans in the large metropolitan areas (in-city population only). Funds are used for both program staff (to operate the community programs) and the delivery of supplies and services within the programs.

The long-range goal for the Native American program is (1) to develop the capacity of Native Americans and organizations to focus on planning as the basic method to improve resource allocations and effectiveness of services in Native American communities; (2) to achieve the development of the necessary social and economic infrastructure in Native American communities to increase self-sufficiency, and (3) to eliminate, the most critical gaps in the range of social and human development services necessary for self-sufficiency. The objectives for this goal are to develop a basic planning capacity, an ability to implement

decisions and the support necessary to promote self-sufficiency based on priori .es established by Native American communities, through effective planning and management systems. Currently, direct funding to grantees provides services which are available to over one-half of the approximately one million eligible Native Americans in the United States. Grants are provided to 275 tribes, Alaskan villages, as well as 59 urban organizations located in 37 States and one Hawaiian organization.

ACCOMPLISHMENTS IN FY 1976

Reservation Programs - In FY 1976, 92 tribal grantees were funded on 154 reservations. These grantees represented approximately 275 tribal groups and a service population of 415,000. The funds were used by tribal governing entities to plan and administer programs for direct service delivery to their community residents and to attract additional resources from local, state and Federal funding agencies. Grants range from $30,000 to $5,200,000 with the average grant being $125,000.

The following tables show potential service population and service coverage:

Potential Service Population:

American Indians	1,000,000
Alaskan Natives	61,026
Hawaiian Natives	71,000 - 170,000 1/

ONAP Service Coverage - FY 1976

	Service Population	Funding-ONAP
Federally Recognized Tribes	306,098	$16,058,935
State Reservations	4,065	190,000
Historically Recognized Tribes	31,224	310,000
Coalitions of Tribes	100,147	4,622,650
Alaskan Villages	61,026	273,415
Hawaiian Natives	71,000 - 170,000	200,000
Totals -	573,560	21,655,000 2/

1/ Estimated population until planning grant determines eligibility for service coverage. 1970 census also shows an estimated 14,000 native Hawaiians residing in California.

2/ Excludes $1,000,000 not available under the Continuing Resolution.

Urban Programs - The 1976 budget of $4,445,000 provided for 59 urban Indian centers, including establishment of two new centers, designed to provide coverage to a service population of approximately 156,500 off-reservation Native Americans. These grants ranged from $30,000 to $200,000 with the average being $80,000. The purpose for this assistance is to aid governing boards of Indian organizations to develop outreach and linkage systems with local, state, and Federal resource and service providers in large metropolitan areas. A planning grant of $200,000 was provided to Native Hawaiians to (1) identify the target population; (2) identify eligible Native Hawaiian organizations; and (3) establish the planning procedures necessary to address priority needs.

Training and Technical Assistance - In FY 1976, $3,500,000 will be used to address specific planning and management needs of the Native American grantees. Five contracts for technical assistance were awarded to provide 35 person days grantee for all current ONAP grantees. Several general training contracts were

awarded to provide all ONAP grantees with management by objectives training and training in financial management principles. One specific contract awarded was for concentrated management training to 10 selected tribes as a pilot project. An agreement with Civil Service Commission provided a regional pilot program for training ONAP grantees in personnel policies and procedures.

Research and Evaluation - In FY 1976 ONAP developed the R&E strategies for accomplishing the goals of the ONAP program. The four general strategies were:

(a) To increase the planning capability of Native American communities, ($335,000)
(b) To operationally define the nature of social/economic infrastructure and self-sufficiency in Native American communities, ($550,000)
(c) To identify and eliminate gaps in services to Native Americans, ($725,000)
(d) To build an adequate Native American data base and develop target group planning in Native American communities. ($764,000)

OBJECTIVES FOR 1977

The 1977 objectives are (1) concentrated management development training to at least 20 governing entities; (2) facilitate the redirection and prioritization of funds for planning and management by at least fifty percent (50%) of grantees served (3) develop a basic planning and needs assessment capacity in seventy-five percent (75%) of grantees served and (4) develop a self-evaluation capability in seventy-five percent (75%) of grantees served. The Office of Native American Programs will continue to support 92 tribal grantee organizations and 59 urban Indian centers.

Two general strategies will be pursued for research and evaluation in FY 1977. The first will include the use of research, surveys and data gathering in FY 1976, to design demonstration and pilot programs to test different and common approaches to management and planning, given the variety of conditions and situations in which Native American communities find themselves. The second general strategy will include identifying grantees, exemplary tribes, urban centers and communities that have developed planning and coordination approaches which have increased their ability to receive and deliver a wider range of services.

The results of these efforts will be carefully evaluated and made available to other grantees facing similar problems and conditions.

Specific projects initiated under the above strategies, within the $2,400,000 programmed, were as follows:

I.	Community Development Planning	$300,000
II.	Fostering Self Sufficiency and Self Determination	600,000
III.	Reducing Gaps in Services	700,000
IV.	Target Group Population Identification	800,000

Various contracts were awarded in the areas of planning assessments, evaluations and research within the four specified projects.

In summary, the FY 1977 budget request of $32,000,000 is a $1,000,000 decrease from the FY 1976 appropriation. This decrease relates to the one-time funding of projects in FY 1976.

7. White House Conference on Handicapped Individuals

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Change
White House Conference	$1,370,000	$1,370,000	$1,461,000	$+91,000

Public Law 93-516, signed by the President on December 7, 1974 authorized the President to call, within two years of the date of enactment, a White House Conference on Handicapped Individuals in order to develop recommendations and stimulate a national assessment of problems, and solutions of such problems, facing individuals with handicaps. In accordance with law, the conference is to be planned and conducted under the direction of the National Planning and Advisory Council, to be appointed by the Secretary of HEW, and each Federal Department and agency is mandated to provide such cooperation and assistance to the Council, including the assignment of personnel, as may reasonably be required by the Secretary. The sum of $2,000,000 is authorized to be appropriated to finance the conference plus not to exceed $25,000 may be appropriated for the individual States to enable them to organize and conduct State conferences prior to the White House Conference on Handicapped Individuals.

In FY 1976, $2,955,000 was requested for holding the White House Conference. This request covered all costs of the conference in 1976, the Transition Quarter, and 1977. However, in the first 1976 supplemental, the Congress appropriated funds sufficient to cover only obligations during 1976 and the Transition Quarter. Thus, it is necessary to revise the original request and request funds to cover obligations which will be incurred in 1977.

The conference can be broken down into three general phases:

Phase 1 - Planning. July, 1975 - January, 1976

During this phase the National Planning and Advisory Council will be selected, conference staff will be identified and acquired. Prior to the regional planning meetings and State conferences, the Advisory Council will develop a list of potential major topics to be addressed at the Conference. The topics advanced by the Council will be used as a basis for the State conference agenda. In addition technical advisory groups of highly specialized individuals will have to be assembled and organized to prepare technical papers for the use of the Conference.

Regional planning meetings will be arranged and conducted for the purpose of initiating State conferences. These regional planning conferences will serve to provide information to the Conference staff regarding the intended timing, duration, subject matter, technical assistance requirements, funding, etc. of the State conferences. The States will also be given information on the technical assistance available to them from National Conference staff. These planning conferences will be held in the ten HEW regional areas and last from one to three days. The final part of the planning stage will be awarding of the State grants.

Phase II - State and National Conference May, 1976 - December 1976

During this period the National Planning and Advisory Council and the Conference staff will be providing technical assistance to the States in the Planning and implementation of the State conferences, gathering information and recommendations from the State conferences, and using these results as a basis for planning the National conference.

Technical assistance will be provided to the States in two ways. First, background material will be supplied, upon request to the States on subject matter relevant to their conferences. Secondly, technical expertise will be made available to the States by the Conference staff. The White House Conference staff will analyze, collate and disseminate information resulting from these State conference and prepare packages to be sent to delegates one month prior to the National Conference. The National Conference will last four days, and will be composed of approximately 1,000 delegates. All expenses of official State delegates will be paid by the Federal government, as will those of required escorts and Advisory Council members.

In 1976 $980,000 was appropriated for grants for holding State conferences. This level was determined by computing the average of the range of $10,000 to $25,000 per State authorized by section 305(c) of the statute. The amount to be awarded to each State is based on the formula for State grants in the Vocational Rehabilitation program, as prescribed in section 110(a) of the Rehabilitation Act of 1973. That formula takes into account the population and per capita income of each State, and should provide an equitable distribution of funds to all States.

Phase III - Final Report and Close out January 1977 - August 1977

At the conclusion of the National Conference, the Conference staff, in conjunction with the National Planning and Advisory Council, will begin summarizing the proceedings of the Conference. A detailed report of the Conference, including findings and recommendations, will be prepared by the Conference staff and submitted to the President within 120 days after the close of the Conference.

The National Planning and Advisory Council and the Secretary will transmit to Congress and the President their recommendations for administrative action and legislation necessary to implement the recommendations contained in the report. The National Planning and Advisory Council will be dissolved 120 days after the submission of the report. The Conference staff upon completion of all of the administrative tasks necessary to close out the Conference will return to their respective agencies.

The following table provides object class data for FY 1976, the Transition Quarter and FY 1977:

Summary by Object Class and Fiscal Year
(in thousands)

		FY-1976	Transition Quarter	FY-1977	Total
11	Personnel compensation.....	105	42	108	255
12	Benefits.....	5	2	5	12
21	Travel.....	90	45	699	834
22	Transportation of things.....	10	5	35	50
23	Rent, etc.....	---	---	110	110
24	Printing and reproduction.....	90	10	110	210

Summary by Object Class and Fiscal Year - Continued
(in thousands)

		FY-1976	Transition Quarter	FY-1977	Total
25	Other services	65	35	347	447
26	Supplies and materials	10	5	27	42
31	Equipment	15	5	20	40
41	Grants	980	---	---	980
	Total obligations	1,370 1/	149	1,461	2,980 1/

1/ Includes $25,000 appropriated in 1975 for support of the Conference.

8. Salaries and Expenses

	1976 Revised Budget	1976 Appropriation	1977 Estimate	Increase or Decrease
Personnel compensation and benefits.....	$32,861,000	$32,757,000	$34,298,000	$+1,541,000
Other services.....	12,236,000	12,236,000	13,427,000	+1,191,000
Total obligations.....	45,097,000	44,993,000	47,725,000	+2,732,000
(Positions).....	(1,504)	(1,504)	(1,512)	(+8)

General Statement

The Office of Human Development is responsible for the Federal administration of programs for children, youth, the aged, the handicapped, and native Americans through the Office of Child Development, Office of Youth Development, Administration on Aging, Rehabilitation Services Administration, the Developmental Disabilities Office and the Office of Native American Programs. In addition, the Office of Human Development contains a number of smaller, special-purpose offices with a variety of objectives aimed at a better quality of life for the vulnerable segments of the nation's population. These are the Office of Rural Development, the President's Committee on Mental Retardation, the Office for Handicapped Individuals, the Architectural and Transportation Barriers Compliance Board, the Offices of Manpower, Veterans and Volunteer programs.

The Office of Human Development also provides executive direction and policy guidance; develops program standards, guidelines and regulations, interprets regulations, procedures and policies; and provides technical assistance to grantees--local, State and non-profit organizations--who are involved in the planning and delivery of human development programs and services. Funds within this account support special project contracts for carrying out Congressional mandates for the Office for Handicapped Individuals (Sec. 405 of the Rehabilitation Act); the Architectural and Transportation Barriers Compliance Board (Sec. 502 of the Rehabilitation Act); and the Office of Manpower projects with prime sponsors (Sec. 106, 107, and 306 of the Comprehensive Employment and Training Act). In addition funds support other special efforts such as the National Clearinghouse on Aging, the National Center for Child Abuse Prevention, Treatment and Neglect, the Children's Bureau, etc. The Office of Administration and Management, within the Office of Human Development, administers the salaries and expenses account and provides the administrative services necessary to sustain the major programs and offices above, including provision of sound budget and fiscal management practices to insure that Federal funds are spent in an expedient and prudent manner to benefit all of our most vulnerable populations--children, youth, the aged and the handicapped.

Accomplishments in FY 1976

In 1976 OHD began an expanded operation with a full complement of programs for children, youth, the aged, the handicapped and Native Americans. A White House Conference on Handicapped Individuals was initiated, and enactment of new legislation on Aging and the Developmentally Disabled was implemented. During the latter months of 1975 and early months of FY 1976 personnel and the administrative authority for the Rehabilitation Services Administration was transferred from the Social and Rehabilitation Service to the Office of Human Development. Subsequent to this transfer, an independent Developmental Disabilities Office was established to provide full visibility and accountability for those programs within OHD.

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At the same time, personnel and contracts offices were established within th Office of Administration and Management with operational authority and personnel (a net transfer of 8 permanent full-time positions) transferred from the Departmental Management's Working Capital Fund.

Objectives for FY 1977

The $47,725,000 requested for FY-1977 will support 1,584 man-years of effort (includes other than full-time permanent). This is a net increase of $2,732,000 over the 1976 comparable level. An explanation of the changes which will impact on OHD in 1977 follows:

Explanation of Changes	1976 Base Pos.	1976 Base Amount	Change from Base Pos.	Change from Base Amount
Increases				
A. Built-in:				
1. Annualization of 1976 pay raise	1,504	1,070,000	---	$+385,000
2. For 38 man-years lapsed in 1976 which made possible the absorption of a portion of the 1976 pay raise	---	---	---	+851,000
3. Annualization of 8 positions authorized in 1976	8	417,000	---	+139,000
4. Annualization of costs for positions transferred from Departmental management	8	72,000	+8	+23,000
5. For mandatory within grade increases	---	---	---	+323,000
6. Rent, Communications and Utilities and other services:				
a. Rent (SLUC)	---	3,064,000	---	+153,000
b. FTS	---	320,000	---	+120,000
c. Rennovations including equipment installations for the handicapped	---	---	---	+100,000
d. Reimbursement to Department's Working Capital Fund	---	2,476,000	---	+224,000
Subtotal	1,504		+8	+2,318,000
B. Program:				
1. Management Information Systems including AoA Titles III & VII statistical analyses; RSA Case 300 report; and program reporting systems for the Child Development Head Start program; Native American Program Data Bank; and the Youth Development Runaway youth survey	---	625,000	---	+330,000
2. To provide an increase in Contract funds for technical assistance to prime sponsors under sections 106 107 and 306 of the Comprehensive Employment and Training Act of 1973	---	300,000	---	+200,000
Subtotal				+530,000
Total increases				+2,848,000

Decreases			
A. Built-in			
1. For one-day less pay in 1977	---	116,000	-116,000
Subtotal			-116,000
Net Changes			+2,732,000

The Office of Human Development will continue efforts to improve and strengthen its management and administrative structure through continued selection and training of staff to assure management and administrative competence at both the Headquarters and Regional Office levels, and to insure quality and integrity of services delivery.

OFFICE OF HUMAN DEVELOPMENT

Human Development

Program Purposes and Accomplishments

Activity: Child Development (Title V, Community Services Act; Section 426 of the Social Security Act; and the Child Abuse Prevention and Treatment Act)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$488,128,000	1/	---	$463,928,000

Purpose: Major activities are focused on meeting the developmental needs of preschool-age children from low income families and on improving services to particular populations of vulnerable children, such as the abused and neglected, children in foster care and children in need of adoptive homes. Research and Demonstration activities are also conducted which are designed to improve the quality of children's programs, and to measure their impact on the children and families served. The three major child development programs are Head Start, Child Welfare Research and Demonstration, and the Child Abuse Prevention and Treatment Program.

Explanation: Head Start grants are made to public and private non-profit agencies based on an 80% federal share and a 20% non-federal share. Research and development grants are made to public and private non-profit agencies engaged in research or child welfare activities. The grantee is required to provide at least 5% of the direct cost of each grant. The Child Abuse Program provides financial support for research into causes of child abuse and methods to prevent or treat it. Other activities include training and technical assistance and grants to States to develop and implement prevention and treatment programs at the State level.

Accomplishments in FY 1976: During FY 1976 emphasis continued to be focused on the improvement and innovation efforts to maintain Head Start as a flexible system for delivering services that are both cost/effective and responsive to the real needs of children. Approximately 349,000 children were served in 1,000 communities across the Nation. Research and demonstration efforts focused on questions concerning the most effective ways of delivering child development child welfare, and family oriented services. The Child Abuse Prevention and Treatment program continued to support demonstration centers which provide comprehensive services to abused children and their families, resource projects providing technical assistance to professionals and agencies involved in combatting child abuse and neglect. Grants were made to the 20 eligible States for developing, improving and strengthening child abuse and prevention programs and technical assistance was provided to other States to assist them in becoming eligible for such grants.

Objectives for FY 1977: The requested budget of $434,300,000 for Head Start will continue to provide services to about 349,000 children. The $10,700,000 requested for Research and Demonstration will permit continued emphasis on the priority areas of special concern, including child welfare services and day care. The $18,928,000 requested for the Child Abuse Prevention and Treatment Program will be used to continue activities initiated in FY-1976.

1/ Head Start and Research and Demonstration amount indefinite; Child Abuse and Neglect, $25,000,000.

OFFICE OF HUMAN DEVELOPMENT

Human Development

Program Purpose and Accomplishments

Activity: Youth development (The Runaway Youth Act and Section 426 of the Social Security Act)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$3,000,000	$10,000,000 1/	---	$6,000,000

Purpose: The programs funded by the Office of Youth Development to assist runaways are designed to create safe and secure environments conducive to addressing the crisis situations which precipitated the act of running away. Research and Demonstration funds are used to conduct program/policy planning focused upon selected youth sub-populating ages ten through seventeen and to undertake research and demonstrations relating to identified youth needs.

Explanation: Grants are awarded to localities or private non-profit agencies to provide temporary shelter care and specialized services essential to meeting the immediate emotional, psychological, physical and social needs of youth who run away. In Research and Demonstration contracts are awarded to conduct policy and planning focused upon selected youth populations ages ten through seventeen and to undertake research and demonstrations relating to identified youth needs.

Accomplishments in FY 1976: In 1976, approximately 76 grants will be awarded to localities and non-profit agencies to establish or strengthen existing or proposed runaway houses, and to locally-controlled facilities providing temporary shelter care and counseling services to those runaway youth at the shelter facility. Technical assistance will be provided to runaway houses to enable them to develop linkages with appropriate youth serving agencies and organizations in the community. Research and Demonstration will be focused on the development and utilization of a data base that provides OYD and the Department with comprehensive analyses of selected youth needs and problems.

Objectives for FY 1977: In 1977, $4,650,000 of the $5,000,000 requested will be awarded to localities and non-profit agencies to establish or strengthen existing or proposed runaway houses. Most of the approximately 76 grants to be awarded will be for continuations. Research and Demonstration will refine the process of data retrieval, analysis, and utilization to impact on services delivery and program/policy planning in both the public and voluntary sector. Demonstrations of model services programs will be the basic instruments used to improve and extend programs, to effect change, and to provide basic information for policy formulation. $200,000 will be used for Technical Assistance and $150,000 for evaluation.

1/ Section 426 of the Social Security Act has an indefinite authorization.

OFFICE OF HUMAN DEVELOPMENT
Human Development
Program Purpose and Accomplishments

Activity: Special Programs for the Aging (The Older Americans Act of 1965)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$236,575,000	$481,000,000 1/	---	$192,575,000

Purpose: The purpose of Special Programs for the Aging is to develop and strengthen at the sub-State levels systems of coordinated and comprehensive services for older persons enabling them to secure and maintain maximum independence and dignity in a home environment for older persons capable of self care with appropriate supportive services and to remove individual and social barriers to economic and personal independence.

Explanation: Federal resources are available through formula grants to support: the preparation and carrying out of annual State plans by State Agencies on Aging in developing their role as the State focal point on Aging and leader of Area Agencies; the preparation and carrying out of annual area plans by State designated Area Agencies on Aging in developing their role as area focal point on aging, including leadership in the development of coordinated and comprehensive social services delivery systems; and provision of social services including the operation of nutrition programs. Discretionary funds are available for developing, and operating Research and Demonstration projects. Direct support funds for the Federal Council on Aging activities are provided.

Accomplishments in FY 1976: Substantial progress in development of the State and sub-State Aging network and programs have been made in FY 1976. The 56 State and territorial agencies have been strengthened, 462 Area Agencies have been established, 785 Nutrition projects with over 4,491 congregate serving sites are providing over 280,000 meals per day five days per week, with 13% being delivered to homebound older persons. Model projects were developed to meet the needs of older Americans. Research and Demonstration projects are developing a reliable knowledge base for Older Americans Programs.

Objectives for FY 1977: In FY 1977 the major objective is to continue to develop the State and sub-State Aging network and programs by improving the capabilities and effectiveness of the State Agencies; improving the capabilities and capacity of the 462 Area Agencies on Aging and 800 Nutrition Projects; serving approximately 280,000 to 300,000 meals per day 5 days per week; developing a reliable knowledge base for Older Americans Programs through Research and Demonstration; and, providing support for the Federal Council on Aging activities.

1/ The authorization for the Title III State Agency activities and Area Planning and Social Services program is $231,000,000 and for the Title VII Nutrition program is $250,000,000. For Research Demonstration and Manpower and for the Federal Council on Aging, the authorization is "such sums as may be necessary."

OFFICE OF HUMAN DEVELOPMENT

Human Development

Program Purpose and Accomplishments

Activity: Rehabilitation services and facilities: (Rehabilitation Act of 1973)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$799,909,318	1/	---	$779,000,000

Purpose: The prime purpose of the State-Federal vocational rehabilitation program is to provide such services to physically and mentally handicapped persons as required to make them employable. A comprehensive range of services is provided persons handicapped by conditions that present substantial deterrents to employment. A key step in the rehabilitation process is the evaluation of an individual's handicap and, upon the finding that vocational rehabilitation is feasible, the joint counselor-client development of an individualized written rehabilitation program within the capabilities of the individual concerned. Any realistic vocational goal may be selected, including competitive employment, homemaking and sheltered employment. A wide range of services may be provided to clients, including counseling and guidance, physical and mental restoration, training, placement, vocational evaluation, work adjustment, and provision of prosthetic appliances.

Explanation: Federal allotments from the Basic Support Program, Section 110, are allocated among the States based upon a formula based on population and per capita income with a minimum of $2,000,000 to each State. Grants are made to States on a Federal-State matching rate of 80% - 20% up to State allotment. Innovation and expansion grants are now a formula grant program under section 120. Rehabilitation service projects are made to State vocational rehabilitation agencies and private non-profit organizations. Research project grants are funded to generate new knowledge in rehabilitation services. Training grants are provided to increase personnel qualified to serve handicapped individuals.

Accomplishments in FY 1976: An estimated 1,781,000 persons will be served and 334,900 handicapped persons will be vocationally rehabilitated. Of those rehabilitated, approximately 128,900 or 38% will have been severely disabled. Of those rehabilitated, approximately 18% or 60,155 will have been public assistance recipients during part of their rehabilitation.

Objectives for FY 1977: Program activity in FY 1977 will be directed toward overall improvement in management, with emphasis on rehabilitation of the severely handicapped. It is estimated that approximately 1,652,000 individuals will be served, with over 50% being severely disabled. An estimated 354,000 handicapped persons will be rehabilitated, including 147,200 (42%) severely handicapped.

1/ Authorizing legislation has been proposed for FY 1977 to extend Rehabilitation Services programs.

OFFICE OF HUMAN DEVELOPMENT

Human Development

Program Purpose and Accomplishments

Activity: Developmental Disabilities (Developmental Disabilities Services and Facilities Construction Act)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$55,625,000	$96,000,000	---	$53,625,000

Purpose: Funds are used to support programs designed to assist in providing services needed in the care and treatment of the developmentally disabled. Development disabilities are disabilities such as mental retardation, cerebral palsy, epilepsy, autism, dyslexia, and other neurological conditions, which continue indefinitely and constitute a substantial handicap to the affected individual.

Explanation: Federal resources are available through formula grants to States and territories for administration, planning, services, and construction; grants for personal advocacy systems; grants for special projects and projects of national significance which will meet needs of the developmentally disabled; and grants for the support of university affiliated facilities.

Accomplishments in FY 1976: Formula grants and advocacy grants to States and territories have provided services to approximately 48,000 developmentally disabled persons. Core support was continued for the existing 37 university affiliated facilities. Special project grants assisted in supporting programs for some 122,000 individuals.

Objectives for 1977: The estimate for 1977 will continue the provision of services through the State formula grant program and personal rights of the developmentally disabled will be protected through the advocacy systems implemented by formula grants for advocacy. Special projects will be developed to give training for specialized personnel, conduct technical assistance, and demonstrations of services to developmentally disabled persons and demonstrations of new or improved techniques in the delivery of services. University affiliated facilities will continue to receive support and it is estimated that 16,600 persons will be trained through this program.

ASSISTANT SECRETARY FOR HUMAN DEVELOPMENT

HUMAN DEVELOPMENT

Program Purpose and Accomplishments

Activity: Special Programs for Native Americans (Title VIII Community Services Act of 1974)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$33,000,000	Indefinite	---	$32,000,000

Purpose: The Native American Programs (ONAP) develops innovative approaches for dealing with the special needs of American Indians, Alaskan Natives and Native Hawaiians and provides technical and financial assistance to enable them to move toward economic and social self-sufficiency.

Explanation: Grants awarded to: (1) strengthen tribal governments to enable them to effectively manage and utilize available resources; (2) support for establishment and operation of urban Indian centers serving Native Americans living off-reservations; (3) support of a wide range of services to meet the individual and family needs; (4) funding to encourage self-help and community economic development efforts; (5) development and implementation of information sharing systems. Assistance is provided through grants and contracts to tribal organizations or other public or private non-profit agencies. Basic grants to reservations are based on the number of residents. The basic grants to urban Indian centers are on the basis of service population of 1,000 or more Native Americans in the large metropolitan areas (in-city population only).

Accomplishments in FY 1976: During FY 1976 financial assistance was provided to 92 tribal grantees on 154 reservations and to 59 urban Indian centers. Two new urban centers were established this year. Training and technical assistance was provided to address specific planning and management by objectives training to selected group of 10 tribes. A number of research and evaluation projects were initiated for the assessment of planning capabilities of ONAP grantees, a management information system, a target group data collection bank and communication system. A planning grant was funded to identify and assist Native Hawaiians.

Objectives for FY 1977: The amount of $32,000,000 will allow for the continuation of the Native American Program in its current endeavors, i.e., to support the 92 tribal grantees and 59 urban Indian centers. Training and technical assistance funds will provide for training in planning, management, and other organizational skills to Native American governing entities to strengthen their self government capability. With the results of surveys and data collections made in FY-1976, the research and evaluation staff will design demonstration and pilot programs, to demonstrate and test different and common approaches to management and planning in Native American communities.

OFFICE OF HUMAN DEVELOPMENT

Human Development

Program Purpose and Accomplishments

Activity: White House Conference on Handicapped Individuals (White House Conference on Handicapped Individuals Act P.L. 93-516)

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$1,370,000	$3,400,000 1/	---	1,436,000

Purpose: The purpose of the White House Conference on Handicapped Individuals is to develop recommendations and stimulate a national assessment of problems -- and solution of such problems -- facing individuals with handicaps.

Explanation: The conference is to be planned and conducted under the direction of the National Planning and Advisory Council, appointed by the Secretary of HEW. Each Federal Department and agency is mandated to provide such cooperation and assistance to the Council, including the assignment of personnel, as may reasonably be required by the Secretary. A sum of $2,000,000 is authorized for the National conference plus an additional amount not to exceed $25,000 per State to allow them to prepare for the national conference.

Accomplishments in FY 1976: Phase I, the planning phase, was completed and Phase II, the State and National Conferences, was initiated. During FY 1976 the National Planning and Advisory Council was selected. The Advisory Council will develop a list of major topics for the conferences. A series of State and Regional conferences will be held in preparation for the national conference.

Objectives for FY 1977: The objectives for FY 1977 include the holding of State conferences and the national conferences.

1/ $3,400,000 is the total authorization for all years.

OFFICE OF HUMAN DEVELOPMENT

Human Development

Program Purpose and Accomplishments

Activity: Salaries and Expenses

1976 Estimate		1977		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
1,504	$44,393,000	Indefinite 1/	1,512	$47,125,000

Purpose: To provide funds and staff for the administration of the Office of Human Development programs. These programs through grant and contract activities provide basic support to special population groups.

Explanation: Funds included in this activity provide for the salaries of Federal employees and related costs for travel, rent, communications, services, supplies, printing, and equipment. Funds also support project contracts for the Office of Handicapped Individuals, the Architectural and Transportation Barriers Compliance Board, the Office of Manpower (CETA) as well as administrative services.

Accomplishments in FY 1976: During 1976 the Developmental Disabilities Office was established from RSA Staff transferred from the Social and Rehabilitation Service; the White House Conference on Handicapped Individuals was initiated; and new legislation for the Developmentally Disabled and the Older Americans Program was implemented.

Objectives for 1977: The Office of Human Development will continue in 1977 to provide national leadership and planning coordination of programs to promote the human development of vulnerable population. OHD will also continue to emphasize improving and strengthening its management and its administrative structure to insure effective planning and coordination and to insure that Federal funds are spent in the most prudent manner.

1/ Except $500,000 under Sections 405 and 502 of the Rehabilitation Act of 1973 which expires June 30, 1976. Extension of legislation has been proposed.

Allocations to States
Programs for the Aging
State Agency Activities, by State
FY 1975 - 1977

	1975 Actual	1976 Estimate	July-Sept. 1976 Est.	1977 Request
Total 56 "States"	$15,000,000	$15,000,000	$4,062,500	$16,235,000
Alabama	214,218	209,945	52,505	210,020
Alaska	164,621	160,000	50,000	200,000
Arizona	160,000	160,000	50,000	200,000
Arkansas	160,000	160,000	50,000	200,000
California	1,156,340	1,141,894	285,576	1,142,304
Colorado	164,621	160,000	50,000	200,000
Connecticut	180,304	181,810	50,000	200,000
Delaware	164,621	160,000	50,000	200,000
District of Columbia	160,000	160,000	50,000	200,000
Florida	646,933	680,108	170,088	680,352
Georgia	239,433	241,926	60,503	242,013
Hawaii	164,621	160,000	50,000	200,000
Idaho	164,621	160,000	50,000	200,000
Illinois	667,498	652,332	166,874	667,498
Indiana	299,812	296,952	74,953	299,812
Iowa	201,957	196,821	50,489	201,957
Kansas	160,000	160,000	50,000	200,000
Kentucky	205,704	205,163	51,433	205,704
Louisiana	195,711	194,716	50,000	200,000
Maine	164,621	160,000	50,000	200,000
Maryland	195,711	197,138	50,000	200,000
Massachusetts	377,680	371,553	94,420	377,680
Michigan	466,374	462,171	116,593	466,374
Minnesota	240,682	237,698	60,170	240,682
Mississippi	164,621	160,000	50,000	200,000
Missouri	333,125	326,640	83,281	333,125
Montana	164,621	160,000	50,000	200,000
Nebraska	154,375	160,000	50,000	200,000
Nevada	160,000	160,000	50,000	200,000
New Hampshire	164,621	160,000	50,000	200,000
New Jersey	439,308	438,029	109,830	439,308
New Mexico	160,000	160,000	50,000	200,000
New York	1,190,087	1,151,130	298,606	1,191,453
North Carolina	272,746	278,839	69,735	278,939
North Dakota	70,000	160,000	50,000	200,000
Ohio	607,536	600,123	151,884	607,536
Oklahoma	183,219	182,968	50,000	200,000
Oregon	164,621	160,000	50,000	200,000
Pennsylvania	784,508	778,172	199,127	784,508
Rhode Island	164,621	160,000	50,000	200,000
South Carolina	164,621	160,000	50,000	200,000
South Dakota	164,621	160,000	50,000	200,000
Tennessee	251,062	245,724	61,453	245,813
Texas	632,937	643,022	160,813	643,252
Utah	164,621	160,000	50,000	200,000
Vermont	164,621	160,000	50,000	200,000
Virginia	244,646	242,290	60,594	242,377
Washington	204,790	200,232	50,076	200,304
West Virginia	160,000	160,000	50,000	200,000
Wisconsin	283,989	282,604	70,997	283,989
Wyoming	160,000	160,000	50,000	200,000

Allocations to States
Programs for the Aging
State Agency Activities, by State
FY 1975 - 1977

	1975 Actual	1976 Estimate	July-Sept. 1976 Est.	1977 Request
American Samoa	$ 0	$ 50,000	$ 15,625	$ 62,500
Guam	50,000	50,000	15,625	62,500
Puerto Rico	160,000	160,000	50,000	200,000
Trust Territory	50,000	50,000	15,625	62,500
Virgin Islands	50,000	50,000	15,625	62,500

Allocations to States
Programs for the Aging
Area Planning and Social Services
FY 1975 - 1977

	1975 Actual	1976 Estimate	July-Sept. 1976 Est.	1977 Request
Total 56 "States"	$82,000,000	$76,000,000	$19,000,000	$82,000,000
Alabama	1,275,378	1,162,038	290,510	1,312,573
Alaska	412,839	380,000	95,000	410,000
Arizona	778,818	778,818	194,705	759,912
Arkansas	917,313	917,313	229,328	918,538
California	6,837,118	6,280,300	1,570,075	7,139,105
Colorado	805,127	805,127	201,282	741,536
Connecticut	1,096,877	1,053,327	263,332	1,136,671
Delaware	453,319	450,201	112,550	410,000
District of Columbia	512,800	509,272	127,318	410,000
Florida	3,851,678	3,740,521	935,130	4,252,022
Georgia	1,466,684	1,330,569	332,642	1,512,519
Hawaii	465,093	465,093	116,273	410,000
Idaho	512,747	512,747	128,187	410,000
Illinois	4,060,726	3,587,758	896,939	4,078,370
Indiana	1,823,907	1,633,203	408,301	1,856,537
Iowa	1,228,604	1,139,204	284,801	1,230,523
Kansas	958,018	958,018	239,505	963,380
Kentucky	1,260,072	1,154,096	288,524	1,282,678
Louisiana	1,190,606	1,112,895	278,224	1,217,361
Maine	615,768	611,531	152,883	426,351
Maryland	1,198,855	1,112,895	278,224	1,232,505
Massachusetts	2,313,536	2,043,501	510,875	2,322,942
Michigan	2,837,189	2,541,895	635,474	2,889,489
Minnesota	1,464,192	1,307,314	326,829	1,486,084
Mississippi	893,679	887,529	221,882	864,913
Missouri	2,026,563	1,796,487	449,122	2,042,149
Montana	507,783	507,783	126,946	410,000
Nebraska	759,458	759,458	189,864	651,018
Nevada	433,820	433,820	108,455	410,000
New Hampshire	532,793	529,128	132,282	410,000
New Jersey	2,672,531	2,409,115	602,279	2,738,552
New Mexico	534,293	530,618	132,654	410,000
New York	7,241,149	6,333,103	1,583,276	7,196,849
North Carolina	1,670,745	1,533,584	383,396	1,743,295
North Dakota	501,330	501,330	125,332	410,000
Ohio	3,695,945	3,300,611	825,153	3,751,956
Oklahoma	1,122,332	1,061,766	265,441	1,143,913
Oregon	906,674	900,436	225,109	899,298
Pennsylvania	4,772,557	4,279,864	1,069,966	4,865,118
Rhode Island	593,774	589,689	147,422	410,000
South Carolina	850,691	844,839	211,210	818,459
South Dakota	527,639	527,639	131,910	410,000
Tennessee	1,494,741	1,351,458	337,864	1,536,265
Texas	3,877,150	3,536,552	884,138	4,020,161
Utah	537,071	537,071	134,268	410,000
Vermont	454,818	451,690	112,922	410,000
Virginia	1,456,482	1,332,568	333,142	1,514,791
Washington	1,219,259	1,130,765	282,691	1,251,847
West Virginia	820,702	815,055	203,764	744,752
Wisconsin	1,727,645	1,554,294	388,573	1,766,837
Wyoming	413,964	413,964	103,491	410,000

Allocations to States
Programs for the Aging
Area Planning and Social Services
FY 1975 - 1977

	1975 Actual	1976 Estimate	July-Sept. 1976 Est.	1977 Request
American Samoa	$ 0	$ 190,000	$ 47,500	$ 205,000
Guam	205,000	190,000	47,500	205,000
Puerto Rico	802,148	802,148	200,537	720,731
Trust Territory	205,000	190,000	47,500	205,000
Virgin Islands	205,000	190,000	47,500	205,000

Allocations to States
Programs for the Aging
Nutrition Programs, by State
FY 1975 - 1977

	1975 Actual	1976 Estimate	July-Sept. 1976 Est.	1977 Request
Total 56 "States"	$125,000,000	$125,000,000	$24,900,000	$88,000,000
Alabama	1,988,032	1,980,864	391,508	1,409,931
Alaska	618,750	618,750	123,250	435,625
Arizona	1,061,609	1,146,818	209,065	904,266
Arkansas	1,383,697	1,386,209	275,621	978,448
California	10,609,656	10,773,954	2,113,358	7,748,933
Colorado	1,121,246	1,119,086	220,810	798,397
Connecticut	1,702,105	1,715,403	339,045	1,220,959
Delaware	618,750	618,750	123,250	435,625
District of Columbia	1,175,865	1,868,750	373,250	1,310,625
Florida	6,003,887	6,416,924	1,182,353	4,997,007
Georgia	2,286,240	2,282,612	450,234	1,629,273
Hawaii	625,865	618,750	123,250	435,625
Idaho	625,865	618,750	123,250	435,625
Illinois	6,373,657	6,154,857	1,255,173	4,187,390
Indiana	2,862,774	2,801,786	563,771	1,944,184
Iowa	1,906,515	1,857,039	379,762	1,258,156
Kansas	1,474,110	1,453,882	293,631	1,003,445
Kentucky	1,964,177	1,935,749	386,810	1,356,724
Louisiana	1,868,757	1,837,175	368,017	1,283,113
Maine	656,053	643,426	129,198	447,836
Maryland	1,868,757	1,860,030	368,017	1,321,966
Massachusetts	3,606,303	3,505,659	710,195	2,408,647
Michigan	4,402,673	4,360,661	876,977	3,028,240
Minnesota	2,272,093	2,242,718	452,583	1,549,705
Mississippi	1,324,034	1,305,280	260,744	915,258
Missouri	3,180,864	3,081,902	626,412	2,107,172
Montana	625,865	618,750	123,250	435,625
Nebraska	1,006,326	982,482	200,452	667,959
Nevada	625,865	618,750	123,250	435,625
New Hampshire	625,865	618,750	123,250	435,625
New Jersey	4,194,764	4,132,876	826,081	2,895,484
New Mexico	618,750	618,750	123,250	435,625
New York	11,363,642	10,861,101	2,237,857	7,274,582
North Carolina	2,604,331	2,630,888	512,875	1,908,133
North Dakota	625,865	618,750	123,250	435,625
Ohio	5,801,107	5,662,251	1,142,419	3,913,732
Oklahoma	1,749,473	1,726,332	344,527	1,212,132
Oregon	1,351,862	1,357,172	266,225	976,065
Pennsylvania	7,490,941	7,342,174	1,475,200	5,105,694
Rhode Island	625,865	618,750	123,250	435,625
South Carolina	1,224,631	1,235,174	241,168	893,954
South Dakota	625,865	618,750	123,250	435,625
Tennessee	2,329,978	2,318,448	458,847	1,647,128
Texas	6,043,649	6,067,011	1,190,183	4,363,003
Utah	625,865	618,750	123,250	435,625
Vermont	625,865	618,750	123,250	435,625
Virginia	2,270,341	2,286,042	447,102	1,650,761
Washington	1,892,998	1,889,221	374,281	1,340,269
West Virginia	1,136,047	1,123,940	226,291	779,242
Wisconsin	2,680,913	2,666,416	534,016	1,862,826
Wyoming	625,865	618,750	123,250	435,625

Allocations to States
Programs for the Aging
Nutrition Programs, by State
FY 1975 - 1977

	1975 Actual	1976 Estimate	July-Sept. 1976 Est.	1977 Request
American Samoa	$ 0	$ 309,375	$ 61,625	$ 217,813
Guam	309,375	309,375	61,625	217,813
Puerto Rico	1,137,156	1,087,688	223,942	729,359
Trust Territory	269,222	309,375	61,625	217,813
Virgin Islands	309,375	309,375	61,625	217,813

FEDERAL GRANTS AND STATE FUNDS AVAILABLE FOR BASIC SUPPORT PROGRAM
UNDER SECTION 110 OF THE REHABILITATION ACT OF 1973 AS AMENDED

State or Territory	FY 1975 Actual		FY 1976 Estimate		Transition Quarter		FY 1977 Estimate	
	Federal Grants[1]	State Funds Required[2]	Allotment	State Funds Required[2]	Allotment[3]	State Funds Required[2]	Allotment[3]	State Funds Required[2]
Totals	$680,000,000	$174,003,679	$720,309,318	$184,239,210	$180,000,000	$45,000,000	$720,000,000	$184,239,210
Alabama	17,863,790	5,571,000	17,538,748	5,571,000	4,384,687	1,096,172	17,538,748	5,571,000
Alaska	1,996,959	616,963	2,000,000	616,963	500,000	125,000	2,000,000	616,963
Arizona	7,391,412	1,847,853	7,796,858	1,949,215	1,949,215	487,304	7,796,858	1,949,215
Arkansas	10,378,818	3,110,398	10,307,043	3,110,398	2,576,761	644,190	10,307,043	3,110,398
California	47,737,380	11,934,345	53,039,116	13,259,779	13,259,779	3,314,945	53,039,116	13,259,779
Colorado	7,720,157	1,930,039	7,945,298	1,986,325	1,986,325	496,581	7,945,298	1,986,325
Connecticut	5,821,999	1,455,500	6,477,191	1,619,298	1,619,298	404,824	6,477,191	1,619,298
Delaware	1,962,507	490,627	2,000,000	500,000	500,000	125,000	2,000,000	500,000
District of Columbia	5,252,418	2,003,007	5,214,542	2,003,007	1,303,636	325,909	5,214,542	2,003,007
Florida	25,664,713	6,416,178	27,316,210	6,829,052	6,829,053	1,707,263	27,316,210	6,829,052
Georgia	19,621,861	4,905,465	20,056,853	5,014,213	5,014,213	1,253,553	20,056,853	5,014,213
Hawaii	2,066,323	546,497	2,070,838	546,497	517,710	129,427	2,070,838	546,497
Idaho	3,336,573	834,143	3,440,911	860,228	860,228	215,057	3,440,911	860,228
Illinois	23,692,563	5,923,141	26,273,145	6,568,286	6,568,286	1,642,072	26,273,145	6,568,286
Indiana	11,897,054	2,974,264	18,050,425	4,512,606	4,512,606	1,128,152	18,050,425	4,512,606
Iowa	9,905,971	2,476,493	9,595,104	2,398,776	2,398,776	599,694	9,595,104	2,398,776
Kansas	6,563,185	1,640,796	7,118,983	1,779,746	1,779,746	444,936	7,118,983	1,779,746
Kentucky	15,384,096	3,846,024	15,557,515	3,889,379	3,889,379	972,345	15,557,515	3,889,379
Louisiana	17,580,733	4,395,183	17,869,329	4,467,332	4,467,332	1,116,833	17,869,329	4,467,332
Maine	4,500,477	1,125,119	4,766,482	1,191,620	1,191,621	297,905	4,766,482	1,191,620
Maryland	10,658,256	2,664,564	10,725,194	2,681,298	2,681,299	670,325	10,725,194	2,681,298
Massachusetts	14,781,785	3,695,446	16,402,694	4,100,674	4,100,674	1,025,168	16,402,694	4,100,674
Michigan	24,400,298	6,100,075	24,191,409	6,047,852	6,047,852	1,511,963	24,191,409	6,047,852
Minnesota	12,887,124	3,300,996	13,080,477	3,300,996	3,270,119	817,530	13,080,477	3,300,996
Mississippi	12,898,425	3,224,607	12,693,266	3,173,317	3,173,317	793,329	12,693,266	3,173,317

State or Territory	FY 1975 Actual		FY 1976 Estimate		Transition Quarter		FY 1977 Estimate	
	Federal Grants[1]/	State Funds Required[2]/	Allotment	State Funds Required[2]/	Allotment[3]/	State Funds Required[2]/	Allotment[3]/	State Funds Required[2]/
Missouri	$ 15,842,250	$ 3,960,563	$ 16,730,338	$ 4,182,585	$ 4,182,585	$ 1,045,646	$ 16,730,338	$ 4,182,585
Montana	2,889,790	722,448	2,828,855	707,214	707,214	176,803	2,828,855	707,214
Nebraska	5,052,016	1,263,004	5,010,876	1,252,719	1,252,719	313,180	5,010,876	1,252,719
Nevada	2,041,605	573,133	2,000,000	573,133	500,000	125,000	2,000,000	573,133
New Hampshire	2,903,189	725,797	2,912,920	728,230	728,230	182,058	2,912,920	728,230
New Jersey	15,633,227	3,908,307	15,967,916	3,991,979	3,991,979	997,995	15,967,916	3,991,979
New Mexico	5,048,492	1,262,123	5,437,686	1,359,421	1,359,422	339,855	5,437,686	1,359,421
New York	36,309,180	9,077,295	41,308,011	10,327,003	10,327,003	2,581,751	41,308,011	10,327,003
North Carolina	23,116,463	5,779,116	23,017,886	5,754,471	5,754,472	1,438,618	23,017,886	5,754,471
North Dakota	2,820,071	750,318	2,472,049	750,318	540,683	135,171	2,162,731	750,318
Ohio	30,814,260	7,703,565	33,954,595	8,488,649	8,488,649	2,122,162	33,954,595	8,488,649
Oklahoma	11,196,539	2,799,135	11,465,716	2,866,429	2,866,429	716,607	11,465,716	2,866,429
Oregon	7,677,691	1,919,423	7,946,059	1,986,515	1,986,515	496,629	7,946,059	1,986,515
Pennsylvania	36,977,364	9,244,341	38,268,020	9,567,005	9,567,005	2,391,751	38,268,020	9,567,005
Rhode Island	2,929,742	732,436	3,109,046	777,262	777,262	194,315	3,109,046	777,262
South Carolina	13,460,345	3,770,131	13,583,337	3,770,131	3,395,834	848,959	13,583,337	3,770,131
South Dakota	3,019,793	754,948	2,874,518	718,629	718,630	179,657	2,874,518	718,629
Tennessee	15,652,428	3,913,107	18,721,884	4,680,471	4,680,471	1,170,118	18,721,884	4,680,471
Texas	44,744,596	11,186,149	46,783,992	11,695,998	11,695,998	2,924,000	46,783,992	11,695,998
Utah	5,065,671	1,266,418	5,272,054	1,318,013	1,318,014	329,503	5,272,054	1,318,013
Vermont	2,017,218	504,305	2,101,560	525,390	525,390	131,348	2,101,560	525,390
Virginia	17,475,496	4,368,874	16,946,636	4,236,659	4,236,659	1,059,165	16,946,636	4,236,659
Washington	10,279,065	2,569,766	10,829,303	2,707,326	2,707,326	676,831	10,829,303	2,707,326
West Virginia	8,555,704	3,086,843	8,402,592	3,086,843	2,100,648	525,162	8,402,592	3,086,843
Wisconsin	15,988,253	3,997,063	16,326,038	4,081,509	4,081,510	1,020,377	16,326,038	4,081,509

State or Territory	FY 1975 Actual		FY 1976 Estimate		Transition Quarter		FY 1977 Estimate	
	Federal Grants[1]/	State Funds Required[2]/	Allotment	State Funds Required[2]/	Allotment[3]/	State Funds Required[2]/	Allotment[3]/	State Funds Required[2]/
Wyoming	$ 2,000,000	$ 500,000	$ 2,000,000	$ 500,000	$ 500,000	$ 125,000	$ 2,000,000	$ 500,000
American Samoa	-	-	216,371	54,093	54,093	13,523	216,371	54,093
Guam	508,212	133,482	670,750	167,688	167,688	41,922	670,750	167,688
Puerto Rico	17,284,926	4,321,232	20,403,789	5,100,947	5,100,937	1,275,237	20,403,789	5,100,947
Trust Territory	297,888	74,472	692,387	173,097	173,097	43,274	692,387	173,097
Virgin Islands	428,648	107,162	526,503	131,626	131,626	32,906	526,503	131,626

1/ Federal Grant and Reallotment based on the formula prescribed in the VR Act and the latest State Funds available for matching as certified by the State Agencies.

2/ Adjusted for the 1972 Maintenance of Effort Provision of the Act.

3/ Based on Per Capita Income for calendar years 1971-72-73 as published by the Bureau of Economic Analysis, Department of Commerce, Survey of Current Business, dated August 1973, Vol. 52, No. 8. Population as of July 1, 1974, published by the Department of Commerce, Bureau of Census, Series P-25-533, dated October 1974.

Developmental Disabilities Office
State Grants

	1975 Actual	1976 Estimate	July-Sept. 1976 Est.	1977 Request
Total 56 "States"	28,176,358	30,057,953	7,515,000	30,057,953
Alabama	620,313	641,472	160,370	641,472
Alaska	100,000	150,000	37,500	150,000
Arizona	252,451	280,465	70,120	280,465
Arkansas	355,919	358,926	89,740	358,926
California	2,171,100	2,312,028	578,320	2,312,028
Colorado	298,608	303,537	75,890	303,537
Connecticut	336,527	345,905	86,480	345,905
Delaware	100,000	150,000	37,500	150,000
District of Columbia	100,000	150,000	37,500	150,000
Florida	1,008,860	1,035,141	258,790	1,035,141
Georgia	699,232	713,464	178,370	713,464
Hawaii	100,000	150,000	37,500	150,000
Idaho	113,040	150,000	37,500	150,000
Illinois	1,232,462	1,296,855	324,220	1,296,855
Indiana	701,990	736,324	184,090	736,324
Iowa	393,158	424,866	106,220	424,866
Kansas	288,117	299,210	74,810	299,210
Kentucky	585,971	602,952	150,740	602,952
Louisiana	593,088	605,828	151,460	605,828
Maine	172,870	178,230	44,560	178,230
Maryland	444,381	470,757	117,690	470,757
Massachusetts	692,915	717,164	179,300	717,164
Michigan	1,107,919	1,173,207	293,310	1,173,207
Minnesota	510,859	542,290	135,580	542,290
Mississippi	434,451	440,326	110,090	440,326
Missouri	643,843	676,952	169,240	676,952
Montana	100,627	150,000	37,500	150,000
Nebraska	214,564	223,404	55,860	223,404
Nevada	100,000	150,000	37,500	150,000
New Hampshire	106,503	150,000	37,500	150,000
New Jersey	777,902	824,234	206,060	824,234
New Mexico	163,850	178,329	44,590	178,329
New York	2,072,015	2,119,770	529,950	2,119,770
North Carolina	850,835	875,460	218,870	875,460
North Dakota	100,000	150,000	37,500	150,000
Ohio	1,361,335	1,409,145	352,290	1,409,145
Oklahoma	400,054	410,037	102,510	410,037
Oregon	285,910	298,014	74,510	298,014
Pennsylvania	1,601,208	1,676,518	419,130	1,676,518
Rhode Island	119,715	150,000	37,500	150,000
South Carolina	462,091	462,698	115,680	462,698
South Dakota	108,544	150,000	37,500	150,000
Tennessee	681,859	678,845	169,720	678,845
Texas	1,606,292	1,669,504	417,390	1,669,504
Utah	160,264	176,142	44,040	176,142
Vermont	100,000	150,000	37,500	150,000
Virginia	657,138	684,380	171,100	684,380
Washington	396,799	424,047	106,020	424,047
West Virginia	356,940	360,877	90,220	360,877
Wisconsin	634,188	667,286	166,830	667,286
Wyoming	100,000	150,000	37,500	150,000
American Samoa	---	50,000	12,500	50,000
Guam	11,282	50,000	12,500	50,000
Puerto Rico	562,929	613,364	153,350	613,364
Trust Territory	16,613	50,000	12,500	50,000
Virgin Islands	8,827	50,000	12,500	50,000

Transition Quarter Analysis

	Budget Authority by Activity	
	1976 Estimate	Transition Quarter
Child development:		
a. Head Start	$454,500,000	$112,500,000
b. Research & demonstration	14,700,000	2,950,000
c. Child abuse, prevention and treatment	18,928,000	2,000,000
Subtotal	488,128,000	117,450,000
Youth development:		
a. Runaway youth program	7,000,000	1,200,000
b. Research & demonstration	1,000,000	250,000
Subtotal	8,000,000	1,450,000
Programs for the aging:		
a. Community services	96,000,000	24,312,500
b. Nutrition	125,000,000	31,250,000
c. Research & demonstration, and manpower	15,000,000	1,437,500
d. Federal Council on Aging	575,000	144,000
Subtotal	236,575,000	57,144,000
Rehabilitation services and facilities:		
a. Basic State grants	720,309,318	180,000,000
b. Service projects	33,400,000	7,100,000
c. Research	24,000,000	5,000,000
d. Training	22,200,000	5,550,000
Subtotal	799,909,318	197,650,000
Grants for the developmentally disabled:		
a. State grants	32,143,000	7,890,000
b. Special projects	19,232,000	4,954,000
c. University affiliated facilities	4,250,000	1,062,000
Subtotal	55,625,000	13,906,000
Special programs for native Americans	33,000,000	8,000,000
White House Conference on Handicapped Individuals	1,370,000	149,000
Salaries and Expenses	44,393,000	11,098,000
Total	1,667,000,318	406,847,000

Explanation

Enactment of an appropriation of $397,530,000 would provide for the period July 1 through September 30, 1976 for the clients of, and participants in, the programs funded by the Office of Human Development. These funds would maintain the FY 1976 program level. A supplemental appropriation has been enacted in the amount of $9,317,000 for the following activities: Developmental Disabilities, $9,168,000; White House Conference on Handicapped Individuals, $149,000.

The President's revised request for the transition quarter is $374,182,000. This amount is based on the revised 1976 President's budget and excludes $9,317,000 already appropriated for the transition quarter.

1. Child Development

	FY 1976 Estimate	Interim Period
Head Start	$454,500,000	$112,500,000
Research and Demonstration	14,700,000	2,950,000
Child Abuse	18,928,000	2,000,000
Total	488,128,000	117,450,000

An amount of $117,450,000 would refund Child Development activities in July, August and September of 1976.

The $112,500,000 for Head Start would maintain the program level of Head Start projects during the Interim Budget Period. It will allow grantees who are scheduled for refunding to maintain their FY 1976 program level.

The amount of $2,950,000 for Child Development Research and Demonstration would fund R&D projects during the transition quarter.

The amount of $2,000,000 would refund Child Abuse Prevention and Treatment activities during the Interim Budget Period. This amount is substantially less than one quarter of the FY 1976 amount, since the majority of activities are funded in months other than July, August and September.

The President's revised budget request provides $114,025,000 for Child Development during the transition quarter.

2. Youth Development

	FY 1976 Estimate	Interim Period
Runaway Youth Program	$8,000,000	$1,450,000

The amount of $1,200,000 would maintain the program level of the Runaway Youth Program during the Interim Budget Period. An amount of $250,000 would continue the Youth Development Research and Demonstration efforts during the interim period.

The President's revised budget request provides $1,450,000 for Youth Development during the transition quarter.

3. Special Programs for the Aging

	FY 1976 Estimate	Interim Period
State Agency Activities	$ 15,000,000	$ 4,062,500
Area Planning and Social Services	76,000,000	19,000,000
Model Projects	5,000,000	1,250,000
Nutrition	125,000,000	31,250,000
Research, Demonstrations and Manpower	15,000,000	1,437,500
Federal Council on Aging	575,000	144,000
Total	236,575,000	57,144,000

Special Programs for the Aging will require funding in the amount of $57,144,000 for the period July 1 through September 30, 1976.

The $4,062,500 for State Agency Activities will provide for continuation of Title III support of the staffing and operation of designated State Agencies on Aging at an approximate level of 1,300 person quarter-years of effort to provide a leadership role and technical assistance to approximately 462 Area Agencies on Aging and 685 Nutrition Projects and to assess progress under the area plans of area agencies toward the development of coordinated, comprehensive service systems for the older Americans.

The $19,000,000 for the Area Planning and Social Services activity will continue at approximately the same level and pattern of support as in FY 1976. Of the 585 State designated planning and service areas, formula grants to States will support designated Area Agencies on Aging with approved plans and some funds will be provided to community projects for the areas without approved area plans.

For Model Projects, $1,250,000 will provide for continuation costs of Model and Title III Evaluation Project Grants due for refunding during this three month period.

The Nutrition Program will require $31,250,000 for the interim three month period to continue at the FY 1976 level. This will serve approximately 290,000 daily low-cost, nutritious meals at least five days a week to the elderly. Efforts will continue to place emphasis on the needs of the low income and minority persons. These meals will be served primarily in congregate settings with supportive social services.

The $1,437,500 shown above will provide for continuation costs of Research and Demonstration Projects to be funded during the three month interim period. These projects support research and demonstration which will add to the existing knowledge in a variety of areas critical to the development and improvement of Aging programs.

The Federal Council requires $144,000 to continue to fund regular Council support activities and contractual assistance on studies and analyses necessary for carrying out its responsibilities.

The President's revised budget request provides $50,794,000 for the Aging programs during the transition period.

4. Rehabilitation Services and Facilities

	FY 1976 Estimate	Interim Period
Basic State Grants	$720,309,318	$180,000,000
Service Projects	33,400,000	7,100,000
Research	24,000,000	5,000,000
Training	22,200,000	5,550,000
Total	799,909,318	197,650,000

During the Interim Period, $197,500,000 would be used to continue these programs. These funds would be utilized to rehabilitate an estimated 85,000 handicapped persons during the Interim Period. As mandated by the law, priority for services will be afforded to those persons with the most severe handicaps. Of the 85,000 rehabilitations anticipated for the period, 34,000 are expected to be in the severely handicapped category.

This includes $180,000,000 for the Basic Support Program which would be allocated among the States by Formula; $7,100,000 for Rehabilitation Service Projects; $5,000,000 for Research activities; and $5,550,000 for training activities geared primarily at development of skills most needed to serve severely handicapped persons.

The President's revised budget request provides $183,900,000 for the Rehabilitation Programs during the Interim Period.

5. Grants for the Developmentally Disabled

	FY 1976 Estimate	Interim Period
State Grants	$32,143,000	$ 7,890,000
Service Projects	19,232,000	4,954,000
University Affiliated Facilities	4,250,000	1,062,000
Total	55,625,000	13,906,000

A request is made for $4,738,000 to carry out functions of the Developmental Disabled Program during the Interim Period. An enacted supplemental appropriation, Public Law 94-157 authorizes $9,168,000 for the interim period. The balance requested is $4,738,000 of which $4,625,000 shall be for service projects and $113,000 for UAF's. State Planning and Advisory Councils provide direction and leadership to State Programs for the developmentally disabled. Priority attention is afforded to programs that will: (1) Reduce the inappropriate placement of developmentally disabled persons in institutions; (2) Improve quality of care for those appropriately placed in institutions; and (3) Identify gaps in needed services and seek ways and means to provide lacking services.

The President's revised budget request provides $4,738,000 for Developmental Disabilities Program during the transition period. This amount when combined with the $9,168,000 previously appropriated will provide a total of $13,906,000.

6. Special Programs for Native Americans

	FY 1976 Estimate	Interim Period
Special Programs for Native Americans.....	$33,000,000	$8,000,000

The amount of $8,000,000 would maintain the program level of Native American Programs during the Interim Budget Period. It will allow grantees to maintain their FY 1976 funded level for an additional three months and provide a transition to the regular FY 1977 refundings.

The grant program in 36 States includes 275 tribes, Native American groups and Alaskan villages, as well as 59 urban Indian organizations.

The President's revised budget request provided $8,000,000 for the transition period.

7. White House Conference on Handicapped Individuals

	FY 1976 Estimate	Interim Period
White House Conference on Handicapped Individuals.....	$1,370,000	$ 149,000

The $149,000 would provide funds to maintain the conference during the period July 1976 through September 30, 1976.

The President's revised budget request provides $149,000 for the transition period.

8. Salaries and Expenses

	FY 1976 Estimate	Interim Period
Salaries and Expenses	$44,393,000	$11,098,000

The $11,098,000 requested for the interim period will provide for the maintenance of on-going administrative support at the 1976 end of year level. The estimated cost for the period is based on approximately one quarter of the 1976 funding level.

The President's revised budget request provides $11,275,000 for Salaries and Expenses during the transition period.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OFFICE OF HUMAN DEVELOPMENT

Research and Training Activities Overseas
(Special Foreign Currency Program)

Amounts Available for Obligation

	1976	1977
Appropriation	$ ---	$ ---
Recovery of prior year obligations	200,000	200,000
Unobligated balance, start of year	7,906,000	2,548,000
Unobligated balance, end of year	-3,048,000	---
Total, obligations	5,058,000	2,748,000

1/ An estimated $500,000 of these funds will be obligated during the transition quarter.

Summary of Changes

1976 Appropriation	$ ---
1977 Appropriation	---
Net change	---

Summary of Changes

1976 Estimated obligations	$ 5,058,000
1977 Estimated obligations	- 2,748,000
Net change	-2,310,000

Decreases:

A. Program:

1. Research and demonstration - A decrease of $2,310,000 in estimated obligations is planned for FY 1977. No budget authority has been requested for several years in order that the unobligated balance available from prior year appropriations could be utilized. FY 1977 will be the final year the program can operate on unobligated balances.

Obligations by Activity

Page Ref.		1976 Estimate	1977 Estimate	Increase or Decrease
	Research and demonstrations	$5,058,000	$2,748,000	$-2,310,000
	Total Obligations	5,058,000	2,748,000	-2,310,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Travel and transportation of persons	$ 150,000	$ 150,000	$ ---
Transportation of things	10,000	10,000	---
Grants, subsidies, and contributions	4,898,000	2,588,000	-2,310,000
Total obligations by object	$5,058,000	$2,748,000	$-2,310,000

Authorizing Legislation

	Amount Authorized	1977 Budget Request
Research and Training Activities Overseas:		
1. Research and demonstrations-Agricultural Trade Development and Assistance Act (Section 104).....	Indefinite	$ ---

Research and Training Activities Overseas
(Special Foreign Currency Program)

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1967	6,000,000	6,000,000	3,500,000	4,500,000
1968	6,500,000	5,000,000	5,000,000	5,000,000
1969	7,500,000	5,000,000	5,000,000	5,000,000
1970	2,000,000	2,000,000	2,000,000	2,000,000
1971	7,000,000	4,000,000	4,000,000	4,000,000
1972	10,000,000	8,000,000	8,000,000	8,000,000
1973	10,000,000	8,000,000	8,000,000	8,000,000
1974	4,000,000	2,000,000	---	---
1975	---	---	---	---
1976	---	---	---	---
1977	---			

Note: This appropriation prior to Fiscal Year 1969 was carried under "Research and Training (Special Foreign Currency Program)," Vocational Rehabilitation Administration and "Research and Training (Special Foreign Currency Program)," Welfare Administration.

Research and Training Activities Overseas

(Special Foreign Currency Program)

	1976 Estimate	1977 Estimate	Change
New budget authority.....	---	---	---
Estimated obligations.....	$5,058,000	$2,748,000	$-2,310,000

Research and Training Activities Overseas must support, strengthen, and whenever possible, be fully integrated with the domestic research activities of high priority in the United States. The Rehabilitation Act of 1973, as amended, places emphasis on services to those with the most severe handicaps and directs and authorizes a research program to develop new and innovative methods of applying the most advanced medical technology, scientific achievement and psychological and social knowledge to make this emphasis a reality. Taking full advantage of the new authority provided in Section 202(b)(5) of the Act, as well as the previously utilized authorities, a number of new overseas projects of significance to the domestic program are being planned.

No new budget authority was requested during the past two years and the program continues to use unobligated balances from prior year appropriations. It is estimated that obligations for the Special Foreign Currency Program for 1977 will be $2,748,000. These amounts will also be from the estimated unobligated balance. No new budget authority is requested for 1977.

It is planned that eighteen research projects will be initiated. These projects will be directed at the same objectives and priorities as the domestic program with emphasis on severely disabled including spinal cord injured, neuromuscular diseases, chronic objective pulmonary disease, cancer and end-stage renal disease.

Emphasis will also be placed on rehabilitation engineering centers with evaluation of new technologies to serve the needs of severely disabled and removal of architectural and other environmental barriers.

There will be approximately 75 U.S. consultants and foreign scientists or fellows, participating in the program during FY 1977. This interchange of experts program serves as the underpinning of the R&D international program, and provides much direct technical assistance and information as scientists from the U.S. and other countries cooperate and collaborate on this international research.

The Special Foreign Currency Program is designed to supplement and complement the domestic research and demonstration program and develop new knowledge and methods for improving services to the disabled. Grants are restricted in this request to those countries where the U.S. owns excess local currencies and expenditures in this account do not take monies out of the U.S., nor are they computed in the DHEW expenditure ceiling.

The goals and objectives developed for the domestic program are also incorporated into the international program, with emphasis on rehabilitation of severely handicapped. Projects will be directed to the following major areas of emphasis.

How can new technology be used to serve the needs of the severely disabled in neuromuscular control, sensory feedback mechanisms, mobility and transportation devices and systems, and in the rehabilitation delivery system?

How can vocational rehabilitation services to the severely handicapped be improved in spinal cord injured, chronic obstructive pulmonary disease, cardiovascular diseases and neuromuscular diseases?

How can job opportunities for the handicapped be developed and expanded?

How can vocational rehabilitation manpower resources be more effectively utilized?

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OFFICE OF HUMAN DEVELOPMENT

Research and Training Activities Overseas
(Special Foreign Currency Program)

Program Purpose and Accomplishments

Activity: Research and demonstration (Agricultural Trade Development and Assistance Act of 1954, P.L. 83-840, as amended, through 1968, Section 104(b)(3))

1976 Estimate	1977 Authorization	1977 Budget Request
---	Indefinite	---

Purpose: The international Special Foreign Currency Program supports research activities which complement and strengthen the domestic programs of the Social and Rehabilitation Service and the Office of Human Development. This program is also designed to improve international cooperation and carry out U.S. research objectives in areas of mutual interest to the U.S. and host countries.

Explanation: The U.S. Department of Treasury designates as "excess currency" those countries in which U.S. -owned foreign currencies accumulated from the sale of agricultural products are in excess of Embassy and other primary U.S. requirements. Grantee institutions contribute to project costs to the greatest extent possible.

Accomplishments in 1976: During FY 1976, studies were initiated in the areas of rehabilitation of myocardial infarction victims; treatment of the mentally ill; planning for a comprehensive R&D Center, and several other areas. Many of these projects are cooperative efforts among several countries.

Objectives for FY 1977: Eighteen (18) research projects are planned, with emphasis on the severely disabled. Approximately 75 U.S. consultants and foreign scientists or fellows will participate in the program during FY 1977. The goals for the program include: (a) finding ways to develop and expand job opportunities for the handicapped, (b) better utilization of rehabilitation manpower resources, (c) improving services to those with spinal cord injury, chronic obstructive pulmonary disease, and cardiovascular and neuromuscular diseases.

MONDAY, MARCH 22, 1976.

OFFICE FOR CIVIL RIGHTS

WITNESSES

MARTIN H. GERRY, ACTING DIRECTOR, OFFICE FOR CIVIL RIGHTS AND SPECIAL ASSISTANT TO THE SECRETARY FOR CIVIL RIGHTS
TAYLOR D. AUGUST, ACTING DEPUTY DIRECTOR, OFFICE FOR CIVIL RIGHTS
CHARLES F. KEARNEY, DIRECTOR, OFFICE OF THE SECRETARY, BUDGET SERVICES
PETER BOUXSEIN, ACTING ASSISTANT GENERAL COUNSEL, CIVIL RIGHTS DIVISION
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER
DEWEY E. DODDS, ACTING ASSISTANT DIRECTOR FOR ADMINISTRATION AND MANAGEMENT, OFFICE FOR CIVIL RIGHTS

Mr. FLOOD. We will now have the Office for Civil Rights. The presentation will be made by Martin H. Gerry, Acting Director, Office for Civil Rights and Special Assistant to the Secretary for Civil Rights.

We have your biographical sketch which we will place in the record at this point.

[The biographical sketch follows:]

BIOGRAPHICAL SKETCH

Name: Martin H. Gerry.
Position: Acting Director, Office for Civil Rights.
Birthplace and date: San Francisco, Calif., January 3, 1943.
Education: Stanford University, A.B. 1964; Stanford Law School, LL.B. 1967.
Experience—present: Acting Director, Office for Civil Rights; 1974–75: Deputy Director, Office for Civil Rights; 1972–74: Assistant Director for Policy, Planning, and Program Development, Office for Civil Rights; 1969–72: Confidential Assistant to the Special Assistant to Secretary of Health, Education, and Welfare; 1967–69: associate attorney, Mudge Rose Guthrie and Alexander, New York City.
Association membership: Association of the bar of the city of New York.
Publications: "Cultural Freedom, The Right of Mexican American Children to Succeed," University of California, Riverside; "Cultural Myopia: The Need for a Corrective Lens," Journal of School Psychology, 1973; and Testimony before New York City Commission on Human Rights included in special issue of integrated Education, May–June 1975.

Mr. FLOOD. You have some people with you. Would you like to introduce them?

Mr. GERRY. On my far left, Mr. Charles Kearney, Director, Office of the Secretary, Budget Services. Sitting next to him, Mr. Taylor August, Acting Deputy Director, Office for Civil Rights.

On my immediate left, Mr. Dewey Dodds, Acting Assistant Director for Administration and Management. On my far right, Mr. Charles Miller, Deputy Assistant Secretary, Comptroller, and to his left, Mr. Peter Bouxsein, Acting Assistant General Counsel, Civil Rights Division.

Mr. FLOOD. I see you have a prepared statement.

Mr. GERRY. Yes sir.

Mr. FLOOD. Proceed.

Mr. GERRY. Mr. Chairman and members of the Committee, I am pleased to present the fiscal year 1977 budget request for the Office for Civil Rights.

The fiscal year 1977 budget request would provide 1,054 positions and $30,604,000, an increase of 150 positions and $4,034,000 above the fiscal year 1976 level.

The relatively large increase in requested resources reflects a commitment to expand and improve the Department's efforts in assuring compliance with nondiscrimination provisions of law.

DISCRIMINATION AGAINST HANDICAPPED PERSONS

In the fiscal year 1977 request, 50 new positions are proposed to enforce section 504 of the Rehabilitation Act of 1973, which prohibits discrimination against physically or mentally handicapped individuals in federally assisted programs. A proposed implementing regulation has been drafted and will be published soon in the Federal Register. It will provide for an extended comment period to help the Department come forth with an effective compliance program.

In carrying out a compliance program a new expertise in relation to the capacities and limitations of physically and mentally handicapped individuals is required. Therefore, initial reviews will be undertaken during the remainder of this fiscal year to apply aspects of the regulation in determining the extent of discriminatory practices and effective remedies. Where appropriate, compliance techniques and legal strategies for substantiating discrimination will be adapted from our enforcement of other nondiscrimination provisions of law.

The requested staff increase would allow the office to conduct during the next fiscal year, reviews of 600 school systems, 100 colleges and universities, and 125 health and social service institutions.

ELEMENTARY AND SECONDARY EDUCATION

During the early years of enforcing title VI of the Civil Rights Act of 1964, the overwhelming emphasis was on eliminating unconstitutional school segregation in the 17 southern and border States. In more recent years, the office has expanded its program beyond the former preoccupation with student assignment issues. Among initiatives has been a program of service reviews concerned with issues like special education, ability grouping, services to children deficient in English, student discipline, migrant education and employment discrimination. These areas present complex compliance matters and the evidentiary problem of establishing discrimination is more pronounced. Review activities, therefore, command larger staff resources, use of advanced analytical techniques and a continuing need to clarify obligations of school systems.

Despite the promise of these more recent activities and directions in civil rights enforcement, administrative priority must also be given to court mandated requirements. On March 14, 1975, OCR was ordered in the case of *Adams* v. *Mathews* to take certain action within constricted time frames regarding race discrimination complaints filed against elementary and secondary school systems in the 17 southern and border States. It has become necessary, therefore, to reassign staff and reduce the level of certain activities in view of the court's requirements. In some instances, we have been compelled to suspend under-

takings. On February 13, the Department of Justice filed a motion to modify the order entered in the *Adams* case in an attempt to allow OCR to undertake a more balanced enforcement program. Furthermore, pending litigation which seeks enlargement of other orders also might redirect our compliance focus. Accordingly, 65 new positions are requested to permit strengthening and diversification of current enforcement efforts.

Let me illustrate this by one specific example. In our Dallas regional office the court order specifically directs priority for the investigation of complaints of race discrimination. During the last 9 to 12 months the Dallas office has used virtually all staff resources in elementary and secondary education, just to remain current with the court order.

As a result, other high-priority matters, such as elimination of discrimination against non-English speaking children, in furtherance of the Supreme Court decision in *Lau* v. *Nichols*, have had to suffer because of the priority established under the *Adams* supplemental order.

We have, through the Justice Department, asked the Court to reconsider its position, particularly in light of our request for new positions, and allow us to broaden and balance our enforcement duties.

Let me address the Office of General Counsel—Civil Rights.

OFFICE OF GENERAL COUNSEL—CIVIL RIGHTS

An additional 35 positions are requested for the Office of General Counsel—Civil Rights. As the focus of OCR activities has shifted from southern school desegregation, cases being handled are increasingly more complex both as to legal theory and evidentiary requirements. The legal workload also has expanded with the enactment of new civil rights authorities, issuance of the *Adams* order, and the filing of other actions against the Department. With more assistance furnished by the Office of General Counsel, reviews and complaint investigations can be undertaken with continuing guidance as to legal issues and factual requirements. In our view, improvement of enforcement activity is likely to follow. Of the requested positions, 25 are for the elementary and secondary education program.

CONCLUSION

In summary, the fiscal year 1977 budget request would provide 1,054 positions and $30,604,000, an increase of 150 positions and $4,034,000 above the fiscal year 1976 level.

Thank you.

POSITION VACANCIES

Mr. FLOOD. For 1976 your justifications show 904 positions are authorized. How many of these positions are vacant?

Mr. GERRY. Mr. Chairman, as of February 28, 1976, there were 119 position vacanies. Of this number there are 47 recruitment actions pending and 7 commitments of employment. This means there have been no staffing activities with respect to 65 positions.

However, 60 of these positions were made available only recently in view of the late enactment, on January 28, 1976, of the fiscal 1976 appropriation, Public Law 94–206. Therefore, of the authorized positions preceding Public Law 94–206 there have been no staffing actions with regard to only five positions.

Mr. FLOOD. We need to have information before we can consider any requests for new positions. You are asking for 150 new jobs in 1977. There is no sense in giving you new jobs if you can't fill the existing jobs. Is there any employment ceiling imposed on your office?

Mr. MILLER. It is equal to the budgeted positions, Mr. Chairman.

UNSPENT FUNDS

Mr. FLOOD. The financial schedule in the budget appendix shows that your office did not use $2.5 million of the 1975 funds.

Mr. GERRY. Yes, Mr. Chairman.

Mr. FLOOD. What happened? Did we give you too much money or what?

Mr. GERRY. No, Mr. Chairman, I think there are two factors. Mr. Miller may wish to expand on this.

With other agencies in HEW, we were proceeding with plans to use some of the funds at the end of the fiscal year for contract awards, primarily for collection and analysis of data necessary for the enforcement of the civil rights authorities we administer.

Due to a last minute discovery by the Department of legislative restrictions on contract awards we were unable to spend approximately $1.5 million. The additional million dollars that was lapsed represented, primarily, the salaries of employees who, because of the timing of approval of the fiscal year 1975 budget, were not onboard during fiscal year 1975. It was really about $1 million in terms of unspent funds if we had not, along with other parts of the Department, discovered late in the year that we were not going to be able to make contract awards.

TRUST FUND TRANSFER

Mr. FLOOD. Now you show a decrease in the trust fund transfers of $1.3 million to $919,000. Why is there a decrease?

Mr. GERRY. The primary reason is a reduced level of compliance activity which we undertake on behalf of the Social Security Administration. I am not familiar with the allocation formula but it relates to compliance activities authorized under section 201(g)(1) of the Social Security Act. Mr. Miller might wish to clarify this matter further.

Mr. MILLER. I think the simple answer is that up until this past year we have been using a formula. We decided to go out and actually do a count. The figures are much better and more accurate now. That is why it shows a decrease.

NEW POSITIONS

Mr. FLOOD. In calculating the cost of 150 positions for 1977 that you are talking about, what rate was assumed in filling those? I think you people use the phrase "lapsed rate." Isn't that the terminology?

Mr. KEARNEY. These positions are lapsed approximately one-fifth of the year. In other words, we expect——

Mr. FLOOD. One-fifth of the year?

Mr. KEARNEY. Yes, sir. On the average we fill the new positions for four-fifths of the year.

COMPLAINT BACKLOG

Mr. FLOOD. Of course, we know what your office is and we know that the workload down there is expanding all the time. But are 150 new jobs needed for expanded workload or do you have a backlog that you want to reduce?

Mr. GERRY. Mr. Chairman, it is both. We have been working on a backlog of complaints which has accumulated principally in the elementary and secondary and higher education compliance programs.

Under the *Adams* supplemental order, we are required to address and resolve, within stipulated timeframes, all complaints of racial discrimination filed against elementary and secondary school systems in the 17 Southern and border States.

Under the court order we were able to clear up much of the title VI backlog but we still have a backlog concerning title IX complaints.

Mr. FLOOD. For the record, insert a chart which shows the workload for 1976 and 1977. What we need here is something to illustrate this backlog situation that you are talking about.

Mr. GERRY. We will be happy to.

[The information follows:]

SUMMARY OF COMPLAINTS SUBMITTED UNDER THE VARIOUS AUTHORITIES FOR INDIVIDUAL YEARS

Calendar year	Executive Order	Title IX	Title VI	PHSA
1969	5	----	9	----
1970	65	----	11	----
1971	205	----	17	----
1972	184	16	37	2
1973	101	94	68	4
1974	197	127	118	2
1975 (estimate)	308	208	170	1
Total	1,065	362	430	9

COMPLAINTS RESOLVED UNDER THE VARIOUS AUTHORITIES FOR INDIVIDUAL YEARS

Calendar year	Executive Order	Title IX	Title VI	PHSA
1969	5	----	9	----
1970	38	----	10	----
1971	113	----	14	----
1972	62	3	31	2
1973	27	35	30	2
1974	33	27	30	----
1975 (estimate)	115	45	60	----
Total	393	110	184	4

SUMMARY OF COMPLAINTS SUBMITTED UNDER THE VARIOUS CIVIL RIGHTS AUTHORITIES—HIGHER EDUCATION DIVISION

Year	Received	Resolved	Referred[1]	Backlog
1969	16	6	----	10
1970	99	22	----	87
1971	231	55	6	263
1972	246	105	53	351
1973	274	100	41	484
1974	470	166	20	769
1975	357	39	93	994

[1] Complaints are referred for investigation by EEOC under the terms of an OFCCP/EEOC Memorandum of Understanding.

Higher Education Division Complaints as of December 31, 1975

Authority	Title VI					Title IX					Public Health Service Act					504					Executive Order (Race/Ethnicity)					Executive Order (Sex)					Total				
Status	Rec'd	Referred	Investigation Started	Resolved	Unresolved	Rec'd	Referred	Investigation Started	Resolved	Unresolved	Rec'd	Referred	Investigation Started	Resolved	Unresolved	Rec'd	Referred	Investigation Started	Resolved	Unresolved	Rec'd	Referred	Investigation Started	Resolved	Unresolved	Rec'd	Referred	Investigation Started	Resolved	Unresolved	Rec'd	Referred	Investigation Started	Resolved	Unresolved
CY - 69	10	-	2	4	6																2	-	-	-	2	4	0	1	2	2	16	0	3	6	10
CY - 70	15		5	8	13																8	0	5	6	4	76	0	7	8	70	99		17	22	87
CY - 71	16		8	9	20	8				8											20	3	1	3	18	193	3	65	43	217	237	6	74	55	263
CY - 72	38		18	22	36	15		2	8	18	2			1	1						31	13	9	11	25	157	40	77	63	271	246	53	106	105	351
CY - 73	72		26	16	92	58		28	14	102	5		2	3	3						26	14	7	14	23	73	27	58	53	264	274	41	121	100	484
CY - 74	134		76	41	185	132		68	31	203	2		3		5						69	6	17	19	67	133	14	71	75	308	470	20	235	166	765
CY - 75	118	2	0	11	290	85	4	0	6	278	50	1	0	0	54						59	44	0	4	78	45	42	0	18	293	357	93	0	39	393
Total	403	2	135	111	X	341	4	98	59	X	59	1	5	4	X					X	215	80	39	57	X	681	126	279	262	X	1699	203	556	423	X

Rec'd - Complaints received during the calendar year.

Referred- Complaints referred to another agency for investigation during the calendar year.

Investigation started - Complaints on which investigations were started during the calendar year.

Resolved - Complaints resolved (by any means other than referral - i.e. lack of jurisdiction, withdrawal, closed to-cause, voluntary or mandated remediation) during the calendar year.

Unresolved - This figure should represent the backlog of complaints present within OCR, (i.e., not referred to another agency or reached the resolution stage) during the calendar year.

TITLE IX COMPLAINTS, ELEMENTARY AND SECONDARY EDUCATION DIVISION[1]

Calendar year	Complaints received	Complaints resolved	Complaints unresolved
1973	114	84	30
1974	200	109	91
1975	281	144	137
Total	595	337	258

[1] Reported as of Dec. 31, 1975.

Note: Complaints resolved and complaints unresolved are matched to the complaints received for a given calendar year; e.g., of 114 title IX complaints received in calendar year 1973, 84 were resolved and 30 remained unresolved as of Dec. 31, 1975.

COMPLAINTS BACKLOG—ELEMENTARY AND SECONDARY EDUCATION DIVISION[1]

Calendar year	Title VI complaints received	Title VI complaints unresolved	Title IX complaints received	Title IX compaints unresolved
1973	293	11	114	30
1974	451	37	200	91
1975	555	187	281	137

[1] Reported as of Jan. 31, 1976.

Note: Unresolved complaints are matched to the complaints received for a given calendar year; e.g., of 293 title VI complaints received in calendar year 1973, 11 complaints remain unresolved as of Jan. 31, 1976.

COMPLIANCE ENFORCEMENT

Mr. FLOOD. You touched on this a little earlier briefly. Suppose you describe the source of the workload for your office. Does it consist of both complaints and compliance reviews?

Mr. GERRY. Yes, Mr. Chairman. We have at this point four operating divisions. With respect to the elementary and secondary education and higher education divisions we administer title VI of the Civil Rights Act of 1964, title IX of the Education Amendments of 1972, and section 504 of the Rehabilitation Act of 1973. We receive complaints of discrimination under these authorities.

We also schedule routine compliance reviews of federally assisted recipients and undertake court-mandated compliance reviews. The *Adams* order, in the area of higher education, required comprehensive compliance reviews of 10 statewide higher education systems in the 17 Southern and border States.

The order also required review of several hundred school districts with substantial racially disproportionate schools.

We also undertake compliance reviews under Executive Order 11246, as amended, including preaward clearances mandated by the Department of Labor. Compliance reviews are instituted also on the basis of information obtained from our surveys of Federally assisted recipients.

We attempt to strike a balance between self-initiated compliance reviews and complaint reviews.

PROPOSED PROCEDURAL REGULATION

Mr. FLOOD. You may remember that last summer the Secretary announced a plan to stop investigations on the individual complaints of discrimination. Then very recently it was announced that this plan was abandoned.

Will you explain that change in policy and tell us what affect such a change will have on your staffing requirements?

Mr. GERRY. Yes, Mr. Chairman.

Last summer the Department issued a proposed consolidated procedural regulation. In one section of the regulation the Department indicated its view regarding the obligation to investigate all individual complaints. The Department never proposed eliminating all complaint investigations but simply proposed not committing itself to investigate and resolve each and every complaint filed with the Office.

The Secretary, on March 16, withdrew the proposed consolidated procedural regulation. In the Secretary's statement on the subject he indicated the Department should indeed find ways to assure every complainant some type of appropriate resolution of a grievance filed with the Department.

As a reuslt, the Department is seeking additional resources. The 150 additional positions which we are requesting for fiscal year 1977 will assist in undertaking increased complaint investigations.

We are also seeking public comment and discussion at this point on alternate strategies which might help to bring into play resources of other levels of Government.

But there is no question that the decision to investigate all individual complaints has a direct resource implication. Again, a number of the 150 positions requested will be allocated to complaint investigations.

STAFF REALLOCATION

Mr. FLOOD. Take a look at page 8 of your justifications there. You mention a reprogramming of staff from the emergency school aid activities. Suppose you tell us about your plans for shifting from one activity to another.

Mr. GERRY. Yes, Mr. Chairman. What we are proposing, because of the resource crunch occasioned by the *Adams* order and because of other enforcement responsibilities, is the shift of some staff from emergency school assistance compliance activities. This staff reallocation is required to meet the court order requirements in two of the regional offices.

One request contained in the motion to modify the supplemental order is permission to carry out at least pregrant ESAA activities. With the Office of Education we have developed new approaches to pregrant ESAA activities which will lower the level of required resources. This will serve to make some resources available for higher priority activities.

Mr. FLOOD. We always have the problem of shifting staff after you get out of here. Do you have any other plans to do some staff shifting?

Mr. GERRY. As a practical matter, the staff we are talking about here will be working on almost exactly the same types of activities. The civil rights assurances required under the Emergency School Aid Act parallel many of the obligations of public elementary and secondary school systems under title VI.

What we are really talking about is a change in the characterization of the effort. It would allow us to use these investigators to handle

some of the complaint backlog. However, the conduct of investigations as well as their impact would be similar to compliance activities under the Emergency School Aid Act.

INDIVIDUAL COMPLAINTS OF DISCRIMINATION

Mr. FLOOD. Your justifications in several places refer to investigating complaints in what you phrase as a "good faith" effort. We think we understand what that means but you might explain a little further.

Mr. GERRY. Let me explain. The Secretary had not concluded his review of the proposed consolidated procedural regulation, I believe, when the budgetary materials were prepared. As a result, the terms may not totally reflect the Secretary's decision announced on March 16. The Department is seeking now to develop mechanisms and procedures which will insure timely resolution of every complaint it receives. The decision of the Secretary further underscores the need for the additional resources requested for the Office. It also requires more efficient use of current resources, including the redeployment of staff where necessary.

Mr. FLOOD. Have the courts accepted your good faith effort?

Mr. GERRY. We have a motion to modify the supplemental order entered in the *Adams* case pending before Judge Pratt. The request, in effect, is for the court to approve a more balanced enforcement program. We hope the judge will rule favorably at this point. We feel we have made a compelling case in terms of our other statutory responsibilities.

ASSIGNMENT OF STAFF

Mr. FLOOD. This total staff is 904. How many of them do you have assigned to the enforcement activity?

Mr. GERRY. All of the positions are assigned to the operating divisions with the exception of 147 administrative support positions and 66 positions in the Office of General Counsel.

Mr. FLOOD. How many of those 904 are in Washington and how many in the regional offices?

Mr. GERRY. Two hundred and eighty-one of the positions, or approximately 31 percent, are in headquarters. Six hundred and twenty-three of the positions, or approximately 69 percent, are in the regional offices.

Mr. FLOOD. Do you have a higher proportion of those assigned to the Southern States than you do to the Northern States?

Mr. GERRY. There is a total of 623 persons in our 10 regional offices. Of the total, 386 persons, or 62 percent of regional staff, are in the regional offices serving the Northern-Western States. Two hundred and thirty-seven persons, or 38 percent of regional staff, are in the regional offices serving the Southern-border States.

HIGHER EDUCATION EMPLOYMENT

Mr. FLOOD. In your statement you mentioned a five-point program for affirmative action in higher education. Right away that involves the Labor Department, too.

Mr. GERRY. Yes, Mr. Chairman.

Mr. FLOOD. If this is successful, it will be the first time that we have seen two departments working together effectively. Tell us how you plan to carry out a joint venture like this.

Mr. GERRY. The five-point program was developed and formally agreed to by both departments. We have been working with the Labor Department for a year to a year and a half on application of the nondiscrimination and affirmative action requirements of Executive Order 11246 to higher education institutions.

I think we have developed an excellent working relationship. There were productive discussions between Secretaries Dunlop and Weinberger and those have continued. We have a working committee composed of people from both departments assisting the Federal Affirmative Action Advisory Committee. We have been working at length to develop new regulations. To illustrate, let me point out that last August the Department of Labor issued a revised format for higher education institutions. We have worked on that together.

We have, as a result, been able to significantly improve the monitoring and evaluation of affirmative action plans of colleges and universities subject to the Executive order. There have been some concrete positive results already from this cooperation.

Mr. FLOOD. We will watch that.

Mr. GERRY. I am very encouraged that we are able to reflect the increasing progress in the development of that program.

Mr. FLOOD. So are we. Two months ago the Commission on Civil Rights criticized both HEW and the Department of Labor for relying too heavily on supply issues and not vigorously enough on the enforcement requirements.

What do you say to that criticism?

Mr. GERRY. Mr. Chairman, my recollection is that the criticism was the opposite—that we had not addressed the supply issue sufficiently. The Commission is referring to the supply of minorities and women available for academic employment.

We would strongly concur with the Civil Rights Commission that this concern, basic to achieving equal opportunity has not been adequately addressed. Secretary Weinberger last August and Secretary Mathews in the joint statement issued on January 2 stressed the importance of improving on what is without question a very low availability of minorities and women qualified for professional employment by higher education institutions.

We have been supporting that objective very strongly in concert with the Labor Department. Again, it is part of the five-point program, the departments announced to help expand employment opportunities for minorities and women in higher education.

NEW POSITIONS—SECTION 504

Mr. FLOOD. Now, talking about jobs again, you want 50 new positions for the enforcement of section 504, the discrimination positions related to the handicapped.

Mr. GERRY. Yes, Mr. Chairman.

Mr. FLOOD. How many do you have assigned to that work now?

Mr. GERRY. As of February 1, 1976, 50 positions were authorized.

Mr. FLOOD. How many do you have assigned to it now?

Mr. GERRY. Fifty. Do you mean as of today?

Mr. FLOOD. Yes, now, how many do you have assigned to this work right now?

Mr. GERRY. Currently, there are 50 authorized positions to enforce section 504. An additional 50 positions are proposed in the fiscal year 1977 budget request.

Mr. FLOOD. How did you arrive at the figure 50?

Mr. GERRY. Mr. Chairman, our goal for fiscal year 1977 is sufficient staffing of our regional offices to permit a viable enforcement program for section 504.

Mr. FLOOD. Why 50, why not 49 and a half?

Mr. GERRY. Well, we were looking for a total of approximately 100 positions.

Mr. FLOOD. Why 50?

Mr. GERRY. Fifty additional positions would allow us to reach the desired total. We felt that 100 positions would permit sufficient headquarters support and sufficient staff in the regions to undertake compliance reviews and complaint investigations.

Mr. FLOOD. As a matter of fact, the potential workload for the section 504 cases is enormous, isn't it?

Mr. GERRY. Yes, Mr. Chairman. The Congress estimated that there are 25 million people who could be regarded as protected by the statute.

Mr. FLOOD. How are you going to handle it with such a small staff?

Mr. GERRY. What we are trying to do, Mr. Chairman, with the implementing regulation to be issued shortly, is to have sufficient staff within the general budgetary constraints to launch an effective program in the regional offices. It is going to require some selectivity as to areas we approach first. We are going to rely heavily on State agencies. We want our staff to work with the State agencies which have been closely involved with many service programs for handicapped persons.

We think this figure represents an acceptable level of staffing which will permit us to carry out a viable enforcement program. In any civil rights program it is possible to justify additional staff, particularly when there are 25 million potential beneficiaries.

But we feel this is a responsible request which will permit us to carry out the mandate particularly during the first year. We will learn more about discriminatory practices and effective remedies as experience is gained in administering the most complex civil rights statute under the office's jurisdiction.

NEW POSITIONS—ELEMENTARY AND SECONDARY EDUCATION

Mr. FLOOD. Now you want 65 new jobs for the elementary and secondary compliance enforcement. Again, how many are assigned to that work now?

Mr. GERRY. The number of positions in the elementary and secondary education division is 247. Of the total, 43 are in headquarters and 204 are in the regional offices.

Mr. FLOOD. What kind of a yardstick do you use to decide 65 more people?

Mr. GERRY. What we did, Mr. Chairman, was to look at the overall requirements which are currently levied under the court-ordered activities. We have a very clearcut benchmark to start with because of the existence of the Adams order and pending litigation.

We asked ourselves what level of staffing would be necessary to carry out a balanced enforcement program throughout the country. The balance we sought would permit continuation of activities related to the Lau decision, investigation of national origin and sex discrimination complaints and more efforts in program development review such as in the area of student discipline and special education.

The 65 positions represent at this point an estimate of the minimum amount of additional staff needed for a viable across-the-board compliance program, recognizing two things: First, the existence of the court orders and our obligation to comply with the orders and, second, the Secretary's recent statement regarding investigation of individual complaints.

NEW POSITIONS—OFFICE OF GENERAL COUNSEL

Mr. FLOOD. You are asking 35 new positions for the General Counsel?

Mr. GERRY. That is correct.

Mr. FLOOD. How many of these are attorneys?

Mr. GERRY. Twenty-six, Mr. Chairman. Nine would be support staff.

Mr. FLOOD. How many attorneys are now assigned to the Civil Rights Division?

Mr. BOUXSEIN. Twenty-five in the Washington office and 18 more located in the regional offices.

Mr. FLOOD. Why can't you use attorneys from the Justice Department to handle some of your work?

Mr. BOUXSEIN. They have a pretty heavy workload themselves. When we discuss with them their taking the lead on a case or our taking a lead, they say they are already overburdened, and understaffed and suggest that we continue to handle the cases.

EXEMPTIONS UNDER TITLE IX

Mr. FLOOD. Are there any institutions that are exempt from the title IX sex discrimination requirements?

Mr. GERRY. The statute specifically lists the types of educational institutions which are covered. However, some educational institutions covered under title IX are exempted from complying with the prohibition against discrimination in admissions. These include private undergraduate institutions, nonvocational elementary and secondary schools, and public undergraduate schools which have been traditionally single sex. Also, the statute exempts military schools and institutions controlled by religious organizations to the extent title IX would be inconsistent with the religious tenets of such organizations.

Mr. FLOOD. How many institutions have requested exemptions from title IX?

Mr. GERRY. I would have to supply that for the record, Mr. Chairman.

Mr. FLOOD. All right. I would like to see that as of today.

[The information follows:]

INSTITUTIONS REQUESTING RELIGIOUS EXEMPTION UNDER TITLE IX

1. Brigham Young University, Provo, Utah.
2. LDS Business College, Salt Lake City, Utah.
3. Ricks College, Rexberg, Idaho.

4. Duns Scotus College, Southfield, Mich.
5. Mississippi College, Clinton, Miss.
6. Rabbinical College Telshe Yeshiva, Wikliffe, Ohio.
7. Rabbinical College Beth Shraga, Monsey, N.Y.
8. B'nai Torah Institute, Brooklyn, N.Y.
9. Rabbinical Seminary of America, Forest Hills, N.Y.
10. Ner Israel Rabbinical College, Baltimore, Md.
11. Beth Jacob Hebrew Teachers College, Brooklyn, N.Y.
12. Rab Ac Mes Rab Chaim Brln, Mesivta, Yeshiva, Brooklyn, N.Y.
13. Yesh Toras Chaim Talmudical Seminary, Denver, Colo.
14. Mes Torah Rodaath Sem, Mesifta Talmudical Seminary, Brooklyn, N.Y.
15. Yeshivah Nachlas Haleviyim (Institute for Advanced Studies), Brooklyn, N.Y.
16. Talmudical Yeshiva of Philadelphia, Philadelphia, Pa.
17. Sh'or Yoshuv Rabbinical College, Institute for Jewish Studies, Far Rockaway, N.Y.
18. Rabbinical Seminary M'Kor Chaim, Institute of Higher Learning, Brooklyn, N.Y.
19. Mesivtah Eitz Chaim D'Bobv, Brooklyn, N.Y.
20. Mirrer Yeshiva Central Institute, Brooklyn, N.Y.
21. Sara Schenirer High School for Girls and Teachers Seminary, Brooklyn, N.Y.
22. Yeshiva of Nitra Rabbinical College, Brooklyn, N.Y.
23. Torah Academy for Girls, Far Rockaway, N.Y.
24. Beth Hatalmud Institute for Advanced Talmudic Studies, Brooklyn, N.Y.
25. Beth Hatalmud, Brooklyn, N.Y.
26. Mesvita Nachlas Yacov, Rabbinical Seminary of Adas Yereim, Brooklyn, N.Y.
27. Yeshiva Rabbi Samson Raphael Hirsch, New York, N.Y.
28. Kehilath Yakov Rabbinical Seminary, Brooklyn, N.Y.
29. Yeshivah Karlin-Stolin, Brooklyn, N.Y.
30. Beth Medrash Govoha, Lakewood, N.J.
31. Central Yeshiva Tomchei Tmimim Lubavitz, Brooklyn, N.Y.
32. Long Island Seminary of Jewish Studies for Women, Far Rockaway, N.Y.
33. The Milton Eisner Yeshiva, Scranton, Pa.
34. Rika Breuer Teachers Seminary for Women, New York, N.Y.

ANTIBUSING AMENDMENT

Mr. FLOOD. Now, in the appropriation bill for fiscal 1976, Congress included an amendment limiting the authority of HEW regarding enforced busing for students—the so-called Byrd amendment?

Mr. GERRY. Yes, sir.

Mr. FLOOD. This very directly affects your office. Although this bill was just passed, 2 months ago, can you tell us what effect it is having on enforcement activity? Just tell us something briefly, and for the record, take a look at that and develop the answer to that question pretty generally for the record; will you?

Mr. GERRY. Yes, Mr. Chairman. We were, of course, aware of the development of legislation in the Congress. Following enactment of the appropriation bill, we immediately reassessed pending cases to be sure that any requirements of the office would be consistent with the legislation.

Mr. Chairman, having reviewed our current status, to my knowledge we have not taken any position which is now or would be inconsistent with the provision. We have some cases—it is a small number, and I will supplement my answer—where there will be an effect, without question, in terms of the possible scope of relief.

I should add that the Byrd amendment, of course, limits what the Department may require or request of a school district directly or

indirectly. What a school district will propose is another matter. We probably won't know the full effect of the Byrd amendment until we see what, in fact, school districts elect to propose in the way of voluntary compliance plans.

[The information follows:]

In the view of the Department's General Counsel, the Byrd amendment must be read in conjunction with the Esch amendment, which sets forth, by priority, a series of remedies, including rezoning, reorganization of grade structure, construction of new schools, closing inferior schools, establishing magnet schools or utilizing other educationally sound and administratively feasible remedies. The Byrd amendment, of course, necessarily amends the provisions of the Esch amendment relating to transportation; the limitation in the Esch amendment to transportation to "the closest or next closest" school must now be read as "the nearest" school. However, we believe the restrictions on transportation in the Byrd amendment do not preclude the Department from requiring school districts, in which this Department has found discrimination, from examining the priority of remedies specified in the Esch amendment to ascertain their merit in a particular case.

With this in mind, we are reviewing approximately 80 cases which are currently in some stage in the Department administrative enforcement process. About one-half of these directly involve student assignment and, thus, the remedy is potentially constrained by the Byrd amendment. In addition, there are approximately 25 school districts under review in the northern and western States; again, one-half involve student assignment and are potentially affected by the Byrd amendment.

The extent to which desegregation remedies in these cases may be limited by the Byrd amendment will necessarily depend upon demographic and geographic features unique to each. In those cases examined to date, a remedy has been available, within the strictures of both the Byrd and the Esch amendments, which achieved a satisfactory level of desegregation.

ANALYSIS OF SERVICES

Mr. FLOOD. Also for the record, we want a detailed analysis of these management items. If we don't get satisfactory response on these items, the increases can't be allowed.

The items include travel, rent, communications, utilities, and other services.

Mr. GERRY. Mr. Chairman, we will be happy to furnish a detailed analysis for the record.

Mr. FLOOD. All right.

[The information follows:]

COST INCREASES OF TRAVEL, RENT, COMMUNICATIONS, UTILITIES, AND OTHER SERVICES

The increases are primarily related to the requested 150 new fiscal year 1977 positions and to full-year costs for the 60 new positions provided by the Congress in fiscal year 1976. The increases are as follows:

1. Travel: +$210,000.

The increase of $210,000 in object class 21 is entirely related to 150 requested new fiscal year 1977 positions and to full-year costs of 60 new fiscal year 1976 positions. The increase would permit these new employees to fulfil' their compliance responsibilities in enforcing title VI (race discrimination) and title IX (sex discrimination) in elementary and secondary schools and section 504 (handicapped discrimination) in all institutions receiving Federal funds.

2. Rents, Communications, and Utilities: +$595,000.

Rents, communications, and utilities are included in object class 23. These costs include General Services Administration standard level user charges for office space and other costs including the rental of copying and data processing equipment, all postal and telephone charges, and utility services. The increase is composed of the following:

+$408,000 for GSA office space charges for the requested 150 new 1977 positions and a 6 percent GSA rate increase over the fiscal year 1976 level.

+$187,000 for costs other than office space. This increase is primarily for costs related to the 150 requested new fiscal year 1977 positions and the 60 new fiscal year 1976 positions. A small portion is for increased costs such as postage and telephone rate increases which affect all civil rights personnel other than the new fiscal year 1976–77 positions.

3. Other services: +$576,000.

Other services are included in object class 25 and cover training of personnel, data processing, repairs to equipment and buildings, contracts and consultant services related to furtherance of Federal programs, and a variety of administrative services provided by the Department's working capital fund. These working capital fund services include payroll, administrative, and employee data services for headquarters' employees, and the personnel, financial, and office services provided to regional employees of the Office for Civil Rights. The increase of $576,000 includes:

+$471,000 related to the requested 150 new fiscal year 1977 positions and full-year costs of 60 new fiscal year 1976 positions. The increase would provide the compliance enforcement training required for these new personnel, and would permit data processing related to compliance surveys required for this increased compliance enforcement effort.

+$105,000 related to increased costs of the administrative services supplied by the Department's working capital fund to civil rights employees other than those filling the new fiscal year 1976–77 positions.

Mr. FLOOD. I will have to vote. Mr. Patten will take over.

DISCRIMINATION COMPLAINTS

Mr. PATTEN [presiding]. You know when we had the civil rights bill on the floor, those who made some amendments like no discrimination because of sex were really trying to load the bill to defeat it. They were taken as quite a joke. Now when you speak of how complex your work is, it is no longer a joke, is it?

Mr. GERRY. No, we certainly don't approach it that way.

Mr. PATTEN. I remember who did it. There were no hearings, no analysis. It was really done as one of 85 amendments to defeat the Civil Rights Act; to load it up. There were many other amendments that sound meritorious but they were not related to the piece of legislation we had that day.

I was wondering, with all your experience, some of these complaints don't have much merit. The purpose of the complaint probably isn't in good faith. Is that true?

Mr. GERRY. Actually I would not say this is frequent. I am certainly aware that it has happened. In most cases a complaint we receive represents the honest views and opinions of the person making the complaint. Whether the complaint in fact alleges a violation under the law and whether it becomes substantiated, of course, varies from case to case.

My experience indicates that most people who file complaints with the Department take the matter very seriously and usually express their very deeply felt views. The difficulty for our office is to investigate those complaints in a dispassionate way so that we can fairly evaluate whether there is a violation of the statutory provisions the Office administers.

CIVIL RIGHTS ACCOMPLISHMENTS

Mr. PATTEN. You know, I attended a dinner up at Rutgers Saturday night. We honored one of the professors but he was only an excuse for the dinner. The reason for the dinner was to raise money for the scholarship fund. There were about 1,000 people there. I can tell you

that was a different group than you would have seen 10 years ago. There was a pretty good mix there. So we have come a long way, despite what everyone else says. I mean, looking at that audience and those who were participating, the hopes of getting down to the job have been realized. Do you have any satisfaction that the money we are spending here is bringing results?

Mr. GERRY. Yes, Mr. Patten, I do. I think in many areas there has been a great deal of progress, as you indicate. I think higher education institutions are certainly good examples. I think in terms of the overall value to the country of eliminating barriers to equal opportunity that have existed the return of the taxpayers' money is certainly a good one.

I think it is money well spent given the overall impact and the strengthening of the country which has taken place as a result of improved civil rights enforcement.

COMPLIANCE ACTIVITIES

Mr. ROYBAL. HEW's agencies grant hundreds of millions of dollars each year to academic and nonacademic institutions for training activities and student assistance. What system of review have you established which allows you to evaluate the effectiveness of federally funded health and educational students' training programs in terms of equal opportunity for minorities, women, and the handicapped?

Mr. GERRY. Mr. Roybal, we have done several things. First, we survey institutions which are recipients of Federal financial assistance. We have surveyed elementary and secondary schools, vocational, and higher educational institutions with an eye toward ascertaining the racial, ethnic, and sex composition of the training programs and other activities which they operate.

We have, as a result of many of the surveys, identified potential compliance problems. For example, we will compare racial enrollment against some general prediction of what the enrollment might be expected to be. Compliance reviews are undertaken when there is a need for further inquiry to determine a recipient's compliance status. We also maintain a complaint investigation program under each of the civil rights authorities.

I think if there has been a weakness in the program, it has been the fact that we have not done the kind of intensive surveying of the health training institutions which we would like to do. We plan during fiscal year 1977 to conduct some rather intensive surveying of health training institutions.

COMPLAINT PROCEDURES

Mr. ROYBAL. You say that you have a complaint investigation program?

Mr. GERRY. Yes, sir.

Mr. ROYBAL. So what else is new? You have a complaint procedure, but what do you do after you get a complaint?

Mr. GERRY. We acknowledge receipt of the complaint and then schedule an investigation at the earliest possible time. The process varies somewhat according to the type of institution and the regional office involved. As I indicated in my testimony earlier, with respect to

elementary and secondary institutions, we have been unable to do very much more than just title VI complaints in the 17 Southern and Border States because of the *Adams* order. With respect to higher education institutions we would put the complaint into our case backlog and try to reach it as quickly as possible. Most of the time, in the interest of fairness, we must operate on a first-come, first-served basis.

COMPLAINTS FILED

Mr. ROYBAL. Approximately how many complaints did you have last year?

Mr. GERRY. Let me give you the figures first for higher education. With respect to calendar year 1975, we received 118 title VI complaints, 85 title IX complaints, 50 Public Health Service Act complaints, 59 Executive order race-related complaints, 45 Executive order sex-related complaints, for a total of 357 complaints.

The total backlog at the end of calendar year 1975 was 993 complaints. However, investigations have started of 556 of the complaints in the backlog or approximately 56 percent. Perhaps that would give you a picture of the overall complaint handling problem in the higher education area. The backlog in the elementary and secondary education area at the end of calendar year 1975 was 493 complaints.

RESOLUTION OF COMPLAINTS

Mr. ROYBAL. How many adjustments have you made as a result of the complaints?

Mr. GERRY. I would be happy to supply for the record a more detailed description of the type of action, or the type of determination which have been made.

Mr. ROYBAL. Will you please do that with regard to education, but also include the National Institutes of Health and any other organization that may have complained during the last year. It may determine what you do after you get a complaint and whether or not it makes any sense to complain at all?

Mr. GERRY. I would be happy to supply that for the record. I would indicate that the HEW program agencies such as the National Institutes for Health and the Office of Education and other relevant agencies, of course, have a responsibility in the direct administration of the program to encourage the use of the funds for broad-based training programs and have taken some activity. I would be happy to supplement the record with respect to the overall HEW effort.

Mr. ROYBAL. And also give us an indication of how many adjustments were made as a result of these complaints.

Mr. GERRY. I will be happy to do that.

Mr. ROYBAL. Also show how many complaints were not justified. This is a two-way street. There may be some complaints that have justification and some that have no justification whatsoever.

Mr. GERRY. We will provide such a breakdown.

Mr. ROYBAL. And how you handle each one of them, whether they were justified or not.

Mr. GERRY. Of course, we wouldn't identify complainants or specific complaints, but we would be happy to provide the summary information.

Mr. ROYBAL. That is all we are interested in, anything which will clearly indicate what you do after a complaint is received. I just want to be sure that you just don't file it.

Mr. GERRY. I can assure you we don't.

Mr. ROYBAL. Or send them to see the chaplain.

Mr. GERRY. We don't file complaints, but we do have, as I indicated several times, a very serious backlog problem.

[The information follows:]

I would like to submit to the subcommittee a copy of the form used by the elementary and secondary education division to chart complaints. These completed charts, with the exception of complainant names, are made available to the public under the freedom of information provisions of law. Clearly, they are available for review by the subcommittee. I believe they indicate a current and continuing effort to track complaint processing. Statistical data related to Mr. Roybal's concerns in higher education are being compiled in response to a court order and I anticipate that by mid-April it will be completed and can be furnished the subcommittee. In our Health and Social Services Division in calendar year 1975 the division received 307 complaints. Of that number 226 were substantiated. It was found that 81 were not title VI complaints (unsubstantiated) and were referred outside OCR. In the resolution of the remaining complaints we were successful in eliminating segregated facilities; in changing the employment practices of recipients of Federal funds so as to make services and benefits available to minority beneficiaries; and in providing for the participation by minorities in programs which heretofore they were either excluded from or were limited in their participation.

COMPLAINT LOG — REGION III

PART A - Section IIB (2)(b) requires

Log No.	Date Rec'd	Name of LEA	Nature of Complaint	JURISDICTION (Title VI, Title IX, ESAA)	Determination Compliance	Determination Non-Compliance	Action Taken Compliance Negotiated	Action Taken Referred to DC(date)	CURRENT STATUS
II-74-001	1/7/74	ntgomery County Sch., Md.	Sex/ Athletics	Title IX					On-site review to be scheduled FY 76
III-74-002	2/1/74	Rd. Richmond Sch.Va.	Sex/ Athletics	Title IX					On-site review to be scheduled FY 76
III-74-003	2/5/74	District of Columbia,Dist.	Racial/ Faculty	Title VI	YES				(CLOSED)
III-74-004	2/74	Charlottesville, School Dist.Va.	Sex	Title IX	YES				(CLOSED)
III-74-005	2/21/74	Ave. City of Phila., Pa.	Racial/ Student admittance	Title VI	YES				Individual aspect of complaint CLOSED
III-74-006	4/1/74	Greensburg Salem ,Pa. Pa.	Sex	Title IX					On-site review to be scheduled FY 76
III-74-007	4/4/74	Galax, Disc. Va.	Racial/ teacher dismissal	Title VI		YES	YES		(CLOSED) Teacher re-hired
III-74-008	4/8/74	Cumberland Co. Dist. Va.	Racial/ segregated classes	Title VI		YES	YES		(CLOSED)
III-74-009	4/10/74	Blackhawk Area., Pa.	Sex	Title IX					On-site review to be scheduled FY 76
III-74-010	4/12/74	Harford Co. Dist., Md.	Racial/ Promotions	Title VI		YES	YES		(CLOSED) However, periodic reporting ext. assure compli.
III-74-011	4/17/74	Center TWP Pa. Monaca, Pa.	Sex	Title IX					On-site review to be scheduled FY 76
III-74-012	4/18/74	Western Beaver Dist. Pa.	Sex/ Athletics	Title IX					On-site review to be scheduled FY 76
III-74-013	4/18/74	Hopewell Area ,Pa. Dist.,Pa.	Sex/ Athletics	Title IX					On-site review to be scheduled FY 76
III-74-014	4/18/74	t Rd. Baltimore Md.	Sex/- Courses offered	Title IX		YES	YES		(CLOSED) Corrective Action Secured
III-74-015	4/25/74	Ambridge Area Dist., Pa.	Sex	Title IX					On-site review to be scheduled FY 76

"LAU" COMPLIANCE PROGRAM

Mr. ROYBAL. Mr. Chairman, I am going to ask one more question, and I will submit the rest of them for the record because I realize we have another hearing pending.

Under the *Lau* Court decision, OCR has undertaken a compliance directed at 352 school systems. If that number is correct, are these the only school systems subject to this law, or are they the only school systems that can be identified under *Lau?*

Mr. GERRY. The situation, Mr. Roybal, is this: The Supreme Court in *Lau* v. *Nichols* upheld the policy memorandum issued by the Department on May 25, 1970, which outlined the responsibility of school districts to provide equal educational opportunity to national origin minority children deficient in English-language skills. The decision had the primary effect of providing support for continued enforcement efforts by the Department.

As a result of the decision by the Supreme Court, and its impetus for our enforcement efforts, we first identified 333 school districts on the basis of our 1972 Elementary and Secondary School Civil Rights Survey of approximately 8,000 school districts. These districts reported a large number of national origin minority children receiving little or no special language instruction. We then sent each of the districts a fairly detailed form which asked for information so we could determine whether or not appropriate educational services were, in fact, being provided.

The 333 districts are not presumed to be discriminating; they simply were the first group of school districts that we selected on the basis of this relatively simple statistical analysis.

The principles involved in the *Lau* decision and the May 25 memorandum apply to all school districts. Again, we are engaged in an effort which concentrates resources initially on larger school districts.

In many of the districts compliance problems were determined and we negotiated corrective action plans in some cases. I want to further add that we issued, on August 11, 1975, an outline of remedial approaches to help school districts in submitting corrective plans.

Many school districts without actually having participated in an investigation have voluntarily adopted such plans, and I think in general there has been important progress in this area.

STAFF: MINORITY AND SEX STATUS

Mr. ROYBAL. I have other questions on the same subject that I would appreciate your answering for the record, but at the moment, I would like to know how many employees you have in the Office for Civil Rights, who are women; how many are blacks; how many Hispanic. Can you provide that now?

Mr. GERRY. Let me see if I have the total figures. The data I have is broken down by grade level. I can give you the professional employees of the office if that would be all right and provide the other figures for the record.

Mr. ROYBAL. The professionals would be probably more significant than the overall.

Mr. GERRY. Let me first give the overall figures. As of December 20, 1975, the entire staff of OCR was 56.1 percent female and 60.7 percent minority. Going by grade levels in the top positions——

Mr. ROYBAL. Back up just a minute; 60.7 percent were minorities. Can you break that down to the various ethnic groups that are involved?

Mr. GERRY. As of December 20, 1975, the number of black employees was 344 or 49.2 percent of the staff on board as of that date. The number of Hispanic employees was 71 or 10.1 percent of the staff. The number of Asian employees was 12 or 1.7 percent of the staff. The number of American Indian employees was seven or 1 percent of the staff. There are 218 black females, 28 Hispanic females, 4 American Indian females and 8 Asian females.

Mr. ROYBAL. But of all these women there are only four Hispanic.

Mr. GERRY. There were 28 Hispanic females. The figure of four, again, represents American Indian females.

Again, the total number of Hispanic employees as of December 20, 1975, was 71.

Mr. ROYBAL. And how many blacks?

Mr. GERRY. 344—218 black females and 126 black males.

Mr. ROYBAL. The Asians, then, in both instances——

Mr GERRY. Twelve—8 Asian females and 4 Asian males.

Mr. ROYBAL. Again, if we examine the proportions, we find that it is not a very good distribution?

Mr. GERRY. I think there is no question we are underrepresented in terms of Hispanic, American Indian and Asian employees. We are moving rapidly with our affirmative action program to improve our record.

Let me add, because sometimes these figures can be masked in terms of grade levels, it might be helpful to give you a breakdown of the three highest grade levels in the office, the career civil service positions. At grade 15, we have 36 persons. This included 8 women or 22.2 percent of the total GS–15 employees. The total of GS–15 minority employees is 15 or 41.6 percent. There is one Hispanic employee or 2.7 percent.

Of the 10 regional OCR directors, there are 2 women and 8 men; there are 3 whites, 6 blacks, and 1 Hispanic.

At grade 14, there are a total of 70 persons. Women represent 10 of the 70, or 14.2 percent. The total of GS–14 minority employees is 44 or 62.8 percent. There are 11 Hispanic employees or 15.7 percent.

Finally, at Grade 13, there are 104 employees. Eighteen are women, approximately 18 percent. The total of GS–13 minority employees is 57 or 54.8 percent. There are 12 Hispanic employees, approximately 12 percent. The distribution of minorities and women throughout the office remains pretty much the same at the top of the organization as it does for the totals, although we need improvement, without question.

Mr. ROYBAL. With emphasis, of course, to be placed in certain categories, in certain minority categories.

Mr. GERRY. Yes.

Mr. ROYBAL. This emphasis, you know, has been promised right along, at least since I have been on the committee, and having served on another committee and asking the same questions, we always find

that not enough effort is being placed in trying to do something about some of these inequities.

I agree that something has been done for minorities as a whole, but not enough. My argument has been that the Spanish-speaking, the Asians, and women in most instances, have not been recipients of the benefits of the so-called affirmative action program, and when you find a situation such as this existing in the Civil Rights Office, what would you expect of other departments?

You find it also in the Equal Employment Opportunity Commission, so what can one expect from other departments? It seems to me that you gentlemen should be setting the example so that we can say that a positive affirmative action program is being demonstrated by your department. So far we can't point to your department as a model.

Mr. GERRY. I think your points are well taken with respect to the need for increased efforts, particularly at the higher grade levels with respect to the employment of women, and overall with respect to the employment of Hispanic, American Indian and Asian persons. At this point I am not familiar with another agency within our Department or within the Executive Branch that has a better overall record. Of course, we have a lot of room for improvement but we have come a long way.

Mr. ROYBAL. How can any one be better when the overall record is so bad?

Mr. GERRY. That is why I think we have a lot of room for improvement.

Mr. ROYBAL. Insofar as the Spanish-speaking are concerned, we know that when Eisenhower became President, we were bragging about a 2.5 percent employment record, that is, that 2.5 percent of all Civil Service employees, working for the Federal Government had Spanish surnames. Today, it is 3.2 percent, a seven-tenths of 1 percent increase in more than 20 years. That is to say the least a disgraceful record.

Mr. GERRY. I share your very grave concern but again Hispanic employees comprise 10 percent of our staff. We want to keep that movement, which I think is important.

Mr. ROYBAL. I still think your office of civil rights should set the example, and the Equal Employment Commission, another office in the Federal Government, should also, but it does not. Unless your agencies set the example, nothing is going to happen with regard to affirmative action in other Departments of the Federal Government.

Mr. ROYBAL. I will submit the rest of my questions to be provided for the record.

[The questions and answers follow:]

Mr. ROYBAL. Why hasn't OCR requested additional positions to carry out the requirements of Lau?

Mr. GERRY. Lau's implementation comes, of course, in the area of our Elementary and Secondary Education Division and its enforcement is related to enforcement of other Civil Rights prohibitions by that Division. For instance, title VI of the Civil Rights Act of 1964 and title IX of the Education Amendments of 1972. Sixty-five new positions have been requested for this division. So, we are requesting more people who will be involved in enforcing the requirements of the *Lau* decision.

DISCRIMINATION AGAINST HANDICAPPED

Mr. ROYBAL. Last year, the Congress approved 42 new positions under Section 504 of the Rehabilitation Act, which prohibits discrimination against the handicapped in federally assisted programs. What are the people in these 42 new positions doing?

Mr. GERRY. The fiscal 1976 budget, of course, was late in clearing the Congress. We are currently in the process of hiring people and writing and clearing the necessary new job descriptions.

Mr. ROYBAL. HEW's agencies grant hundreds of millions of dollars each year to academic and nonacademic institutions for training activities and student assistance. How many of your staff and what percentage of their time is involved in evaluating training activities at our educational and medical institutions?

Mr. GERRY. The question assumes that OCR's higher education compliance activities focus on specific Federal financial assitance programs. In general, this is not the case. The most common forms of Federal aid to colleges and universities are student financial assistance. Beyond awarding such assistance in a nondiscriminatory manner, institutions of higher education must assure that all aspects of its overall educational program are available to students in a nondiscriminatory manner. Accordingly, OCR's general approach is to review the overall educational program as opposed to focusing upon particular Federal financial assistance programs.

Mr. ROYBAL. What working ties have you established with the National Institutes of Health and ADAMHA to ensure that the research training programs they fund provide equal opportunity for minorities, women and the handicapped?

Mr. GERRY. Again, such a working tie would be based on the assumption that OCR focuses on specific Federal assistance programs. We look at the federally assisted institution's policies and programs to determine compliance with civil rights authorities we are charged with enforcing. I should note, however, that in relation to minorities we have established a position in our health and social services branch and are developing a program of coordination with the Public Health Service.

Mr. ROYBAL. Similarly, what working relationships have you developed with the Health Resources Administration to ensure equal opportunities in health manpower programs?

Mr. GERRY. Here again, I believe my previous answers properly apply. The Health Resources Administration, of course, is a division of the Public Health Service.

Mr. ROYBAL. Has OCR's enforcement activity under *Lau* been suspended?

Mr. GERRY. No. In fact, we continue to negotiate corrective action plans with school districts. These plans generally are based on the outline of remedial approaches contained in guidelines sent to school officials in August 1975.

Mr. ROYBAL. You are now requesting an additional 50 positions in the fiscal year 1977 budget to enforce section 504. You say that these 50 new positions will enable you to conduct reviews at some 800 institutions. Will these reviews be limited in scope to section 504, or will they encompass investigative work under any of the other laws which OCR enforces?

Mr. GERRY. It is expected that some of the reviews will be limited in scope to section 504. Others, however, will encompass additional investigative work under other authorities such as title VI and title IX.

FUNDS RETURNED

Mr. ROYBAL. In fiscal year 1974 and fiscal year 1975, the Office for Civil Rights turned back $3,599,000 an $2,568,000 respectively, to the U.S. Treasury. To what extent do job vacancies account for these unspent funds? And what other factors have contributed to the unspent funds?

Mr. GERRY. Unfilled job vacancies at the time do comprise a significant amount of the funds in each year. Factors bearing on the job vacancies however, relate to the final passage of the Department appropriations in those years. As a result, there was very little time to advertise positions, write clear job descriptions for those positions and then hire. As you know, the Civil Service Commission must clear the job descriptions and this is not a swift process.

Another factor, in the case of the 1975 amount, was a last minute discovery of restrictions on contract awards which prevented the planned spending of some $1.5 million in contract award to firms who were to do certain data collection and analysis.

VACANCIES

Mr. ROYBAL. How many vacancies did OCR have at the end of fiscal year 1974, fiscal year 1975, and how many vacancies currently exist?

Mr. GERRY. At the end of fiscal 1974, there were 120 vacancies; for fiscal 1975, 62 vacancies and for fiscal 1976 there were 119 vacancies.

Mr. ROYBAL. How many of these vacancies have been equal opportunity specialist positions?

Mr. GERRY. In fiscal 1974, it was 58. For fiscal 1975 it was 30 and for fiscal 1976 it was 69.

Mr. ROYBAL. Why have so many vacancies existed?

Mr. GERRY. Time constraints related to the late date of final funding clearance and actual opening of the jobs.

Mr. FLOOD. Mr. Michel?

OCR EMPLOYMENT BY RACE, SEX

Mr. MICHEL. When the Labor Department was here, they told us that white males comprise 42 percent of the eligible work force in this country. Yet, according to figures you provided us last year, white males comprise only 19 percent of the staff in your own Office for Civil Rights. Doesn't it appear that you are discriminating against white males?

Mr. GERRY. Not if you keep in mind that white males do very well in filling jobs at the GS–9 and above levels and that the jobs below that level are primarily secretarial and neither white nor black males seek those jobs in any appreciable numbers. I would like to offer a table which shows this employment breakdown in the Office for Civil Rights.

[The information follows:]

Form 2

OFFICE FOR CIVIL RIGHTS
HEADQUARTERS & REGIONS
ON BOARD AS OF DECEMBER 20, 1975

	Sex		Racial/Ethnic Group					
Grade	Female	Male	Black	White	Hispanic	American Indian	Asian	Total
18								
17		1		1				1
16								
15	8	28	14	21	1			36
14	10	60	33	26	11			70
13	18	86	43	47	12		2	104
12	41	47	43	31	13		1	88
11	50	38	39	33	13		3	88
10	3		2				1	3
9	60	24	34	37	5	5	3	84
8	5		5					5
7	34	8	27	11	4			42
6	34	3	30	4	2	1		37
5	62	2	36	22	4	1	1	64
4	60	4	30	30	3		1	64
3	11	2	8	2	3			13
2								
1								
Total	396	303	344	265	71	7	12	699

mlm 1/23/76

OFFICE FOR CIVIL RIGHTS
HEADQUARTERS & REGIONS

PERCENTAGES OF STAFF BY RACE, SEX, AND GRADE

ON BOARD AS OF December 20, 1975

Grades	MINORITY		WHITE-ANGLO		FEMALE		MALE		Totals
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	
16-18	-	-	1	100.0	-	-	1	100.0	1
13-15	116	55.2	94	44.8	36	17.1	174	82.9	210
9-12	162	61.6	101	38.4	154	58.6	109	41.4	263
Sub-Total 9-18	278	58.6	196	41.4	190	40.1	284	59.9	474
5-8	111	75.0	37	25.0	135	91.2	13	8.8	148
1-4	45	58.4	32	41.6	71	92.2	6	7.8	77
Totals	434	62.1	265	37.9	396	56.7	303	43.3	699

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OFFICE FOR CIVIL RIGHTS
F DQUARTERS & REGIONS
SUMMARY
ON BOARD AS OF DECEMBER 20, 1975

Form 1

	FEMALE						MALE						
Grade	Black	White	Hispanic	American Indian	Asian	Total	Black	White	Hispanic	American Indian	Asian	Total	Grand Total
18													
17								1				1	1
16													
15	4	4				8	10	17	1			28	36
14	4	4	2			10	29	22	9			60	70
13	5	10	2		1	18	38	37	10		1	86	104
12	23	14	3		1	41	20	17	10			47	88
11	27	19	3		1	50	12	14	10		2	38	88
10	2				1	3							3
9	28	25	3	2	2	60	6	12	2	3	1	24	84
8	5					5							5
7	22	8	4			34	5	3				8	42
6	28	3	2	1		34	2	1				3	37
5	35	22	3	1	1	62	1		1			2	64
4	29	27	3		1	60	1	3				4	64
3	6	2	3			11	2					2	13
2													
1													
Total	218	138	28	4	8	396	126	127	43	3	4	303	699

mlm
1/23/76

Mr. MICHEL. Aren't you open to the charge that you cannot fairly enforce civil rights laws and so-called affirmative action plans when your own staff, comprised of 62 percent minority and 57 percent female, is so out of balance with the eligible work population of the Nation as a whole?

Mr. GERRY. Well, as I indicated, based on the breakdown by job level, and pool of persons wanting to be secretaries, I do not think there is an imbalance. I do not believe it is a supportable charge.

Mr. MICHEL. If we give you the additional 150 positions you are requesting, will race and sex be factors in filling these positions, and if so, in what proportions do you expect to hire?

Mr. GERRY. As I believe I indicated earlier to Mr. Roybal, the OCR generally is underrepresented in employment of Asians, American Indians and Hispanics. I would be happy to furnish the committee with a copy of the Office's affirmative action hiring plan.

Mr. MICHEL. Will any effort be made to rectify the current imbalance in your office, or do you consider that balance to be in accord with your overall affirmative action policy?

Mr. GERRY. Mr. Michel, I am anxious to improve our efforts to hire Asians, American Indians and Hispanics and believe that, on balance, we are moving, consistent with our affirmative action hiring plan, to do that.

Mr. MICHEL. At what point in the history of civil rights law did "discrimination" begin to be defined as racial or sexual "imbalance?"

Mr. GERRY. The Office for Civil Rights does not define discrimination simply as a matter of racial or sexual imbalance. We know that members of the public and the media often use the term "imbalance," but we believe that term is not a valid or accurate characterization of our procedures or our standards regarding discrimination and we would prefer that it not be used. Our practice adheres to the position taken by the Supreme Court in the *Swann* case, let me read from the Court's decision.

> As we said in *Green*, a school authority's remedial plan or a district court's remedial decree is to be judged on its effectiveness. Awareness of the racial composition of the whole school system is likely to be a useful starting point in shaping a remedy to correct past constitutional violations.

Mr. MICHEL. Isn't this the criteria you are currently using in your enforcement activities—whether races are in the proper mix, based on the breakdown in the community, and not whether there is in fact actual discrimination?

Mr. GERRY. As indicated in my prior answer, we do not equate racial imbalance with discrimination. We believe that in some instances, statistics regarding the distribution of students or faculty by race, when compared to residential patterns or the total number of minorities in the school system, can legitimately be used to point out where discriminatory practices are likely to exist. Sometimes, the data will show not only an imbalance in the percentage of minority enrollments among schools, but also a disparity between the actual enrollments of such schools and enrollments which might be anticipated on the basis of residential patterns. In such circumstances, this data may establish a prima facie case of discrimination, warranting a rebuttal by the school district. However, the proof of discrimination must turn on the fact of discrimination, not merely on statistics.

MEANING OF UNDERUTILIZATION

Mr. MICHEL. The affirmative action guidelines you are following which you described to us last year equate discrimination with underutilization and underutilization with racial imbalance. Whether you want to admit it or not, this in effect represents a quota system, does it not?

Mr. GERRY. I do not believe that equating underutilization with discrimination is an accurate characterization of the Department's position. Underutilization analyses are part of the affirmative action process. In broad terms, this process requires positive efforts to increase the percentages of minorities/women in an employer's work force with contractor finds that its employment of members of these groups is less than their availability in the work force within the contractor's stated recruitment area. While the process involves a comparison of the percentages of minorities/women in an employers work force with their availability, it is not a quota. A quota requires that a particular numerical result be achieved and that it not be exceeded. The affirmative action process requires only that good faith efforts be made to attain what can be reasonably expected. It does not require any specific numerical outcome.

DECEMBER 1974 MEMORANDUM

Mr. MICHEL. The Director of the Office of Central Compliance in the Department of Labor told us last month:

> A person shouldn't be hired simply because he is black or male, or she is female, or because of being the head of a household. The person is available, and the person is qualified for the job, and so the employer should be making the decision based on that.

That represents a sound concept of hiring, but that's not what you're asking, is it? You're asking that hiring be based on race or sex until a certain proportion is attained, isn't that true?

Mr. GERRY. No, it is not. I believe that our position on this matter has been clearly stated in a memorandum to college and university presidents dated December 1974 and I am happy to provide a copy for the subcommittee. I would call your attention particularly to parts 1 and 3.

[The information follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF THE SECRETARY,
Washington, D.C., December 1974.

MEMORANDUM TO COLLEGE AND UNIVERSITY PRESIDENTS

The Office for Civil Rights (OCR) has responsibility for the enforcement of Executive Order 11246, as amended, with respect to employment at colleges and universities which hold Federal contracts. Under the Executive order, Federal contractors, including institutions of higher education, are prohibited from discriminating aganst any person on the bass of race, color, religion, sex, or national origin in recruitment, selection, promotion and any other employment practices and procedures. Further, contractors are required by the Executive order to "take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin." (section 202(1)) Such affirmative action should

be designed to expand employment opportunities for women and minorities and to eliminate those policies and practices which have had the effect of excluding or limiting female and minority group employment.

Further, under title VI of the Civil Rights Act of 1964 and title IX of the Education Amendments of 1972, both of which are within the compliance jurisdiction of the Office for Civil Rights, educational institutions which are recipients of Federal financial assistance must ensure nondiscrimination. Under title VI the recipients of Federal financial assistance may not discriminate on the basis of race, color, or national origin. Title VI prohibits employment discrimination only to the extent that such discrimination tends to exclude individuals or deny them the benefits of Federal financial assistance. With certain exceptions, title IX prohibits discrimination based on sex in federally assisted education programs or activities. It extends to all employment practices of a covered institution. While the Executive order coverage is extended only to those institutions which are Federal contractors, Title VI and Title IX reach all of the Nation's higher education institutions which receive Federal financial assistance. Whereas affirmative action in employment is expressly required under the Executive Order, even in the absence of a finding of specific discrimination by the institutions, it is not required under title VI or title IX. However, voluntary affirmative action is permitted under both title VI and title IX" * * * to overcome the effects of conditions which resulted in limiting participation by persons of a particular race, color, national origin, or sex."

It should be noted that where there has been a specfic finding of discrimination under the Executive order, title VI or title IX, specific remedial or corrective action is required. Remedies in these cases are tailored to the specific wrong which has occurred. This memorandum is not intended to apply to corrective actions undertaken pursuant to a specific finding of discrimination.

This office, in October 1972, issued "Higher Education Guidelines" which set forth the compliance responsibilities of colleges and universities under the Executive order. In the time during which the guidelines have been in effect, OCR has been faced with determining the permissibility of many common practices designed to effect complaince with the Executive order. The purpose of this memorandum is to encourage resort to positive affirmative action steps by setting forth concrete examples designed to distinguish such positive steps from others which might conflict with nondiscrimination requirements.

At the outset, certain general principles should be made clear. Colleges and universities are entitled to select the most qualified candidate, without regard to race, sex, or ethnicity, for any position. The college or university, not the Federal Government, is to say what constitutes qualification for any particular position. No single appointment will be objected to where those not appointed are less well-qualified than the candidate actually selected.

I.—RECRUITMENT FOR EMPLOYMENT VACANCIES MUST BE UNDERTAKEN WITHOUT DESIGNATION OR IDENTIFICATION BY RACE, SEX, OR ETHNICITY

As defined on page 5 of the guidelines, "[r]ecruitment is the process by which an institution or department within an institution develops an applicant pool from which hiring decisions are made." As indicated on page 6 of the Guidelines, a contractor must make an explicit statement of its commitment to equal employment opportunity in all recruiting announcements and advertisements, and it may do so by specifying that it is an "equal opportunity employer." There is a caveat:

> It is a violation of the Executive order, however, for a prospective employer to state that only members of a particular minority group or sex will be considered.

A major purpose of the affirmative action provision of the Executive order is to broaden the pool of applicants so that women and minorities will be considered for employment along with all other applicants. The affirmative action process must not operate to restrict consideration to minorities and women only. Acceptable nonrestrictive language designed to broaden the pool of applicants would be:

> The English department of X University is subject to the requirements of Executive Order 11246 and is an affirmative action employer. All interested persons are encouraged to apply.

It would, however, be unacceptable to state that "women and minorities are preferred" or "this is an affirmative action position." Status as a member of any specific group should not be mentioned in any advertisement as preferred.

The type of announcement which identifies the category of applicants who will be considered on the basis of race and/or sex would be unacceptable because it has the effect of discouraging the candidacy of other categories of persons. Therefore, it would be unacceptable for an announcement to read:

"Pursuant to our affirmative action plan establishing goals for the employment of women and minorities, the English department of X University is seeking to fill this position with a woman."

Of course, under the Executive order, all employment advertising must contain a statement that the institution is an equal opportunity employer.

It has been suggested that a position might be designated on the basis of race or sex in order to meet an employment goal. This would be in violation of the nondiscrimination provisions of the Executive order.

The following case represents an example of an improper interpretation of the affirmative action obligation:

> For the past 4 years, the mathematics department of X University has been operating under an affirmative action program. Although its goals for hiring women was estabilshed at 20 percent over a 5-year period, during the past 4 years, each of four vacancies has been filed by a male. At an annual professional association conference, the department chairman informed a male applying for a fifth vacant position that he could not be given consideration regardless of his qualifications because Federal regulations require the department to fill the position with a woman.

The mathematics department has violated its equal employment opportunity obligations by designating the vacancy as a position for a woman, or as one in which a woman would be preferred, thereby excluding all other categories of applicants from consideration. Such action is forbidden by the Executive order, and it is improper to suggest or to act on the assumption that Federal affirmative action provisions require that any particular position be filled by a woman or minority person.

The mathematics department has misunderstood the nature of goals. Goals are good faith estimates of the expected numerical results which will flow from specific affirmative actions taken by a college or university to eliminate and/or counteract factors in the university's employment process which have contributed to underutilization of minorities and women in specific job categories or resulted in an adverse disproportionate impact in terms of promotion, compensation and training of currently employed minorities and women. They are not rigid and inflexible quotas which must be met. Nor should a university strive to achieve goals as ends in themselves, for "[n]o contractor's compliance status shall be judged alone by whether or not he reaches his goals and meets his timetables. Rather, each contractor's compliance posture shall be reviewed and determined by reviewing the contents of his program, the extent of his adherence to this program, and his good faith efforts. . . ." (41 Code of Federal Regulations, sec. 60–2.14, known as "Revised Order No. 4")

The mathematics department must be able to demonstrate clearly that it has adhered to its affirmative action obligation by making a full and good-faith effort to recruit and consider women for each of the five vacancies. If the Department is able to make this demonstration, its inability to meet its employment goal would not be deemed a violation of its affirmative action obligation. However, a failure by the mathematics department to make a sufficient good-faith effort to recruit and consider women and minority candidates for the four earlier openings would constitute a violation of the Executive order regulations.

As noted on page 7 of the guidelines, minorities and women are often sought to fill positions in women's and ethnic studies programs. Consider the following example, which would constitute a violation of the Executive order:

> A job description for an instructor position for a university's black studies program, included, as job requirements, the ability to bring special insights to the course material and the ability to relate well to the large number of black students attracted by the program. The dean of arts and sciences decided that only a black person could meet these requirements. When questioned by a white applicant, the dean defended the selection of a black person on the grounds that race was a necessary element for the proper performance of the job.

While the university established job requirements to answer what it deemed as its special needs for the black studies program, its actions amounted to giving exclusive consideration to candidates on the basis of race. Such action results in the restriction of the applicant pool and is a violation of the Executive order.

In this case, the job requirements, themselves—ability to relate to students,

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special insights, and so forth—do not limit the applicant pool on the basis of race and do not by their own terms prohibit nonminorities from applying or being employed. However, it is the university's assumption that only a black person can meet the job requirements and serve as an instructor in a successful black studies program which brings the university into violation of the Executive order.

II.—IF AN INSTITUTION HAS FAILED TO FOLLOW ITS AFFIRMATIVE ACTION RECRUITMENT PROCEDURE IF ITS RECRUITMENT EFFORTS DO NOT YIELD AN EXPANDED APPLICANT POOL, THE RECRUITMENT PERIOD FOR ALL CANDIDATES MAY BE EXTENDED

The guidelines, on pages 5–7, set forth a specific framework to which the recruitment process should conform. An institution or institutional department must develop a nondiscriminatory applicant pool from which hiring decisions are made, and failure to do so constitutes a violation of the Executive order. Consder the examples which follow:

A. The psychology department of X University was given a period of 2 months to fill a vacancy on its clinical teaching staff. Prior to beginning its recruitment efforts, the department received the unsolicited application of a qualified white male applicant, and made no further efforts to recruit for the position. Shortly before the 2-month period was up, the nomination was sent to the vice chancellor for approval as a choice candidate. On the advice of the affirmative action monitoring committee, the vice chancellor rejected the nomination on the ground that the department had failed to make adequate attempts to reach female and minority applicants, and required that the recruitment search be reopened and extended for another month.

The obligation to take specific steps to recruit applies even in instances where a university has not previously made a practice of active recruiting. Hence, even though it had received an unsolicited application from a person who was qualified, the department's failure to recruit and consider women and minorities constitutes a violation of the Executive order. In such case, further action is required under the Executive order and the vice chancellor's decision to extend the period for recruitment does not amount to an abuse of the affirmative action process with respect to the department's first choice, who will be subjected to greater competition for the job.

B. In seeking to fill an academic position, the English department took the recruitment steps required under its affirmative action plan. At the end of the recruitment period, during which time it had not received the applications of any women or minorities, the department nominated one of the white male applicants as its first choice. Although the vice chancellor noted that good faith efforts to recruit women and minorities had been made, he required the department to extend the recruitment period for another month during which period additional specified efforts were to be made to reach available women and minority applicants.

In carrying out an affirmative action plan, the period for recruitment may be extended, particularly where a utilization analysis indicates that the percentage of women and minorities recruited is substantially less than the percentage of qualified women and minorities available in the work force. In such cases, additional positive recruitment efforts may be undertaken to broaden the applicant pool to include qualified women and minorities. OCR would approve, but not require, the decision to keep open competition for the position. But it must be emphasized again that nothing in an affirmative action plan requires the employment of any specific number of women or minorities.

Thus, if the department can demonstrate that it has taken all recruitment steps required under its affirmative action plan—and even though no, or very few, applications have been received from women and minorities—there would be no requirement that the recruitment period be extended, as in the following example:

C. The physics department took all the affirmative recruitment steps called for by the university's affirmative action plan, and advertised the opening for several months. At the end of that time, no women and no minority candidates had applied and the recruitment procedure was concluded.

The department was justified in ending the recruitment period, inasmuch as it had done everything possible to publicize the opening for a reasonable period of time.

III. JOB REQUIREMENTS MUST BE APPLIED UNIFORMLY TO ALL CANDIDATES WITHOUT REGARD TO RACE, COLOR, SEX, RELIGION, OR NATIONAL ORIGIN

The guidelines stress the need for standardized employment practices that minimize the opportunity for arbitrary and/or discriminatory hiring decisions. It is not intended that affirmative action should result in a dilution of standards in order to attain the objectives of the Executive order. Consider the example of the following institution, which violated the Executive order:

> Because of the small size and location of X university, its history department had experienced considerable difficulty in recruiting women and minorities for several teaching positions in the past. Consequently, the department chairman, with the support of his faculty and administration, waived the Ph. D. requirement for those women or minorities who wished to apply for the vacant associate professor position but retained the requirement for males or nonminorities applying for the same position and for all other positions.

The Executive order does not require that job requirements be waived or lowered in order to attract women and minority candidates. Indeed, it expressly forbids differential standards based on race, color, sex, religion or national origin. Further, it requires that once valid job requirements are established, they must be applied equally to all candidates. It is discriminatory for such requirements to be applied selectively on the basis of race, color, religion, sex, or national origin. Thus, the history department must either waive the Ph. D. requirement for all applicants—without regard to race or sex—or maintain it for all applicants.

IV. A JOB REQUIREMENT WHICH RESULTS IN A DISPROPORTIONATE IMPACT UPON MINORITIES AND/OR WOMEN CAN BE MAINTAINED ONLY IF IT IS JOB-RELATED

As the guidelines make very clear, page 4, the Executive order does not require an institution to eliminate or dilute legitimate employment standards by which to measure prospective employees. On the other hand, no standards or criteria which have, by intent or effect, worked to exclude women and minorities as a class can be utilized, unless the institution can demonstrate the necessity of such standards to the performance of the job in question. For example:

> X law school has established a teaching fellows program which is responsible for the administration of the law school's clinical practice program. The requirement for teaching fellows includes holding a graduate law degree as well as an LL.B. or J.D. degree. In analyzing its work force for its affirmative action program, the law school learns that this job requirement disproportionately excludes blacks from consideration for the teaching fellows positions.

In order to continue the requirement for a graduate law degreee, the law school must demonstrate that the requirement is related to successful job performance. If the law school is able to demonstrate that the skills and knowledge acquired through the advanced law degree are necessary for effective job performance, the job requirement can be maintained. On questions relevant to the validity of the requiremet, the opinion or testimony of persons experienced in the conduct of legal aid clinics will be given substantial weight by HEW.

V. A UNIVERSITY IS REQUIRED TO OBTAIN INFORMATION ON THE RACE, SEX, AND ETHNIC IDENTITY APPLICANTS FOR EMPLOYMENT

The Executive order establishes the principle that Federal contractors, including colleges and universities, are required to collect and maintain data on the race, sex, and ethnic identity of all applicants for employment.

The collection and analysis of such data is recognized as an essential means of providing both the institution and the Federal Government with the information necessary to monitor the compliance posture of the institution. In the case of universities and colleges, the collection of such data is particularly essential for the work force analysis required by Revised Order No. 4. Each institution must adopt safeguards to insure that such information cannot be used as a basis for discrimination.

Preserving the anonymity of applicants in the collection of applicant flow data can be accomplished by gathering the requisite race, sex, and ethnic data separately from the application form. Furthermore, applicants should be instructed

not to identify themselves by name or number on this form. If the institution wishes to determine applicant response for a particular position, the data form may be coded by position, as long as it does not individually identify any applicant.

This document is intended to help clarify areas of confusion which have arisen during the implementation of contractor requirements set forth in the Executive order reglations. This memorandum should be circulated among all members of your administrative staffs. Experience of the recent past seems to indicate that much of the existing confusion over affirmative action requirements has resulted from an absence of clear lines of communication concerning Federal regulations. It is most important that all officials charged with rercuiting and hiring responsibilities have a clear understanding of the "Higher Education Guidelines" and that they insure that institutional employment conform to the provisions of those guidelines.

Additional copies of this memorandum may be obtained from the Regional Office for Civil Rights in your area, or from the Office for Civil Rights, Department of Health, Education, and Welfare, Washington, D.C. 20201. Requests for technical assistance and inquiries relating to development and implementation of affirmative action programs should also be addressed to these offices.

Thank you for your continuing cooperation.

PETER E. HOLMES,
Director, Office for Civil Rights.

AFFIRMATIVE ACTION GOALS

Mr. MICHEL. One of the educators in my district recently wrote me, stating:

"If these affirmative action goals, or quotas, and in my mind they are interchangeable, prevail, quality in education has to be the loser . . . in the professions where educational qualifications and certification are required, affirmative action policies are not conducive to quality in those professions.

He has a point, doesn't he?

Mr. GERRY. I do not believe it is a valid point. Again, I would refer to parts 3 and 4 of the December 1974 memorandum.

Mr. MICHEL. I have an article here by an associate professor of curriculum at Loyola University of Chicago which I want to place in the the record at this point. He very effectively discusses the impact of affirmative action plans on quality, and among another points, he indicates that schools are changing their hiring policies from the best qualified to a person who is "qualifiable" in order to meet affirmative action goals. Is this the type of standard you are in effect requiring schools to use?

Mr. GERRY. No; it is not. Parts 3 and 4 of the memorandum I believe refute those points.

[The article follows:]

Allan C. Ornstein

WHAT DOES AFFIRMATIVE ACTION AFFIRM? A VIEWPOINT

The two articles that follow represent 1) the view of a "liberal" now turned against affirmative action in the university because of what he regards as excesses and 2) a government official's attempt to put the affirmative action controversy into historical perspective.

Item – From a large state university on the West Coast to placement bureaus across the country: "We are now seeking an employee balance in ethnic and male/female groups which approximates that of the *population of the area* from which we recruit. What this means is that we have shifted from the idea of equal opportunity in employment to a deliberate effort to seek out qualified and *qualifiable* people among ethnic minority groups and women to fill all jobs" (italics added).

Item – From a nearby institution: "_____ College is currently engaged in an Affirmative Action Program, the goal of which is to recruit, hire, and promote ethnic and women candidates until [their proportions in our faculty are the same as their proportions in] the *general population*" (italics added).

Item – The department head of a Southwestern university responds to the inquiry of a university placement bureau, stating that, although the "four candidates seem qualified for a vacancy, they cannot be considered" because every effort must be made "to recruit a minority person." He adds that the university recruiting policies have changed: "We *can no longer seek the best-qualified persons available*, regardless of race, color, or creed, as in the past" (italics added).

Item – From a Midwestern city college system comprising seven units, the president informs his administrators that they must hire additional minority faculty members. When the year ends, "*many qualified whites will not be hired* and *blacks* will be sought *to fill their jobs*" (italics added).

Item – At one of the more than 70 units of the largest state system on the East Coast, a directive to the various deans and department heads reads: "For the next five years, vacancies will be filled by *qualifiable* persons on the basis of race and sex . . . and temporary preference [will be given] . . . to members of minority groups." This quota hiring is to be on a "*three-to-one ratio* for professors [and a] *one-to-one hiring* of minorities affecting all of the administrative staff" (italics added).

Most Americans agree on the need to overcome the stigma of past discrimination against minorities and women, that we are a highly polarized society, and that something must be done to increase equality and depolarization. Nevertheless, the increasing trend toward giving preferential treatment to people because of their minority or female status is rapidly causing national uneasiness and controversy. Some observers are concerned about increasing reverse discrimination against individuals who bear no responsibility for past discrimination, saying that a few middle-rank bureaucrats who were never elected by the people, hence feel no strong sense of public accountability, have introduced their own interpretations of the law and have imposed by fiat a quota system based on race and sex. The bureaucratic decision to give *preferential treatment* must not be confused with the original intent of the 1964 Civil Rights Act, which *prohibits discrimination* on the basis of race, sex, religion, and national origin.

According to federal guidelines, the goal of equal opportunity has become synonymous with equality of results for certain minority groups. With this change in the meaning of equality, the U.S. Commission on Civil Rights states that the number of minority persons found in employment at every level must be "equal to their portions in the population."[1] In other words, concern has shifted to actual employment of minorities, not only within colleges and universities but in all sectors of the economy; these minorities include blacks, persons with Spanish surnames, American Indians, Orientals, and now women – but not Italians, Poles, Greeks, and other white ethnics; not poor whites, not Catholics, not Jews. Needless to say, those eligible for preferential treatment are not the only ones who have been discriminated against in the past in some way.

Applying the population proportion criterion to jobs, HEW has forced institutions of higher learning to adopt affirmative action plans which will insure that their staffs reflect this balance. The alternative is court suit and/or the loss of millions of dollars in federal funds. Already some universities have had their funds cut off, not because they were guilty of specific acts of discrimination but because their attempt to come up with an affirmative action plan did not satisfy a certain bureaucrat; other universities have been

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sued, and their cases are pending, because faculty or salary ratios did not appear to meet federal guidelines, irrespective of the reasons.[2]

I contend that, by relying on statistical guides for detecting discrimination, and thus ignoring the all-important criterion of qualification, the federal government is undermining the integrity and scholarly functions of the universities. Some numerical targets seem to be based on the proportion of minorities in the general population; others are based on local proportions. Generally, the government uses whichever is more advantageous to the minorities targeted for preferential treatment. But professors are not recruited from the general population (which is about 12% black), nor from the local population (where the proportion may be higher than 12%). They must come from a pool of qualified applicants, preferably from a Ph.D. pool where blacks represent less than 1% of the total and women about 15%.[3]

In 1972 there were fewer than 1,500 black Ph.D.s in the country, not all of them in higher education. It is therefore impossible for institutions of higher learning to have an "adequate" representation of blacks on their faculties without lowering scholastic requirements. Ironically, blacks comprise 5.5% of the four-year college faculties.* If we consider manpower pools realistically, it appears that blacks are already overrepresented. Yet HEW demands faculty percentages that correspond with population proportions. Whether the disproportionate number of doctorates held by whites reflects so-called racism in society almost entirely, or a combination of cultural and family factors, is difficult to discern. Liberal and minority apologists tend to rely on the "racism" explanation; any other interpretation is considered threatening.

Those who charge discrimination against women in higher education hiring practices note that only 22% of all college and university teaching positions were held by women in 1972. However, only 15% of all Ph.D. degrees have been granted to women.[4] Taken together, these facts suggest that there are already more women on university staffs than we would normally expect. One could argue that, in the past, males with the same qualifications as females have had greater opportunities in private industry and government, while the options of women have been restricted, to a considerable degree, to the university. If this is correct, what we are witnessing is not sex discrimination in university hiring but the opposite. Nevertheless, collegiate institutions are being forced to "correct" male/female as well as black/white faculty ratios.

Black and feminist advocates are quick to point out that they do not get their fair share of top positions or high salaries. This also seems to be a misleading claim. With institutions of higher learning, the general rule is that higher positions and salaries should go to those who have a doctorate and who have proven their capability and productivity over the years. We have already discussed the Ph.D. count. As for meritocracy, Richard Lester, in his report for the Carnegie Commission of Higher Education, has summarized several studies which show there are major differences in research and publications between men and women, a difference of about 4:1 in articles and 2:1 in books and monographs, favoring men.[5] Apparently there are even greater black/white differences in favor of whites. For women, several explanations may be advanced, with emphasis on the difference in societal and marriage roles between the sexes.* Differences in the quality of education and training and the dual system of admitting and grading white and black college students may explain black/white differences.

Depending on what survey you read, male/female salary discrepancies favor males by 2.5% to 17.5%.[6] Data on racial differences in salary are unobtainable, although current trends (mentioned below) suggest reverse racism.

I can only conclude that the smaller proportion of women and blacks in higher-paying college jobs, as well as within-group differences for the same rank, reflects Ph.D. qualifications and professional output, not solely "discrimination." Thus we come to a crucial question: Is the institution which seeks to reward merit discriminating? The enforcement procedures of HEW tell us the answer is yes. Such an answer seems witless and bigoted.

Arbitrary "goals" and "timetables" are being imposed on institutions of higher learning. HEW compliance officers usually presume the institutions guilty of discrimination against minorities and women until substantial evidence has been produced to the contrary, reflecting the biases of these investigators, who are predominantly (85%) black and/or female. Blacks occupy most of the top positions.[7] In the same biased vein, they claim that certain minorities (usually their own reference group) are more eligible than other minorities for preferential treatment. These officers act as prosecutor, judge, and jury; they review files and records; they make demands that are sometimes outrageous; they threaten and frequently do impose legal and monetary penalties. Not only do the interpretations of Presidential executive orders (which form the basis of affirmative action) continually change,* but there is also great inconsistency in the demands made by different HEW investigators. Threats are also made in violation of the federal guidelines, and many college administrators claim that, because they are given insufficient notice of complaints filed against them, they are unable to take remedial action or defend themselves. Moreover, the courts seem to take the position that the accused must prove their innocence. This is an ominous development, reminiscent of the inquisitorial trials of medieval Europe.[8]

HEW contends that the absence of

*This figure comes from Alan E. Bayer's American Council on Education Research Report, *Teaching Faculty in Academe: 1972-73* (Washington, D.C.: The Council, 1973). One critic has pointed out that most blacks are employed in predominantly black colleges and thus the figure is misleading. But we are talking about the total Ph.D. pool vis-à-vis total college jobs. Using the critic's argument, as well as the government's statistical strategies, overrepresentation of blacks at any college (predominantly black or white) would reflect racism against whites, and affirmative action policies should attempt to correct this situation.

*For example, female Ph.D.s, as a group, spend an average of 10 hours a week on child care plus 18 hours a week on household chores such as cooking, cleaning, etc.; data provided by both male and female researchers conclude that married women subordinate their careers to their marriage commitment; they spend less time and energy on professional matters (especially research) than men. Those who are young and single usually feel that marriage determines their "success" as women, that their careers are secondary; those who are married often are unable to justify tediousness and long hours of work if their husband is a good breadwinner. There are other differences, such as lighter teaching loads and the assignment of graduate assistants, which favor males, but these differences are slight and mainly limited to a few prestigious universities. However, the latter variables may not be a function of sex but reflect differences in research interests and productivity.

*Institutions are often given 30 days in which to make "appropriate" adjustments in their numerical targets.

proportional representation of minorities and women in an academic department reflects "exclusion" and "deficiencies." One department's being found guilty can result in the entire university's having its funds cut off. The logic of this procedure is dangerous. Certainly there are department heads who discriminate and create predominantly majority staffs; however, there are also department heads who create all-minority departments (ethnic studies, home economics, nursing, etc.). HEW seems to be concerned only with the absence of minorities and women, thus setting up a double standard. It also fails to consider that the small size (less than 10 members) of most departments would distort the outcome of a statistical analysis.

More important for the more than 2,500 institutions of higher learning in the U.S., over the last seven-year period only two women received Ph.D.s in meteorology, six in agronomy (crop agriculture), and (probably) less than 10 each in pharmacy, nuclear chemistry, theoretical chemistry, electromagneticism, optical physics, civil engineering, and sanitary engineering. With regard to total fields during this period, women earned .5% of the Ph.D.s in engineering, 2.3% in agriculture, 2.9% in physics, 3% in business administration, 3.5% in earth science, 4% in ecology, 7% in mathematics, and 7.6% in chemistry. Although the data for blacks are unavailable, we would expect the figures to be substantially lower, since the *total* supply in all fields for *all* years up to 1972 was 1,500, with nearly half of these in the field of education.[9] Even multiplying the degree output each year by 1,000 over the next five years (the time period usually provided by HEW to make up "deficiencies") would not provide a sufficient pool of females and blacks to make up the deficiency. In fact, over half of U.S. college and university departments had produced fewer than 50 female doctorates and fewer than five black Ph.D.s from which to recruit during the period between 1958 and 1966,[10] when most hiring was done in higher education. It is therefore absurd to list hundreds of departments as deficient and accuse them of past or active discrimination.

HEW flatly denies that it is promoting a quota system, preferring to speak of "goals." But the distinction between "goals" and "quotas" is mostly semantic; it would seem that the pressure tactics used by the federal government turn the goals into quotas. If minorities and women are found to hold positions in low percentages, the figures will be offered as prima facie evidence of discrimination. Using this kind of quantitative method alone, we could build a case for almost any group, not just the preferred groups. HEW defends its policy by saying that we must compensate for past injustices, failing to recognize or admit that implementing it creates new injustices.

> "In effect, the government has applied Gresham's Law to the universities (and elsewhere in the job sector); the result is bound to have a downgrading effect in hiring and promoting personnel."

Although HEW denies ever inferring the existence of discrimination from purely quantitative disparities between the ratios of those who apply for academic positions and those who are appointed, the fact that it requires such statistical bookkeeping generates pressure to hire on this basis; moreover, compliance directors have refused affirmative action plans of some universities because achievement of ratios of minorities and women in academic positions was not equivalent to their availability as suggested by applications for employment.[11]

Repeatedly, HEW claims that universities never have to hire unqualified persons. Some critics feel that this is nonsense. Regional and local officers have instructed university administrators to "consider factors other than mere technical qualifications." What does "other than" suggest when it is necessary to comply with numerical targets? Furthermore, Revised Order No. 4, issued in 1972, rules that it is discriminatory to require that a new applicant possess qualifications any higher than those required of the "lowest-qualified incumbent." There is no denying that universities have hired their full share of mediocrities. But rather than permit upgrading the work force, HEW compels universities (and other sectors of the economy) to *lower* standards of performance. It opens the door to hiring someone who cannot meet the current standards or qualifications simply because some incumbent was hired long ago by mistake, or when standards were lower because of the scarcity of people with advanced degrees, or when the institution was struggling for recognition. In effect, the government has applied Gresham's Law to the universities (and elsewhere in the job sector); the result is bound to have a downgrading effect in hiring and promoting personnel.[12] In addition, HEW now insists that an institution "may hold certain vacancies open until such time as qualified minorities are found and considered." This has the same effect of excluding nonminorities; also, it forces institutions to hire *qualifiable* minorities, since they cannot indefinitely keep a position vacant without losing the line position. Indeed, it is easier for an institution to hire a qualifiable person who fills a quota than to explain why someone could not be found and risk federal reprisal.

Here we can appreciate Stuart Gould and Pierre Van Den Berghe's findings.[13] With fictitious resumés, they applied to 176 universities for teaching posts in sociology. Their applications were identical, except that the applicant in one case was identified as male and in the other as female; half the he/she applications cited were black; the other half made no mention of race. Some 96 institutions replied. Sex did not affect the response rate, suggesting that it is not important in sociology. But the response rate to the black applicants was 61%; to the applicant whose race was not listed it was 48%. More important, 44% expressed follow-up interest in the black applicant, only 9.5% in the other (significant at the .001 level). Conclusion: Blacks have a decided edge in today's sociology job market.

Although report after report tells of a Ph.D. glut, it seems to be no problem for a black Ph.D. to find a job. While many whites with the same degree (including females in some academic areas) are underemployed and/or unable to find jobs in their fields of specialization, blacks are receiving several different offers, with starting salaries that frequently exceed $20,000.[14] The average starting salary for Ph.D. holders at universities is about $12,000; the $20,000 figure is comparable to average full professor earnings after, say, 10 years. These trends may reflect the law

of supply and demand, but many people would call this reverse discrimination and grounds for a legal battle, since a different pattern exists between groups.

To add still another twist to the situation, it is reported that black professors accuse white women of being aggressive and deflecting attention away from elimination of racism. There are countercharges by white women that few blacks have the formal credentials for faculty appointments; those who are qualified or even qualifiable are immediately hired and able to command higher salaries than their white male and female counterparts.[15] A similar dispute between blacks and white women over the spoils system of "reform" is also evident in private industry and government.[16]

Lester, in his Carnegie report, concludes that institutions of higher learning are pirating the limited number of qualified minority and women faculty members from each other, offering higher salaries than comparable and often more competent nonminority candidates and men are getting.[17] The report warns that present minority (and in some cases female) hiring trends are damaging standards and undermining faculty quality. Lester also says that salaries favor blacks by $3,000 to $4,000 at the assistant rank and as high as $8,000 at the associate and full professor rank. His statistics are based on pre-1970 data, when affirmative action was in its infancy; the income differences are probably greater today.

What does all of this mean? There are obvious political ramifications. But the basic essentials are these: Colleges and universities (and other employers) are no longer hiring the best-qualified candidates. Rather, they are hiring from a limited and sometimes qualifiable pool, especially minorities, at unusually high salaries in order to fill quotas. To require institutions to commit themselves to achieve a certain proportion of minorities and women (or any *group*) on their faculties is to prevent them from choosing the best-qualified *individuals*. It mocks academic standards and special excellence; it masks new forms of discrimination with the hypocrisy of egalitarian reform; and it generates hostility and bitterness among more qualified individuals, who must be paid less or even passed over. Although we may be required to implement such a policy in order to reduce racial polarization and to produce equal results, it should be clear that the present affirmative action program has produced a new kind of social-welfare program, pure and simple. It should not be considered performance or quality based. It creates many quasi-positions for minorities; it places many less competent people on a fast track where they cannot compete. This is bound to create self-doubt, frustration, and new excuses among those who are ill-prepared; and it reflects a new form of racism within the liberal community: racism which excuses minority incompetence as if this is the best that can be produced by the minority community.

Irrespective of all of our legal and moral convictions, it takes several years to prepare qualified people for important vocations. No increased pressure is going to increase the supply of doctors, lawyers, professors, etc., unless we lower our standards. We cannot bestow instant competence on anybody. Already, qualified minority professionals and women are becoming uneasy about quotas; they are aware that it puts the "less-qualified" stamp on them by association. Within a few years people will ask, "How did this person get the job?" "Besides filling a quota, does the individual have any legitimate qualifications?"

Such a situation will be embarrassing for students and professors, as well as customers and employees elsewhere in the job sector. And if the question of competence is not seriously considered, or if such matters no longer count, we will eventually witness a decline in public and private services. Although we are less concerned about efficiency in some jobs than in others, even the placement of less efficient personnel at low levels will raise costs and diminish our standard of living. To what extent each institution can absorb less efficient personnel without disabling itself – without becoming another post office – is a difficult question to answer.

While special efforts should be made to identify and train individuals of minority status, and other programs are needed to assist potentially qualified minorities, essential prerequisites and criteria of excellence cannot be dropped for an extended period without serious social and economic repercussions. The present use of quotas is only part of the issue; it should not be permitted to mask the larger issue: the danger of a de facto system of quotas and the eclipse of excellence. The more we diminish the importance of merit and ability, the greater the danger of decline and of snapping the tension wire that holds society together. Abolishing standardized tests, eliminating professional examinations, bending entrance requirements (for college and employment), downgrading skills or doing away with them entirely, denying quantitative measures of excellence (if the results do not produce the required group similarities, the data must be defective) – all are part of this larger standards issue. To accept lower standards is profoundly wrong and anti-intellectual. We will have to pay for it. Being unable to test for competence because of so-called "cultural bias" is highly political and eliminates any standardized tool to determine who does and who does not have appropriate skills. Using quotas instead of quality to select people for jobs and promotions rewards the dumb, the lazy, and the unambitious at the expense of the smart, the talented, and the ambitious.

And the future is now: White males are filing reverse discrimination complaints, supporting their claims by comparing their formal qualifications, such as test scores, with "preferred" candidates, and comparing recent salaries offered and/or obtained by minority counterparts from their own institutions. Letters of "no openings" to white candidates are being matched with grand invitations to minority candidates. Professors (and students applying to law and medical schools) are learning the advantages of claiming minority status when filling out applications. Some institutions are successfully defending their rights in court, opposing those who proclaim special preference as a group. (One Eastern university has had 34 out of 34 cases decided in its favor; nine are still pending.) And still other institutions are thinking about and implementing restraining orders which bar HEW's civil rights agencies from interfering in their policies.

Somehow a balance must be struck between the entitlements for those *groups* which claim special privileges and *individuals* from other groups who have rights which must not be abridged. *Institutions* also have rights, and they should protect their functions and integrity.

1. U.S. Commission on Civil Rights, *Federal Civil Rights Enforcement Effort* (Washington, D.C.: U.S. Government Printing Office, 1970).

2. *Congressional Record*, May 22, 1973, p. 2; and Paul Seabury, "HEW and the Universities," *Commentary*, February, 1972, pp. 33-44.

3. Allan C. Ornstein, "The Rise of Racial Quotas," *Educational Forum*, November, 1975, in print; George Roche, *The Balancing Act: Quota Hiring in Higher Education* (La Salle, Ill.: Open Court, 1974).

4. Alan E. Bayer, *Teaching Faculty in Academe: 1972-73*, ACE Research Report, vol. 8, no. 2 (Washington, D.C.: American Council on Education, 1973).

5. Richard A. Lester, *Antibias Regulation of Universities:* A Report for the Carnegie Commission on Higher Education (New York: McGraw-Hill, 1974).

6. *Chronicle of Higher Education*, August 5, 1974, p. 9; June 9, 1975, pp. 1, 11.

7. Lester, op. cit.

8. Allan C. Ornstein, "Are Quotas Here To Stay in Minority Hiring?" *National Review*, April 26, 1974, pp. 478, 479 ff.; Sheldon E. Steinbach, "Fighting Campus Job Discrimination," *Change*, November, 1973, pp. 51, 52; *Chronicle of Higher Education*, June 23, 1975, pp. 1, 6; July 7, 1975, p. 5.

9. Commission on Human Resources, National Research Council, *Summary Reports, 1967-73: Doctorate Recipients from United States Universities* (Washington, D.C.: National Academy of Sciences, 1968-74).

10. Commission on Human Resources, National Research Council, *Doctorate Recipients from United States Universities, 1958-66* (Washington, D.C.: National Academy of Sciences, 1967). See also Miro M. Todorovich, statement before the Special Subcommittee on Education and Labor, Congress of the United States, September 20, 1974.

11. Sidney Hook, "The Road to a University 'Quota System'," report to the National Civil Rights Committee, mimeographed, April 24, 1972. See also Sidney Hook, statement before the Special Subcommittee on Education and Labor, Congress of the United States, September 20, 1974.

12. Seabury, op. cit. See also Paul Seabury, "The Idea of Merit," *Commentary*, December, 1972, pp. 41-45.

13. Stuart H. Gould and Pierre L. Van Den Berghe, "Particularism in Sociology Departments' Hiring Practices," *Race*, July, 1973, pp. 106-11.

14. *Chicago Sun-Times*, September 4, 1973, p. 38; *Modern Language Association Newsletter*, September, 1973, pp. 2-4; Roche, op. cit.

15. *Chronicle of Higher Education*, October 23, 1973, pp. 1, 5, 6; August 5, 1974, pp. 1, 8, 9.

16. *Chicago Tribune*, December 2, 1973, Section 12, p. 35; March 4, 1974, Section 2, p. 9; *New York Times*, September 30, 1974, p. 28.

17. Lester, op. cit. □

Mr. MICHEL. He also points out the results of studies showing that black Ph. D.'s receive substantially higher starting salaries than White Ph. D.'s of similar and perhaps better qualification, due simply to affirmative action requirements. Doesn't this represent reverse discrimination?

Mr. GERRY. If it is established that an individual's salary is based on his or her race, color, religion, national origin or sex, this would be a violation of the Executive Order 11246. In our experience, we have found that discrimination in compensation is usually to the disadvantage of minorities and women.

Mr. MICHEL. How many complaints of reverse discrimination have you received during the past year and in how many instances did you rule that reverse discrimination did, in fact, take place?

Mr. GERRY. Our higher education division currently is gathering this information in connection with the requirements of a suit brought against the Department and this Office by the Women's Equity Action League. I anticipate its completion by mid-April and will furnish it to the subcommittee as soon as possible.

JOB SENIORITY

Mr. MICHEL. One of your more recent directives basically says that the seniority system should not be used when layoffs occur because it may be discriminatory. This goes against many State laws and labor contracts which have seniority clauses and provisions. Under what statute do you have the authority to so circumvent State laws and contracts? Doesn't this represent an excessive use of power on your part?

Mr. GERRY. I am not aware of any such directive from OCR. This Office, of course, will carefully follow any directives by the Supreme Court in this area and, as you know, a decision on this issue in the *Franks* v. *Bowman* case is expected.

DISCIPLINE RECORDS

Mr. MICHEL. Last summer you tried to impose on the school systems very extensive record keeping requirements on discipline. These were eventually limited in scope, but they still apply, do they not?

Mr. GERRY. Yes, the requirements, generally, still apply although, as you suggest, they have been modified by a January, 1976 memorandum. I should stress that the memoranda do not require teachers, in the course of their daily instructional duties, to keep records of routine disciplinary actions. Nor, is there a mandatory format for maintaining the required information.

Mr. MICHEL. What is the criteria you are using here? Are you saying that if a higher proportion of minority students are disciplined, that represents discrimination?

Mr. GERRY. No. An imbalance in discipline statistics would only alert the Office for Civil Rights of the need for additional information.

Mr. MICHEL. Aren't you concerned that the impact here will result in a failure to discipline minorities when there is cause, simply out of fear of being accused of discrimination?

Mr. GERRY. There is no reason for school officials to be fearful in this regard so long as there is even-handed, nondiscriminatory enforcement of discipline procedures. Minorities should be disciplined

for just cause in the same manner that nonminorities are disciplined.

Mr. MICHEL. Have you ever calculated what it is costing school systems to comply with your various reporting requirements?

Mr. GERRY. No. But we have discussed and will continue to discuss with local school officials ways to reduce the costs consistent with our obligations to enforce nondiscrimination requirements.

MARYLAND HIGHER EDUCATION

Mr. MICHEL. The courts recently ruled against your office in its efforts to cutoff funds to Maryland schools. Among other things, the judge said in his opinion that HEW acted arbitrarily, whimsically, vindictively, and uncooperatively, and had shown "palpable disregard of the statutory prerequisites" of Title VI of the Civil Rights Act. That's a pretty damning judgment is it not?

Mr. GERRY. Clearly, it is. But, the OCR does not believe that the Judge's finding is substantiated by the facts in this case. The Department of Justice is proceeding to appeal the case on an expedited basis and we have every reason to believe that the District Court's decision will be reversed.

Mr. MICHEL. Can you tell us in specific terms where the discrimination is occurring in the Maryland schools which led you to try to cut off funds?

Mr. GERRY. On December 15, 1975 I wrote to Governor Marvin Mandel informing him that the State of Manryland's public higher education system was in noncompliance with title VI of the Civil Rights Act of 1964 because of its failure to implement the desegregation plan accepted by the Office for Civil Rights on June 21, 1974. This plan was requested by the Department pursuant to a court order in *Adams* v. *Richardson*. I would be happy to furnish a copy of that order if the committee wishes.

In the December 15 letter, I outlined the major actions which the State had failed to undertake in implementing its plan. That letter, of course, also can be made available to the subcommittee. In summary, it is the OCR view that the State has failed to redefine the roles of its institutions and to allocate resources to the predominantly black institutions so as to make these institutions more attractive to all students. One of the objections to our position in this case is that our finding that, "the State higher education system continues to bear the vestiges of the previous racially segregated system" is vague and not valid. We believe the concept embodied in this finding has strong legal precedent. Further, we believe that the State has continued to take official actions which had the effect of perpetuating a racially dual system.

[The information follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF THE SECRETARY,
Washington, D.C., December 15, 1975.

HON. MARVIN MANDEL,
Governor of Maryland,
Annapolis, Md.

DEAR GOVERNOR MANDEL: I am writing to you in connection with the compliance status of Maryland's public institutions of higher education with title VI of the Civil Rights Act of 1964.

In March 1969, the Department of Health, Education, and Welfare determined that the State of Maryland was operating a racially segregated system of higher education in violation of title VI. At that time, the State was asked to develop and submit to the Office for Civil Rights, OCR, a desegregation plan designed to eliminate the vestiges of de jure segregation still existing within its higher education system.

On June 21, 1974, the Office for Civil Rights, in compliance with the court order in *Adams* v. *Weinberger*, accepted the "Maryland Plan for Completing the Desegregation of the Public Postsecondary Education Institutions in the State" in the belief that it set forth a course of action by which the State of Maryland and its public postsecondary educational institutions could come into compliance with title VI.

In his letter to you dated August 7, 1975, Mr. Dewey E. Dodds, Director of the Office for Civil Rights, Region III, indicated that as a result of the Office for Civil Rights evaluation of Maryland's implementation of the plan for the period ending June 30, 1975, we concluded the Maryland Council for Higher Education and the 30 institutions of higher education which comprise the State higher education system in Maryland have failed to implement or have only partially fulfilled most of the commitments made in the State plan.

Mr. Dodds then delineated several actions specified in the plan which he indicated should be implemented within 60 days if enforcement proceedings were to be avoided. In replying to that letter, you rejected our request for actions to be accomplished by the State and indicated that Maryland will carry out its desegregation commitment in accordance with the time frames and general provisions of the plan.

On September 24, 1975, Lt. Governor Blair Lee III, met with Mr. Peter E. Holmes, former Director of the Office for Civil Rights, and several other staff of the Department in an effort to determine if there was a basis for any further negotiations regarding the implementation of the Maryland Plan. I am advised that Lieutenant Governor Lee was frank and cooperative during the meeting. Lieutenant Governor Lee indicated that the Department may have overlooked or misunderstood certain information contained in the report which the council submitted to us in July, and it was mutually agreed that a second meeting should be held to explore that possibility.

Accordingly, a second meeting was held in Philadelphia on October 1, Maryland was represented by Dr. Sheldon Knorr, executive director, Maryland Council for Higher Education and several council staff. The Office for Civil Rights was represented by Dr. Dewey E. Dodds, Director, Office for Civil Rights, Region III, and several Washington and regional staff. My staff has told me that Dr. Knorr and his staff were candid with us, as they have been in past meetings. The meeting consisted of three somewhat distinct segments: Dr. Knorr set forth the statewide actions which are projected for the current academic year; the August 7 letter was discussed in detail; and OCR staff indicated what they believe to be the major deficiencies in the implementation of the plan by the State.

The actions described by Dr. Knorr are summarized in attachment A. While the implementation of these steps may result in some further desegregation in employment with respect to new hires, they will have minimal impact on student desegregation. Further, as indicated below, several basic components of the Maryland plan will not be acted upon during this period.

The information and agreements obtained with respect to the August 7 letter are summarized in attachment B. With the exception of information pertaining to the desegregation of peronnel in community colleges and an expanded University of Maryland-College Park Report (which was supplied in a later submission of the midyear status report on August 15, 1975), the statements and conclusions contained in the August 7, 1975, letter were not disputed.

The major deficiencies identified by OCR staff are described in attachment C. These major problems stem from the fact that the State has not effected a mechanism for undertaking those statewide actions central to successfil implementation of the plan. The MCHE has not been granted the authority necessary to implement these provisions of the plan nor have the segment boards undertaken the activities necessary to substantialy implement the plan.

Unfortunately, nothing provided to OCR subsequent to its dispatch of the August 7 letter has provided any basis to alter the conclusion that Maryland is failing to implement its plan as promised or otherwise acting to fulfill its affirmative obligation to eliminate the vestiges of its racially dual system of higher education as required by title VI. Although the MCHE staff indicated at the October 1 meeting that it would furnish some additional information and materials, we believe it is clear that even if this were done, it would not bring

the State into compliance with its approved plan. Other, more serious deficiencies listed in attachment C would remain.

More serious than Maryland's failure to implement its plan is the segregation which continues to exist at the postsecondary institutions throughout the State. The information Maryland provided OCR in the First Annual Desegregation Status Report, February 1975, shows that the percentage of black students at the predominantly black colleges in the State system was 86.9 in 1974, while the percentage of black students at the predominantly white senior institutions was 7.4 for the same year. These figures clearly reveal that the State is continuing to operate a dual system of higher education.

Based on a review of the total record, as the responsible department official, I have determined pursuant to Section 80.8(c)(1) of the department's regulation that the State of Maryland, its agencies and its state-operated institutions of higher education are not operating in compliance with Title VI of the Civil Rights Act of 1964, and OCR has exhausted the possibilities of compliance through informal conferences and other voluntary means. Therefore, I have referred this matter to the department's office of general counsel and requested that it initiate formal administrative enforcement proceedings against the State of Maryland.

In accordance with the coordinated enforcement procedures for higher education under Title VI of the Civil Rights Act of 1964, issued by the U.S. Department of Justice, each Federal agency extending assistance to Maryland's institutions of higher education will be notified of this action. In addition, pursuant to delegations of authority to this department, we shall notify these agencies that efforts to secure compliance by voluntary means have failed, and they will be given the opportunity to join the enforcement proceedings.

By copy of this letter, I am informing the chief executive of each affected recipient agency or institution in the State of Maryland of my determination in this matter.

My staff, as always, is willing to continue to extend assistance to aid the State of Maryland in its efforts to comply with the requirements of Title VI of the Civil Rights Act of 1964. Of course, the legal actions instituted pursuant to this letter may be suspended when and if the State of Maryland presents evidence that it has fulfilled its affirmative obligation to dismantle the dual system of higher education in the State. It is my sincere hope that this matter will be resolved on a voluntary basis at the earliest possible time.

Sincerely yours,

MARTIN H. GERRY,
Acting Director, Office for Civil Rights.

Enclosures.

ATTACHMENT A

Following are the six projects identified at the October 1, 1975, meeting by the Maryland Council for Higher Education staff as projected statewide activity in implementing the Maryland Plan during 1975–76:

1. An intern program for minority graduate students to prepare them for faculty and administrative positions.
2. "Other race" grants (for blacks to attend predominantly white institutions and whites to attend predominantly black institutions) for graduate students, similar to the existing program for undergraduates.
3. Improvements in present efforts to inform high school students about higher education situations, to be sure they consider attending schools where their presence would improve the racial balance.
4. Expansion of a central placement bureau for minorities to assist them in obtaining jobs in the State's higher education system.
5. A cooperative work program to provide off campus jobs for minority students while they attend school.
6. A faculty exchange program which would include reimbursement of expenses incurred by reason of the transfer.

ATTACHMENT B

SUMMARY OF DISCUSSION AND RESPONSE TO AUGUST 7, 1975, LETTER PROVIDED BY MARYLAND COUNCIL ON HIGHER EDUCATION STAFF

The only new information provided was that contained in a later submission of the Mid-Year Status Report, received by OCR on August 15, subsequent to the dispatch of the August 7 letter. That later document furnished information on

desegregation personnel at the community colleges and an expanded University of Maryland College Park report. However, this report did not provide all the information requested by MCHE.

The statements and conclusions contained in the August 7, 1975, letter were not disputed.

During the meeting, MCHE agreed to furnish, upon receipt of an additional letter from OCR, information and materials requested in the August 7 letter with respect to the following:

(1) Job descriptions for other race recruiting and counseling personnel for the University of Maryland; (2) a statement of the student transfer policy with minor changes incorporated; (3) summary information on promising graduate and undergraduate students identified for employment in the faculty and administrative internship program in the State system; (4) summary information on minority undergraduates identified and recruited for graduate programs in academic disciplines where availability of blacks s a significant problem; (5) A report of an examination of the State supported institutions and conclusions on which budget requests are based; (6) a report of completed review of inservice training programs in place in June 1976; (7) affirmative action plans for all institutions in the State system; (8) copies of the statewide master plan for community colleges (but without timeframes for achievement of the plan); (9) a report of the problems existing at Morgan State University with respect to the urban affairs program as a result of the termination of Ford Foundation funding. (However, no assurance was given that action would be taken to correct any such problems); (10) specific plans from timeframes for completing the study of unnecessary duplication of academic programs in the institutions in the greater Baltimore area, which is impeding the desegregation process. (However, no assurance was given that action would be taken to eliminate any such duplication.)

There were a few areas in which MCHE staff stated it planned to take no action at this time. These are: Development of a procedure for offering equivalency credits; implementation of the "other race" faculty chair program; and increasing the effectiveness of the Maryland Higher Education Loan Corporation or the State scholarship board, though they identified this as a need within the system.

ATTACHMENT C

MAJOR DEFICIENCIES IN THE IMPLEMENTATION OF THE MARYLAND PLAN

One: The body which has the major responsibility for the implementation of the Maryland plan, the Maryland council for higher education, does not possess the authority to accomplish this mission. Throughout the discussion on October 1, MCHE staff discussed their activities and actions within the limited authority which MCHE possesses. Those parties which do have the authority to carry out the plan, the boards of governance of the various institutions (segment boards), are not sufficiently involved in the implementation process.

Two: To a large degree, the Maryland plan continues to be a "plan to plan"; that is, many specific actions which are central to the plan have yet to be identified. The completion of this process does not entail the expenditure of significant sums of money. Identified below the the major portions of the plan which have yet to be fully articulated. References in parenthesis are the page number in the plan where the commitment is stated:

A. Resources Analyses (II. pp. 28–31)

Although the State has presented a considerable amount of data in response to our request for resources analyses, MCHE staff indicated that it has not completed these analyses.

As indicated in previous communications, the completion of the analyses is a prerequisite to the identification of specific deficiencies at the predominantly b'ack institutions and the formulation of a course of action to eliminate the deficiencies within a specified timeframe.

Council staff do not possess the authority to authorize or implement any remedial action which is identified. An example of this point is that the Governor had identified library holdings at one or more of the predominantly black colleges as a deficiency but had not specified when and how this deficiency would be corrected. This matter was raised in the August 7 letter. Council staff explained to us that money has been allocated for this purpose but was redirected at the insti-

tutional level. OCR staff responded that the effective implementation of a statewide plan required the cooperation of all individuals who have the authority needed to effectuate the plan. Our staff indicated that failure of various State officials to agree could well have the effect of crippling the plan, but indicated that frationalized authority is not an excuse for the State's failure to carry out its legal obligations.

B. Impact Studies (II. pp. 32–34)

Although on page 167 of the State's August 1975 midyear report several factors are identified as those which "desegregation staff considered in examining proposals for new academic programs," they can only be characterized as skeletal and have not been adopted outside of the council. The State has failed to identify the criteria and procedures by which desegregation impact determinations are made. There is no evidence that officials other than council staff have considered this matter and no impact studies have been submitted to OCR. The council's authority to disapprove actions is limited to new academic program proposals and it appears that the council may be overruled even in this area. (Council staff advised us that no new program proposals were turned down this year a'though some were withdrawn prior to a final decision.) It is our conclusion that Maryland has not yet articulated and adopted effective desegregation impact criteria and procedures.

C. Roles of Institutions (II. p. 35)

The State has failed to complete its study of the roles of each institution, adopt new roles for them and specify a course of action by which the new roles will be implemented within a specified time frame. It has, however, studied the matter. In the final report of the Governor's Study Commission on Structure and Conformance of Education for Maryland (Rosenberg commission report, May 1975), forwarded to use with the August 1975 report, the following conclusion was drawn:

> Higher education in the State does not have a set of unifying goals and objectives to direct its course of action. In some cases, the goals and objectives of specific institutions overlap, resulting in program duplication, the oversupply of graduates in some fields and inefficient use of resources.

Similarly, in the report of the committee to study higher education in the Baltimore metropolitan region (December 1974), it was found that. ". . . it was difficult, with few execptions, to determine from either the written or verbal presentations of the presidents, the missions of the colleges" (p. 18). The committee concluded, ". . . it is essential for each institution to develop a statement of mission." (p. 19) Further the committee found. ". . . very little uniqueness in either the stated missions or the program offerings of any of the institutions" (p. 3) and that ". . . in many of these institutions the total number of students enrolled in these programs is low." (p. 4).

Council officers did not dispute these findings during the October 1 meeting, but were unable to tell OCR staff when new roles would be adopted for the institutions. Rather, they indicated that the matter would be studied further. Our staff advised them that "continuing study" is not an acceptable substitute for action and was an example of a fundamental problem in the implementation of the plan.

No information was presented which would indicate that the segment boards have taken any action with respect to the redefinition of the roles of the institutions.

D. Duplicative Curriculum (II. pp. 10, 35, 36)

The State has yet to complete its study of unwarranted program duplication, identify such duplication, and develop a course of action to eliminate it within a specified time frame. As part of the process by which the roles of the institutions would be redefined, the State has been studying the existence of unwarranted program duplication in its predominantly black and predominantly white institutions. Although this matter was under study at the time the State submitted its plan to us in February 1974, no definitive conclusions have been reached and no plan of action has been articulated. When questioned on the matter, Dr. Knorr said that further study would be given to it. When asked if this "further study" would resu't in concrete actions to eliminate duplication, Dr. Knorr was unable to provide such assurance. He did indicate that upon receipt of a letter from OCR requesting this information, Maryland would within 30 days provide a schedule for the conduct of this further study.

CHICAGO SCHOOL COMPLIANCE

Mr. MICHEL. What's the story with respect to the Chicago School System? Have you brought any kind of action against them, and if so, where does it stand and what specifically was the justification?

Mr. GERRY. The Office of Civil Rights is contemplating the initiation of administrative enforcement action against the Chicago Public School System. Notification of such action will be given to school officials within a few days. The area of present concern involves the discriminatory assignment of teachers and unequal educational opportunities to national origin minority children whose home or primary language is not English. The OCR has found the Chicago School System to be in noncompliance with title VI of the Civil Rights Act of 1964 on both issues.

Mr. MICHEL. The Supreme Court in the *Brown* desegregation decision said that race should play no role. When are we going to return to that standard, rather than pushing race to the forefront in our hiring policies, pupil assignment policies, and so forth?

Mr. GERRY. In *Brown* v. *Board of Education*, the Supreme Court found that the schoolchildren who were segregated by race were deprived of equal protection of the law in violation of the 14th amendment, even if the physical facilities and other tangible factors are provided equally in the separated races.

While this connotes to many of us an ultimate objective of school systems in which racial considerations would play no part in the distribution of faculty, staff, and students, we think it is clear that, for the present, race must necessarily be taken into consideration in seeking appropriate remedies for prior discrimination and for dismantling previously segregated school systems. This approach, which we do not necessarily view as pushing race to the forefront, has been recognized by the Supreme Court on several occasions. See, for example, *U.S.* v. *Jefferson Co.*, *Green* v. *New Kent County*, and *Swann* v. *Board of Ed. Mecklenburg County*, to which we look for standards and guidance. I think it would be highly speculative for us to offer a view on when discriminatory practices will have ceased, and their effects sufficiently remedied, so that further remedial action based on racial considerations is no longer necessary.

Mr. FLOOD. Mr. Conte.

COMPLAINT BACKLOG

Mr. CONTE. How severe is your present title VI and title IX complaint backlog at present?

Mr. GERRY. I am furnishing tables on the backlog situation as requested by Chairman Flood. New attention is being directed at clearing the backlog, particularly in higher education. Again, I should note that because of the mandates of the *Adams* order, title VI complaint backlogs in elementary and secondary education are being acted upon but this necessarily, has meant that clearing the title IX complaint backlog in the regions most affected—Atlanta and Dallas— has not moved as quickly.

Mr. CONTE. Could you estimate the additional workload and cost of investigating all title VI and title IX complaints in elementary and secondary schools as several lawsuits are seeking to compel you to?

Mr. GERRY. The elementary and secondary education division estimates that for 1976 we can expect at least 1,275 complaints related to titles VI and IX. Multiplying this times the average time for reviewing a complaint and that figure times the hourly wage of persons generally doing this type of review, the cost would come to about $1.8 million. The workload roughly would be 25,520 person days. I would have to stress that these estimates are conservative and, particularly when you consider this will be the first full year of title IX enforcement. Also, they do not include costs for clerical support nor general operational overhead.

Mr. CONTE. You are requesting an additional 50 positions to conduct compliance reviews of school districts. How are the 600 districts picked to be reviewed?

Mr. GERRY. As you know, Mr. Conte, we send forms called 101 and 102 forms to school districts each fall to be completed and returned by the districts. Included in forms to be sent in the fall of 1976 will be new questions related to the Department's responsibility to enforce section 504 of the Rehabilitation Act of 1973. We will carefully analyze district responses and determine 600 districts where the data supplied most strongly suggest the need for in-depth reviews.

Mr. CONTE. What exactly will these 50 people do?

Mr. GERRY. They will be involved in the analysis function I just referred to and subsequently will be involved in on-site reviews of the targeted districts.

Mr. CONTE. The justification indicates that 25 of the 35 new legal positions will be assigned to elementary and secondary school compliance. Where will the remainder be assigned?

Mr. GERRY. The remainder are legal support staff.

Mr. CONTE. I believe the health and social services division completed 1,000 more pregrant clearances than 1975. But your estimate for fiscal year 1977 is the same number. Why will there be no increase this year?

Mr. GERRY. The increase in 1975 was due to a corresponding increase in the number of applicants. We do not anticipate any increase in applicants that would generate additional requirements for pregrant clearances in fiscal year 1977.

Mr. CONTE. How many of the new positions will be in regional offices?

Mr. GERRY. 130.

Mr. CONTE. Why is an increase of $210,000 for transportation of persons necessary?

Mr. GERRY. It is related to the need to have funds for the new employees to carry out their enforcement responsibilities which often involve onsite reviews. We have requested 150 new positions for fiscal 1977 and we are now authorized 60 new employees under our fiscal 1976 appropriation.

Mr. CONTE. There is also an increase of $576,000 for other services. Now, that is a sizeable increase for so nebulous a category. What is the purpose of this figure?

Mr. GERRY. The civil rights' share of general department administrative expenses is included as well as a regional personnel and finance support aspect. As Mr. Kearney indicated in an earlier answer, I believe, to Mr. Patten, these are overhead costs in addition to compliance survey costs.

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Mr. CONTE. At what stage are the comprehensive urban reviews?

Mr. GERRY. The New York City review of educational services in in the final phase of data collection. Bulk data, included on computer tapes, has been collected and is being analyzed. Investigators from the New York Office for Civil Rights are conducting onsite data collection in 21 high schools and 6 community school districts. Some followup data collection and intensive analysis of the date will take place this fall. A letter of findings is anticipated soon after the analysis is completed. Bulk data has been collected from Philadelphia, Chicago and Los Angeles. Onsite data collection and analysis of the data will take place in these three cities during the 1976–77 school year.

Mr. FLOOD. Thank you gentlemen. That is all.

JUSTIFICATION OF THE BUDGET ESTIMATES

Appropriation Estimate

OFFICE FOR CIVIL RIGHTS

For expenses necessary for the Office for Civil Rights [$24,686 000], *$29,685,000*, together with not to exceed [$1,351,000] *$919,000*, to be transferred and expended as authorized by section 201(g)(1) of the Social Security Act from any one or all of the trust funds referred to therein.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

DEPARTMENTAL MANAGEMENT, OFFICE FOR CIVIL RIGHTS—AMOUNTS AVAILABLE FOR OBLIGATIONS

	1976	1977
Appropriation	$24, 686, 000	$29, 685, 000
Proposed supplemental for pay raise	653, 000	
Subtotal, appropriations	$25, 339, 000	$29, 685, 000
Comparative transfers to:		
Departmental management, "General Departmental Management" for the Civil Rights Review Authority	—120, 000	
Subtotal, budget authority	25, 219, 000	29, 685, 000
Receipts and reimbursements from:		
Trust funds	1, 351, 000	919, 000
Total, obligations	26, 570, 000	30, 604, 000

Summary of Explanation of Changes

1976 Estimated Obligations	$26,570,000
1977 Estimated Obligations	30,604,000
Net Change	+4,034,000

	1976 Base Pos.	1976 Base Amount	Change from Base Pos.	Change from Base Amount
Increases:				
A. Built-in:				
1. Annualization of 60 new 1976 positions	--	$1,099,000	--	$ +470,000
2. Anticipated increases in charges for space and building management services by the GSA	--	1,512,000	--	+408,000
3. Reimbursement to the Working Capital Fund and other increased administrative costs	--	1,705,000	--	+155,000
4. Annualization of October 1975 Pay Raise	--	653,000	--	+250,000
Subtotal	--	$4,969,000	--	+$1,283,000
B. Program:				
1. Compliance enforcement for 150 new FY 1977 positions to enforce Titles VI and IX in the Elementary and Secondary Education area; enforcement of section 504 prohibiting discrimination against the handicapped; and increased legal workloads	748	22,114,000	+150	+2,820,000
2. Contract Compliance	156	4,456,000	--	---
Subtotal	904	26,570,000	+150	+2,820,000
Total Increases	--	---	+150	+4,103,000
Decreases:				
A. Built-in:				
1. One less working day than in FY 1976	--	---	--	-69,000
Subtotal	--	---	--	-69,000
Total, Net Change	--	---	+150	+4,034,000

Obligation by Activity

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Civil Rights.....	904	$26,570,000	1,054	$30,604,000	+150	+$4,034,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Decrease
Total number of permanent positions.....	904	1,054	+150
Full-time equivalent of all other positions.....	16	16	---
Average number of all employees.....	857	1,015	+158
Personnel compensation:			
Permanent positions.....	16,429,000	18,738,000	+2,309,000
Positions other than permanent.....	319,000	347,000	+28,000
Other personnel compensation.....	33,000	36,000	+3,000
Subtotal, personnel compensation.....	16,781,000	19,121,000	+2,340,000
Personnel benefits.....	1,408,000	1,604,000	+196,000
Travel and transportation of persons....	1,493,000	1,703,000	+210,000
Transportation of things.....	28,000	33,000	+5,000
Rents, communications and utilities.....	2,288,000	2,883,000	+595,000
Printing and reproduction.....	163,000	184,000	+21,000
Other services.....	3,730,000	4,306,000	+576,000
Supplies and materials.....	136,000	155,000	+19,000
Equipment.....	543,000	615,000	+72,000
Total obligations by object.....	26,570,000	30,604,000	+4,034,000

OFFICE FOR CIVIL RIGHTS

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1970:				
Appropriation.....	$5,139,000	$5,139,000	$5,139,000	$5,298,000
SSA transfer.....	856,000	856,000	856,000	856,000
1971:				
Appropriation.....	8,461,000	8,461,000	9,408,000	8,461,000
SSA transfer.....	947,000	947,000	---	947,000
1972:				
Appropriation.....	10,710,000	10,710,000	10,710,000	10,710,000
SSA transfer.....	1,049,000	1,049,000	1,049,000	1,049,000
1973:				
Appropriation.....	13,009,000	14,648,000	14,648,000	14,648,000
SSA transfer.....	1,049,000	1,180,000	1,180,000	1,180,000
1974:				
Appropriation.....	18,627,000	18,627,000	18,627,000	18,627,000
SSA transfer.....	1,253,000	1,253,000	1,253,000	1,253,000
1975:				
Appropriation.....	22,741,000	22,201,000	22,087,000	22,087,000
Proposed supplemental.	655,000			
SSA transfer.....	1,466,000	1,466,000	1,466,000	1,466,000
1976:				
Appropriation.....	25,027,000	24,566,000	24,566,000	
SSA transfer.....	1,351,000	1,351,000	1,351,000	
Supplemental.....	653,000			
1977:				
Appropriation.....	29,685,000			
SSA transfer.....	919,000			

OFFICE FOR CIVIL RIGHTS

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Subactivities:						
Compliance enforcement.....	748	$22,114,000	898	$26,061,000	+150	+$3,947,000
Contract compliance.....	156	4,456,000	156	4,543,000	--	+87,000
Total.....	904	$26,570,000	1,054	$30,604,000	+150	+$4,034,000

General Statement

The Office for Civil Rights is responsible for the enforcement of Title VI of the Civil Rights Act of 1964, Executive Order 11246, as amended, Titles VII and IX of the Education Amendments of 1972, the anti-sex discrimination provisions of the Comprehensive Health Manpower and Nurse Training Acts of 1971 and Section 504 of the Rehabilitation Act of 1973.

Title VI prohibits discrimination with regard to race, color, or national origin in programs and activities receiving Federal financial assistance. The Executive Orders on equal employment opportunity prohibit discrimination with regard to race, religion, color, sex or national origin by employers holding Federal contracts. Title IX prohibits sex discrimination in education programs or activities receiving Federal financial assistance as do the Comprehensive Health Manpower and Nurse Training Acts with regard to medical and nursing schools. Title VII (the "Emergency School Aid Act") also requires compliance monitoring by the Office for Civil Rights. Section 504 prohibits discrimination on the basis of handicap by any recipient of Federal financial assistance.

Title VI compliance responsibilities include the monitoring of public school districts, colleges, universities, libraries, educational broadcasting facilities, hospitals, nursing homes, medical laboratories, and other health facilities; day care centers and various State and local agencies receiving Federal financial assistance.

Under the Executive Orders and by delegation from the Department of Labor, the Office for Civil Rights has compliance responsibility for monitoring all colleges, universities, hospitals and other health service facilities, State and local public agencies holding Federal contracts, and contractors and subcontractors participating in DHEW funded construction projects.

Compliance responsibilities under Section 504 of the Rehabilitation Act of 1973 apply to all recipients of Federal financial assistance. Compliance activities under Title VII (ESAA) are limited to applicants for assistance.

FY 1977 Request

Civil Rights faces major workload expansion. Title VI and Title IX complaints are expanding rapidly and causing backlogs which the office cannot accomplish with current resources. One court order and two additional lawsuits seek to compel CR to investigate all Title VI and IX complaints in Elementary and Secondary schools. In addition, implementation of Section 504 regulations will expand CR's compliance universe to the tens of thousands of institutions receiving Federal funds.

An increase of 150 positions is requested for FY 1977 to enable the Office to carry out these increasing compliance workloads. All of these positions would be assigned to the compliance enforcement activity. Sixty five of the positions would enforce Title VI and IX compliance in Elementary and Secondary schools. Thirty five new legal positions would perform increased legal workloads primarily in support of the Elementary and Secondary Education Division. Fifty additional positions would be utilized to implement Section 504.

Compliance Enforcement

The compliance enforcement activity encompasses enforcement of laws prohibiting race discrimination in Federally-supported programs (Title VI, Civil Rights Act of 1964); prohibiting sex discrimination in education and health programs (Title IX of the Education Amendments of 1972 and the Comprehensive Health Manpower and Nurse Training Acts); and prohibiting discrimination against the handicapped (Section 504 of the Rehabilitation Act of 1973). In addition, it encompasses monitoring of Title VII of the Education Amendments. This activity is carried out by three divisions -- Elementary and Secondary, Health and Social Services, and Higher Education -- targeted on broad categories of institutions. The Office of New Programs was established in FY 1975 to monitor and enforce the provisions of Section 504 of the Rehabilitation Act.

Elementary and Secondary Education Division - FY 1976 Accomplishments

-- Adams vs. Weinberger. The Adams vs. Weinberger court order, which affects only Southern and Border States, found CR deficient in fulfilling its own regulations requiring investigation of any information on non-compliance with Title VI. The court identified 115 school districts which have individual schools with minority enrollments deviating by 20% from the general district enrollment. The court requires CR to resolve each of these 115 investigations and an anticipated 681 additional complaints within 210 days.

CR will investigate the 115 districts named by the court and 184 of the additional 681 complaints in a good faith effort to meet the court's timetable.

-- Northern and Western Title VI Complaints. CR anticipates 236 Title VI complaints in Northern and Western states. Although a suit is pending against the Department (Brown vs. Weinberger) to compel CR to investigate all these complaints, CR in good faith can do only 44.

-- Title IX - Sex Discrimination. CR anticipates 611 Title IX complaints. The Weal vs. Weinberger suit seeks to require CR to investigate all of these complaints. With limited staff, CR will investigate 123 complaints in a good faith effort.

-- Lau vs. Nichols - Title VI. Under the Supreme Court's Lau v. Nichols decision on students whose primary language is other than English, 219 districts of a total 352 districts will be investigated.

-- Comprehensive Urban Reviews. The comprehensive reviews of four major city systems will continue.

-- Other. There will be Title VI reviews of 13 state administered schools and 13 districts to complete the pilot discipline program, and 58 open Northern and Western cases will be completed. Fourteen additional combined Title VI - IX investigations will be conducted.

-- Emergency School Assistance (Title VII). Other mandates and priorities have required cessation of ESA activities. Seventy seven positions previously performing Title VII reviews have been reprogrammed into Title VI and IX activities due to heavy pressures brought by the Adams order and other legal actions taken against Civil Rights.

Program Plans FY 1977

Sixty five new positions are requested to increase the number of investigations CR can accomplish in all areas of elementary and secondary compliance enforcement as follows:

-- Adams vs. Weinberger. CR would increase Title VI Southern and Border State investigations by 100 from 184 to 284 of a total of 983 backlogged and new complaints.

-- Northern and Western Title VI. CR would increase complaint investigations by 62 to 106 of a total of approximately 409 backlogged and new cases.

-- Title IX - Sex Discrimination. CR would perform 279 Title IX complaint reviews, an increase of 159. Total anticipated complaints in FY 1977 are 996.

-- Other. CR will conduct an additional 21 state-administered school investigations, an additional 32 systemic Title VI and IX investigations, and reviews of migrant programs in eight regions, an increase of four regions.

Office of New Program - Section 504 of the Rehabilitation Act of 1973 - FY 1976 Accomplishments

During FY 1976 development of the Section 504 enforcement program should be completed. These program development activities include publication of the draft regulation in the Federal Register for comment; placing the regulation in final form after full consideration of the comments received; pilot testing of the regulation on the practices and policies of selected recipients of HEW funds; preparation for a survey of recipients for data on the participation of handicapped persons in HEW funded programs; continuation of complaint investigation activities; and planning the operational aspects for the Section 504 program in FY 1977.

Program Plans FY 1977

Fifty new positions are requested for FY 1977. While FY 1976 is the year in which the regulation will be placed in final form and pilot tested, FY 1977 will be the year of placing the program in operation.

With this increase in staff, CR would conduct compliance reviews of 600 public elementary and secondary school districts (4% of universe), 100 colleges and universities (4% of universe) and 125 health and welfare related facilities (.6% of universe). These percentages will approximately double after FY 1977 as development of enforcement standards and staff training are completed. The majority of these reviews would be conducted by desk audits which include an examination of records and correspondence. Some of these reviews would involve a full field review which would necessitate visits to the institutions by CR staff and a full investigation of all aspects of an institution's policies and practices. The staff would analyze and investigate policies and practices of recipients and institutions, negotiate with the recipients and, where applicable, refer the cases for administrative enforcement action.

In addition to these enforcement activities, staff will be devoted to training, planning and the development of detailed procedures and guidelines which will delineate the obligations and responsibilities of recipients of Federal financial assistance.

Office of General Counsel Civil Rights Division - Program Plans FY 1977

An increase of 35 positions is requested to permit Civil Rights to meet legal workload which has increased due primarily to three factors:

1. The court order in Adams v. Weinberger not only requires Civil Rights to handle all complaints submitted, but to do so on extremely short time deadlines (other lawsuits are pending, seeking similar injunctions covering geographical areas and subject matters not covered in Adams).

2. As the focus of CR activities shifts from southern school desegregation to other areas and issues, the cases being handled by Civil Rights have become increasingly more complex, both as to legal theory and evidentiary requirements, thus requiring more attorney-time for preparation and presentation.

3. The activities of Civil Rights have been expanded by Title IX (sex discrimination in educational programs) and Section 504 of the Rehabilitation Act (discrimination against handicapped in federal programs). Regulations have recently been promulgated for the former and are being drafted for the latter. By FY 1977, a substantial caseload is expected in both areas.

Because the need for legal work is particularly urgent in Elementary and Secondary Education, 25 of the 35 positions will be assigned to that subject area, many of them in the regional offices. Attorneys handling Elementary and Secondary cases are expected to help the CR investigators and compliance reviewers identify issues and factual requirements; to evaluate a CR review for legal and evidentiary sufficiency and make an independent recommendation on enforcement; to present witnesses, data and legal arguments to the hearing officer; to prepare briefs and legal arguments on points of law or procedural matters; and, on occasion, to draft affidavits, briefs, and memoranda of law for use by the Department of Justice.

Health and Social Services FY 1976 Accomplishments

FY 1976 accomplishments include the completion of approximately 2,400 pregrant clearances, an increase of over 1,000 above the 1975 level. These will include new applicants in the Medicare program (hospitals, skilled nursing facilities, home health agencies), applicants as Health Systems Agencies under the National Health Planning and Resources Development Act of 1974, applicants under the Health Maintenance Organization Act, and other applications for DHEW health and social services funds. The Division will investigate approximately 350 complaints, over 100 more than in FY 1976. A major effort will be initiated to codify existing health and social services civil rights policies and to establish policy where voids are found to exist. In addition, new guidelines will be issued to assist State agencies in administering DHEW health services programs.

Program Plans FY 1977

No new positions are requested for FY 1977. The Division will continue its emphasis on pre-grant determinations, with approximately 2,400 such determinations being made. It is anticipated that the number of complaints will increase only slightly, 375 in FY 1977 -- up about 25 from FY 1976. Activities involving the State agencies concerning the new guidelines will continue at a lesser level than that in FY 1976. A limited number of reviews will be conducted of health facilities in the Medicare and Medicaid programs, State and local agencies administering DHEW health and social services programs and other recipients of DHEW funds.

Higher Education/Student Affairs - FY 1976 Accomplishments

Policy and Procedural Development and Training -- The major program objective for FY 1976 is the formulation of policies and procedures and the conduct of staff training. These efforts take place during the entire year and will involve all staff members (both headquarters and regional).

Educational Services -- Adams vs. Weinberger - During FY 1976, the Division will continue monitoring the eight (8) state-wide education desegregation plans accepted by the Office in June 1974 under the Adams v. Weinberger court order and will evaluate the status of desegregation in seven (7) additional states which previously maintained dual higher education systems. If vestiges of these formerly dual systems are found in 1977, these states will be required to develop desegregation plans.

Reviews and Investigations -- During FY 1976, the Division will conduct approximately 84 reviews and investigations of educational services delivery systems. Many of these reviews will result from complaints or other information filed by organizations or individuals alleging violations of either Title VI, Title IX or the PHSA.

Program Plans FY 1977

No additional positions are requested for FY 1977. Educational Services -- During FY 1977 the Division will extend the Title VI enforcement in formerly dual higher education systems from eight (8) to fifteen (15) states.

Reviews and Investigations -- The Division will expand the quality and comprehensiveness of our reviews, investigations and monitoring of Title VI, Title IX, and PHSA compliance in the educational services delivery systems of 86 individual institutions of higher education. A decrease in the number of such reviews will occur over the FY 1975 and 1976 levels because of the increased level of comprehensiveness. Most reviews conducted in FY 1975 and to some extent in FY 1976 were limited in scope because they were directed to individual complaints. The reviews in FY 1977 will be broader in scope, covering Title VI, Title IX and PHSA and will cover all aspects of an educational service delivery system rather than focussing on the limited contents of single complaints.

Contract Compliance

The Contract Compliance activity, by delegation from the U.S. Department of Labor, administers Executive Order 11246 which bans discrimination by employers holding Government contracts or participating in Federally-assisted construction projects. The work is performed by two Divisions in the Office for Civil Rights. The Contract Compliance Division which monitors HEW-funded construction projects, as well as service and supply contractors providing health, welfare, social and human resource services, and the Higher Education Division which monitors institutions of higher education holding Government contracts and administers other civil rights statutes affecting higher education institutions.

Contract Compliance - FY 1976 Accomplishments

Approximately 1,465 contractors will be monitored for compliance: 1,362 construction prime and subcontractors in OFCC designated plan areas and 103 service and supply contractors. All staff will be trained in the application of OFCC Order #4 to service and supply contractors. Regional staff will field test the application of equal employment compliance standards with construction contractors on HEW projects in geographic areas not subject to OFCC designated plan requirements.

Program Plans FY 1977

No increase in positions is requested for FY 1977 for E. O. 11246. The Division will continue its monitoring of construction prime and subcontractors on HEW-funded projects in the 71 OFCC plan areas and a limited compliance program will be initiated with construction contractors outside the OFCC plan areas. Compliance activity with service and supply contractors will increase slightly over the number of reviews projected for FY 76. It is estimated that 165 reviews covering 6 percent of the universe will be accomplished in FY 1977.

Higher Education - FY 1976 Accomplishments

Policy and Procedural Development and Training -- The major program objective for FY 1976 is the formulation of policies and procedures and the conduct of staff training in all areas of the Division's responsibility. These efforts will take place during the entire year and will include all staff members (both headquarters and regional).

Executive Order 11246, Affirmative Action Compliance Programs -- During FY 1976, the Division will secure and evaluate approximately 156 affirmative action compliance programs and monitor-implementation of programs approved prior to the beginning of the Fiscal Year.

Reviews and Investigations -- During FY 1976, the Division will conduct approximately 52 reviews and investigations of the employment systems of institutions of higher education. These reviews and investigations result from complaints or other information filed by organizations or individuals alleging violations of Executive Order 11246, as amended.

Program Plans FY 1977

No increase of positions is requested. The Division will expand both the quality and comprehensiveness of the contract compliance evaluation, review, investigation and monitoring activities. As part of these activities, the Division will conduct evaluations and monitoring of 160 affirmative action contract compliance programs and comprehensive employment discrimination reviews at 40 educational institutions. Department of Labor regulations require that reviews be conducted prior to the award of any contracts in excess of $1 million (a minimum of 40 such awards are anticipated in FY 1977). These regulations also require that affirmative action compliance programs be routinely evaluated and monitored. The Division will evaluate approximately 12% of these institutions.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

, Office for Civil Rights

Program Purpose and Accomplishments

Activity: Office for Civil Rights

1976		1977		
			Budget Estimate	
Positions	Amount	Authorization	Positions	Amount
904	$26,570,000	---	1,054	$30,604,000

Purpose: The Office for Civil Rights is responsible for the enforcement of Title VI of the Civil Rights Act of 1964, Executive Order 11246, as amended, Titles VII and IX of the Education Amendments of 1972, the anti-sex discrimination provisions of the Comprehensive Health Manpower and Nurse Training Acts of 1971, and Section 504 of the Rehabilitation Act of 1973.

Explanation: To provide funding of salaries and expenses for the staff of the Office for Civil Rights both in Headquarters and the regional offices.

Accomplishments and Objectives 1976: The Elementary and Secondary Education Division will investigate 418 districts, including 13 to complete the pilot discipline program; 351 complaints; 4 major city systems; 13 state administered schools; and migrant programs in four regions. Title VI and IX mandates and priorities required cessation of ESAA activities.

The Health and Social Services Division will complete 2,400 pre-grant clearances and 350 complaint investigations.

The Higher Education/Student Affairs program will continue monitoring 8 statewide education desegregation plans; evaluate the status of desegregation in 7 additional states, and conduct 84 reviews of educational services delivery systems.

The regulation for the Section 504 enforcement program will be drafted, finalized, and pilot tested.

The Contract Compliance Division will monitor 1,465 prime and subcontractors.

Under Executive Order 11246, the Higher Education Division will evaluate 156 affirmative action compliance programs and conduct 52 reviews of higher education institutions' employment systems.

Objectives 1977: 65 additional positions are requested for the Elementary and Secondary Education Division to assist in carrying out the Adams supplemental order, Title IX, and Northern and Western Title VI complaint investigations. Additional workloads to be accomplished will include:

-- 100 Adams Title VI complaint investigations;
-- 62 Northern and Western Title VI complaint investigations;
-- 159 Title IX complaint investigations;
-- 21 State administered school investigations; and
-- 32 Systemic Title VI and IX investigations.

Fifty new positions are requested for FY 1977 for Section 504 to conduct compliance reviews of 600 school districts, 100 colleges and universities, and 125 health and welfare agencies. An increase of 35 positions is requested for the Office of General Counsel, Civil Rights Division to meet expanding demands due to suits and court orders, the increasing complexity of cases, and the expansion of legislative and programatic mandates, mainly in the area of elementary and secondary education.

Under E. O. 11246 the Contract Compliance Division will initiate a limited compliance program outside the OFCC plan areas. Under E.O. 11246, the Higher Education Division will evaluate and monitor 160 affirmative action contract compliance programs and conduct 40 comprehensive reviews. The Health and Social Services Division will complete 2,400 pre-grant determinations. Higher Education/ Student Affairs Title VI enforcement in formerly dual higher education systems will increase from 8 to 15 states.

The Health and Social Services Division will complete 2,400 pre-grant determinations.

New Positions Requested
Fiscal Year 1977

Compliance Enforcement	Grade	Number	Annual Salary
Supv. Equal Opportunity Specialist	GS-14	5	134,305
Attorney Advisor	GS-14	1	26,861
Equal Opportunity Specialist	GS-13	7	160,342
Attorney Advisor	GS-13	4	91,624
Program Analyst	GS-13	1	22,906
Equal Opportunity Specialist	GS-12	8	155,088
Attorney Advisor	GS-12	9	174,474
Equal Opportunity Specialist	GS-11	10	162,550
Attorney Advisor	GS-11	12	195,060
Data Analyst	GS-11	1	16,255
Program Analyst	GS-11	1	16,255
Equal Opportunity Specialist	GS-9	26	350,532
Administrative Assistant	GS-9	1	13,482
Equal Opportunity Specialist	GS-7	24	265,104
Law Clerk	GS-6	2	19,892
Secretary-Steno	GS-6	7	69,622
Secretary-Typing	GS-5	2	17,850
Clerk-Typist	GS-4	10	79,760
Clerk-Typist	GS-3	19	134,938
Total new positions		150	2,106,900

Transition Quarter Analysis

	1976 Estimate	Transition Quarter
Appropriation (budget authority)	$24,686,000	$6,379,000
Receipts and Reimbursements from:		
Trust funds	1,351,000	352,000
Total obligations	$26,037,000	$6,731,000

Explanation

The transition quarter of $6,731,000 contains two increases to permit the Office for Civil Rights to operate during the interim period at the FY 1976 operational level. These increases are:

1. Annualization for 60 new positions requested in FY 1976, $140,000. These funds are one quarter of the amount required to fully annualize these new positions.

2. Anticipated administrative cost increases, $82,000. These increases involve reimbursement to the Department's Working Capital Fund for Office for Civil Rights' share of annualizing new FY 1976 WCF positions. They also reflect anticipated increases in other administrative costs.

GENERAL DEPARTMENTAL MANAGEMENT

WITNESSES

MRS. MARJORIE W. LYNCH, UNDER SECRETARY OF HEALTH, EDUCATION, AND WELFARE

JOHN D. YOUNG, ASSISTANT SECRETARY, COMPTROLLER
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER
CHARLES F. KEARNEY, DIRECTOR, OS BUDGET SERVICES

Mr. FLOOD. We now have the General Departmental Management. The presentation will be made by Marjorie W. Lynch, Under Secretary. We have your biographical sketch which we will place in the record at this point.

(Mrs. Lynch's biographical sketch follows:)

Marjorie Lynch was named by President Ford as the Under Secretary of Health, Education, and Welfare, taking office on November 13, 1975.

She came to HEW from a position as Deputy Administrator of the American Revolution Bicentennial Administration, where she served from October, 1974, until the HEW appointment.

From 1971 to 1974 Mrs. Lynch served with ACTION—2 years as regional director in Seattle, Wash., and 1 year in Washington as an associate director. ACTION is an umbrella agency responsible for administering all of the federally funded volunteer programs previously located in a variety of Government departments, including the Peace Corps, VISTA, and the foster grandparents program.

She served 10 years (1961–71) in the Washington State Legislature, for 5 years as chairman of the higher education committee. Her legislative record includes: Establishing a new system of community colleges; group homes for the mentally retarded; licensing child care agencies; mandatory education for the handicapped; State scholarship programs, and particular concern for the problems of mental retardation, mental health, and child abuse.

Mrs. Lynch is a native of London, England, coming to the United States in 1945. She became a U.S. citizen in 1948, settling in Yakima, Wash. During World War II, she was an officer in the British Women's Auxiliary Air Force, serving in an RAF front line station during the battle of Britain. She also served with the American Red Cross in London and Paris as a home service worker.

During the 25 years she resided in Yakima, Mrs. Lynch was active in many community services, including the Red Cross, Heart Association, chamber of commerce, and various other social and medical service groups.

Mrs. Lynch still maintains an avid interest in aviation, having traveled at twice the speed of sound while flying in an Air Force F–106 in 1969. Her other interests include horse breeding and training, the theater, literature, and tennis. She has three daughters: Mrs. Valerie (Putnam) Barber, of Tacoma; and Ms. Daphne Lynch and Ms. Teresa Lynch, both of Yakima.

At HEW, she is responsible for the day-to-day administration of the largest Federal agency, including overseeing of the HEW's 10 regional offices.

INTRODUCTION OF WITNESSES

Mr. FLOOD. Do you have somebody with you, you would like us to meet?

Mrs. LYNCH. Yes; I have Assistant Secretary Young, the Comptroller; Deputy Assistant Secretary Charles Miller, and Mr. Charles Kearney, a member of our budget staff.

PREPARED STATEMENT

Mr. FLOOD. I see you have a prepared statement, Madam Secretary. How do you want to handle it?

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Mrs. LYNCH. I would like to submit it for the record and then make a brief statement, myself.

Mr. FLOOD. Suppose you do that.

[Mrs. Lynch's complete statement follows:]

Mr. Chairman and members of the committee, my associates and I are pleased to be here to present the fiscal year 1977 appropriation request for general departmental management. The appropriation covers two major activities—departmental operations and departmental direction. The departmental operations portion provides direct services to the Department's agencies and makes up 55 percent of the appropriation. Departmental direction supports departmental policy and management direction provided by the Secretary.

The fiscal year 1977 request before you reflects the President's commitment to reduce to a minimum Federal overhead while supporting priority program operations. The fiscal year 1977 general departmental management requests proposes a reallocation of overhead resources to provide additional legal services to the Social Security Administration which anticipates over 9,000 new court cases in fiscal year 1977.

POLICY VERSUS OPERATIONS

Before discussing several high priority workloads facing the Department, I would like to describe for the committee the two major activities conducted by the Secretary under the general departmental management appropriation:

Departmental operations supports four major services which meet work requirements directly resulting from Agency program operations. These include: (1) Legal services provided to the Social Security and Food and Drug Administrations; (2) The HEW Audit Agency; (3) Enforcement of long-term nursing home care standards; and (4) The facilities engineering and surplus property functions. This portion of the budget represents 55 percent of total positions and 60 percent of total dollars requested.

The departmental direction activity supports those activities related to the Secretary's overall responsibilities for the management of the department such as budget formulation, fraud investigations, grants and contracts management, policy analysis, public affairs, and selected legal activities including drafting and reviewing regulations. Many of these support agency program operations but are not sufficiently distinct to warrant inclusion in the departmental operations portion of this request.

The fiscal year 1977 request is $106,533,000 and 3,267 positions, an increase of $4,271,000 and no positions over the fiscal year 1976 comparable level. The departmental operations portion of the total is $64,301,000 and 1,807 positions. This is 60 percent of the total dollars and 55 percent of the total positions. The increase of $4,271,000 is for mandatory cost increases such as annualization costs for new fiscal year 1976 positions, increased pay and space costs, and other similar items.

REPROGRAMING FOR ADDITIONAL LEGAL SERVICES

Mr. Chairman, the fiscal year 1977 general departmental management budget reflects our commitment to hold the line on employment while maintaining essential services. We are requesting no new fiscal year 1977 positions and only enough funds to maintain the overall fiscal year 1976 level of operations. However, this request does include numerous changes in the levels of individual activities. We are proposing that 50 positions and related dollars be reprogramed from departmental direction activities to provide additional critically needed legal services to the Social Security Administration. The most pressing workload now occurring in this account is the tremendous number of court cases being generated by Social Security programs. An additional 9,000 new court cases are anticipated in fiscal year 1977, an increase of 19 percent over the fiscal year 1976 estimate. These cases are brought by recipients of Social Security program benefits under the retirement, survivors, and disability program, medicare, and the new supplemental security income program.

Mr. Chairman, we must have additional personnel to provide prompt service to these litigants. To do so, we propose to reprogram approximately 5 percent of the resources now allocated to most of the departmental direction activities. These include the offices of legislation, planning and evaluation, and the financial and administrative management functions, public affairs, and the nonlitigation activities of the general counsel.

PROGRAM INTEGRITY

Mr. Chairman, before closing my statement on the 1977 general departmental management request, I would like to use this occasion to say a few words about our efforts to improve the integrity of departmental programs, The Department faces large problems in controlling waste and abuse of the funds it distributes. Congress recognizes the problem and has provided additional auditors, investigators, loan specialists, and program integrity personnel. In response to these problems and to specific requests by the House and Senate Labor-HEW Appropriations Subcommittees, the Secretary has reviewed HEW programs and procedures and we have been submitting reports to both subcommittees on the scope of the problem and the resources and administrative flexibility needed to cope with the situation. These reports deal specifically with student assistance, medicare, medicaid, SSI, and AFDC.

As you know we are taking specific steps to increase our central surveillance of fraud and abuse of funds. We recently reorganized the investigations function, combining Office of the Secretary and Social Security investigators in a new office of investigations, which reports directly to the Under Secretary. Congress more than doubled the investigations staff in fiscal year 1976 by adding 42 new positions to the 32 previously available. It is too early to indicate the adequacy of these resources. Our fiscal year 1976 operating experience and a recently begun analysis of projected workloads will indicate our future needs. If the emerging workload cannot be handled effectively, we will request additional resources through the normal budget process in fiscal year 1978.

SUMMARY

In conclusion, Mr. Chairman, the general departmental management request of $106,533,000 with no new positions, reflects this administration's commitment to minimize the size of the Federal Government while continuing to provide essential services. While maintaining the current level of general activity, we have made significant reallocations of resources from management to program operations.

I would be glad to answer any questions that you may have.

Mrs. LYNCH. Thank you. If I may make a personal note to you, I am delighted to have this opportunity to appear before the committee as Under Secretary. I appeared when I was Associate Director of ACTION, and I look forward to working with you again.

Mr. FLOOD. I was waiting hesitatingly for you to say that, because now it is a cue for me. I wanted you to say that first, because both the staff and members have talked about your coming here today. We remember you very well from the days you did appear for ACTION, and you can be assured that you will have an attentive audience. You are an attractive witness. Go on from there.

OFFICE OF INVESTIGATIONS

Mrs. LYNCH. Thank you, Mr. Chairman.

Mr. Chairman, I would like to place a prepared statement in the record and give you a brief review with particular emphasis on our plans for the new Office of Investigation.

As you are aware, shortly after I joined the Department, Secretary Matthews created a new Office of Investigations directly reporting to the Under Secretary. At that time, he expressed his total commitment to the curbing of criminal abuse in HEW programs.

Incidentally, Mr. Chairman, we appreciate the cooperation we have received from this committee increasing the staff for this new office.

It seems to me that we cannot deal with the question of fraud and abuse unless we look at several issues. There are two areas in which particular attention must be given.

First, to effectively reduce the risk of fraud and abuse and, second, to fully staff the Office of Investigations and proceed as quickly as possible if we are to deal with the problems facing us in student aid programs, social security, medicare and medicaid.

I think there are many characteristics that make HEW programs particularly vulnerable to misuse of funds and actual fraud. The magnitude of the number of individual complaints, the change of status of individuals, which affects eligibility and amount of payment, the shared responsibility for management and administration which diffuses the responsibility and accountability for these programs.

For instance, under the guaranteed student loan program we work with 9,200 educational institutions and 20,000 private lenders. Under medicaid and AFDC, we work through State and local government. In medicare there are 48 carriers and 84 intermediaries and 10,000 hospitals and skilled nursing facilities resulting in 86 million claims for physician services and 27 million bills for hospitals, nursing homes and home health services.

I think just one example, Mr. Chairman, will show you the magnitude of the problem. The State of Illinois alone handles 24 million pieces of mail on medicaid each year. Certainly we have a responsibility to assist the States with their management information systems and help with training. We have developed such a program for medicaid and 37 States are already involved. We will place greater emphasis in this area in the future.

SIMPLIFICATION OF REGULATIONS

We must also review our regulations to simplify where appropriate and provide clarity which is sadly lacking in many of these regulations. Secretary Mathews has made a commitment to bring about reform and provide the mechanism for input from government at all levels, from citizen-participants, and also those who have particular concerns with our regulations. I think many times the lack of clarity within our own regulations opens the door to misinterpretation and eventual abuse.

RELATIONSHIP BETWEEN AUDIT AND INVESTIGATIONS

We will also place much greater emphasis on the audit unit, and I have personally asked for a complete report on all closeouts of our audits. I have advised the head of the Audit Agency that there will be a close working relationship between the audit office and the Office of Investigation with no intervention on the part of the Office of the Secretary or Under Secretary.

I think you are aware, Mr. Chairman, we are now authorized 74 positions for the Office of Investigations. We have 22 professional investigators in the field at this time and 3 in headquarters. We also have seven clerical staff. Five of these are in the field. At the present time, we are processing an additional 7 applications for investigators, and we will post an additional 22 positions within 2 weeks. We will then have 51 investigators in the field.

The Director of the Office has been selected, and we are waiting for final clearance from the Civil Service Commission. In the meantime, Mr. Philip Brown, chief administrative law judge, who is with me

today, has been the Acting Director, and I am sure he will be happy to answer any questions you might have.

I hope the members of the committee will understand the difficulties that this unit has had in the past with only 10 investigators to really get on top of this extremely critical situation. I believe they have done a commendable job. Already major cases are breaking in the State of New York and in Chicago in which the Department has played a major role. Within 6 months, I expect to advise this committee of major accomplishments in completing many of the outstanding cases.

Mr. Chairman, I would like to make just one final important point. In order that the integrity of this office be protected, the Secretary has assigned a delegation of authority to the Director for the initiation of all investigations with no control by either the Secretary or under Secretary.

Thank you, Mr. Chairman.

THE APPROPRIATION REQUEST

Mr. FLOOD. Thank you very much.

Let's talk first about budget increases. The 1976 appropriation to date for general departmental management adds up to $98,683,000. Now you are requesting $106,533,000 for 1977. That is an increase of $7,850,000, or just about 8 percent.

Doesn't it strike you as unusual that the Department overhead would go up so much when the budget is making pronounced cuts in health and education programs right across the board?

Mr. MILLER. Mr. Chairman, I think you recognize that there are no increases in this budget either for our operations or program direction. The increases are entirely built-in increases or transfers of various functions. We are requesting no increases in the budget whatever, nor are there any increases since we proposed the budget originally in fiscal year 1976 and since your appropriation. So it is entirely a question of built-in costs.

Mr. FLOOD. You are proposing, however, a supplemental appropriation for 1976 of $2,610,000. That is for increased pay costs. Most of the pay costs, the increases, all through the Department, have been absorbed. Why can't you absorb the entire amount?

Mr. KEARNEY. It doesn't seem at this point that we can. We have analyzed all of the various classes of expenditures, and it appears that there is little leeway.

Mr. MILLER. I think in a number of the salaries and expense accounts we are also asking that you take supplemental action. I think most of our absorptions are asking you to permit us to reprogram so we can use grant and contract funds. We had no such opportunity in this account.

COMPARATIVE TRANSFERS

Mr. FLOOD. All right; take a look at page 18 of the justifications. You have a long list of what you call comparative transfers. The net effect of that is to add about $1 million to your budget, but no explanation is given.

So I tell you what you do; for the record, supply an explanation of all these transfers now and why they are necessary.

[The information follows:]

GENERAL DEPARTMENTAL MANAGEMENT ANALYSIS OF COMPARATIVE TRANSFER

	To	From	Amount	Position
TRANSFERS IN				
1. Rehabilitation Service Administration—to provide accounting support for the rehabilitation service program which has been transferred to the Office of Human Development.	Financial management.	Human development.	+$127,000	+6
2. Emergency planning officer	Administrative management.	do	+31,000	+1
3. Regional Safety Management—to insure the safety of HEW employees in their place of work in accordance with the Occupational Safety and Health Act.	Field management	Several agencies	+228,000	+8
4. Commissioner of Welfare	Immediate office	Social and Rehabilitation Service.	+101,000	+3
5. Regional long-term care—to enforce the Life safety code in nursing homes and other long-term care facilities.	Facilities engineering.	Health Services Administration.	+350,000	+15
6. Civil Rights Review Authority—transfer of the Rights Review Authority from Civil Rights to the Assistant Secretary, Administration and Management.	Administrative management.	Office for Civil Rights.	+120,000	+3
7. Legal positions—transfer of legal positions included fiscal year 1976 Agriculture, Environmental, and Consumer Protection Appropriation Act for the transfer to the Food and Drug Administration.	Legal services	Food and Drug Administration.	+200,000	+10
8. Headquarters regional budget staff—to provide central financial management to the common regional services activity of the working capital fund.	Financial management.	Several agencies	+73,000	+3
Total, transfers in			+1,230,000	+49
TRANSFERS OUT				
1. Human Development Personnel—to establish an independent office of human development personnel function.	Human development.	Administrative management.	−151,000	−10
2. Headquarters support for long-term care—for headquarters support and coordination of the regional long-term care program.	Office of Nursing Home Affairs.	Long-term care	−110,000	−4
Total, transfers out			−261,000	−14
Total, comparative transfers, GDM			+969,000	+35

OFFICE OF THE SECRETARY BUDGET GROWTH

Mr. FLOOD. This 1977 budget request, $106,533,000 is about five times as large as the appropriation for 1967. Can you give us some good reason for that kind of growth in 10 years?

Mr. YOUNG. Many of those increases have come about from supporting services. There are two ways to provide services. For instance, the audit service, you could provide, as it was previously, by spreading the auditors through the program groups. Starting with Jim Kelly some years ago, we centralized the audit function and are providing centralized audit services for all programs.

Also, because of increased litigation, particularly in social security, because of court cases, you have a great need for additional people in the General Counsel's Office. We also have as a budget increase the cost of office space which go into a revolving fund at the General Services Administration.

Mr. MILLER. I would add to the same point, Mr. Chairman. Each of the agencies used to provide its own personnel services in the field, social security being an example of a major cost of performing personnel services and we decided that it was much more economical if those personnel services were centralized in the regional director's office. The

social security staff has increased by a large amount over the years, and we have had to increase the supporting services in the field significantly.

Mr. FLOOD. In that same period, the total HEW budget went from $35 billion to $140 billion. In other words, the total HEW budget for 1977 is about four times as large as the budget for 1967. Why should the Office of the Secretary expand at a faster rate than the whole HEW budget?

Mr. KEARNEY. During this period there have been several transfers of function into the Office of the Secretary. The most recent one has been the long-term care enforcement program, which up until a few years ago was in the various HEW agencies. These transfers into the Office of the Secretary have contributed to part of this increase.

In addition, a few years ago, we also added the facilities engineering office to the Office of the Secretary. Therefore, these transfers haven't been total increases to the budget, but rather a consolidation of functions' previously existing in the agencies.

Mrs. LYNCH. Also, with the establishment of the Office of Investigations, there will be 74 additional people there that we have not had before.

Mr. MILLER. One word I would add, and particularly point to the gentleman on my right, Mr. Young, who has worked hard to hold down overhead costs. I think we have some agreement with your observation, and I think we have been trying very strenuously to reduce the growth in overhead. You are picking a year when we are asking for zero growth.

LEGAL SERVICES

Mr. FLOOD. You mentioned legal services. You are proposing an increase of 50 positions for legal services to handle the increase in the social security litigation you are talking about. What is causing all this increase in social security litigation?

Mrs. LYNCH. I think one of the reasons, Mr. Chairman, is that people are becoming much more conscious of litigation. People are much more aware of the fact that they can take their cases to court, and they are doing so. The supplemental security income program has brought about a great deal of increase for us in this area.

Mr. FLOOD. Is there an educational program going on?

Mrs. LYNCH. It is partly education, but I think the more people who become involved in these programs, the more this will happen. The figure next year, Mr. Chairman, is that we expect to have 9,000 new cases, just in the area of social security programs.

DEPARTMENTAL DIRECTION

Mr. FLOOD. You show a decrease of 50 positions and $270,000 in what you call departmental direction. But there is an increase of 50 positions and $4,541,000 in departmental operations. Why is that increase in the dollar so much larger than the decrease?

Mr. YOUNG. Part of it is for the 50 positions. This is not really reprograming although we use that term. What we are doing is reducing what you refer to as overhead by 50 positions in order to show frugal-

ity in that area and add those positions to the General Counsel's Office to handle this 9,000 additional SSA litigation cases.

What has been happening from the 1960's through the 1970's in the courts, as you well know, is the drive for greater constitutional due process, and the courts have declared that we must handle these cases, and they are litigants and they are citizens.

In addition, you have increases because of SLUC and other increased costs of doing business, for example, pay increases.

Mr. FLOOD. In that total of the 50 new positions, you use the phrase the lapse rate. What is the lapse rate for those positions?

Mr. KEARNEY. Those new positions are included in the budget for approximately four-fifths of the year.

Mr. FLOOD. How many of those additional 50 jobs will be attorneys?

Mr. KENNEDY. They will all be in the General Counsel's office. About one-third will be in supporting services. Two-thirds will be lawyers and paralegal positions.

TRUST FUND CHARGES

Mr. FLOOD. If all these people are working exclusively on social security cases that you are stressing, why shouldn't the cost then be borne by the Social Security Trust Fund?

Mrs. LYNCH. That is where it is coming from.

Mr. KEARNEY. That is part of the increase.

Mr. FLOOD. Part of it?

Mr. KEARNEY. Yes, sir.

Mr. FLOOD. About what part?

Mr. KEARNEY. On the average, it is about 12 percent of the total appropriation.

Mr. FLOOD. Why isn't there a much larger increase in the transfer from the Social Security Trust Fund? The increase you have here is $321,000. That is certainly not enough to support 50 jobs.

Mr. KEARNEY. As Mr. Miller pointed out, we are taking a hard look at the kind of charges we are placing on social security, and this is basically a net figure for the entire appropriation.

Mr. FLOOD. Why do the legal services for the Food and Drug Administration, and for Social Security show under departmental operations, whereas these other legal services are shown under departmental direction?

Mr. YOUNG. The reason for that is because they can't be broken out. The Social Security lawyers spend their time fully on social security cases, Food and Drug lawyers on food and drug cases. whereas the others spend their time on various types of cases. We have studied that several times, to answer the question that you raise, and found that it would really break up the General Counsel's office, and we would have fragmented teams.

BENEFITS FOR DISABLED COAL MINERS

Mr. FLOOD. Can you explain why the 73 positions for "Special Benefits for Disabled Coal Miners—Litigation work performed by the Office of the General Counsel for the Social Security Administration" don't appear in this budget?

Mr. KEARNEY. They are positions financed on a reimbursable basis from the Social Security Administration. The size of the workload determines how many are actually needed for black lung work. The figure varies in terms of the workload required, and we are reimbursed from the Social Security Administration for it: They are listed as budget items in the reimbursable program but not specifically in the appropriation.

Mr. FLOOD. How many lawyers are hidden in other parts of the HEW budget?

Mr. MILLER. There are some people who have had legal training, but in rare instances, if at all, have we actually hired people as 100 percent full-time attorneys other than in the General Counsel's Office.

Mr. FLOOD. What is the division of responsibilities now between the Justice Department and the General Counsel's office at HEW? Who is responsible for what?

Mrs. LYNCH. In what area?

Mr. FLOOD. Divide the responsibilities between the two.

Mr. MILLER. Generally, I think the way to describe it is that the General Counsel's office in HEW does all the developmental work and determines which cases should be referred to the Justice Department, and the Justice Department prosecutes the cases. That is not entirely true for the big workload of social security cases. I think we do that court work ourselves, but generally that is the division of work.

AUDIT STAFF

Mr. FLOOD. You mention in your statement the audit staff. We note here that you are not requesting any additional audit staff. Does this mean you believe the present audit staff of 870 people is adequate to keep a check on an annual budget of $140 billion in public funds?

Mrs. LYNCH. I think at the present time we do feel it is adequate. We may come back next year with a different story when we begin to really know the workload within the Office of Investigations.

CONTRACT COST REIMBURSEMENTS

Mr. FLOOD. Last year the General Accounting Office reported that HEW has a growing backlog of the cost-reimbursement contracts which are physically completed, but not actually closed out. I think you touched on that. I am reading from the report:

U.S. GENERAL ACCOUNTING OFFICE,
February 6, 1975.

Our survey shows that there is a growing backlog of cost-reimbursement-type contracts which are physically completed but not closed out. These contracts totaled about $600 million and number over 2,400. A test of one agency indicates that most of these contracts were physically completed before 1972. Although reimbursements have been made, with minor exceptions in the total amounts of these contracts, the costs have not been reviewed to determine whether there are unallowable reimbursements which should be recovered from the contractors.

What about that situation?

Mrs. LYNCH. I would like to have Mr. Young answer that.

Mr. YOUNG. That situation was not good at that time, and it is not much better. What we did as one thing is we raised the level to

which you could settle by what we called desk audits from 50,000 to 100,000. There are a great many of those that are small contracts that it would not pay to put professional auditors to audit before closing the contract.

That has been done, but recently we found that that rule was not being vigorously followed and Mr. Stepnick, Director of the HEW Audit Agency, along with the administration people, are now trying to clean that situation up. I don't want to report to you that it is much better than it was a year ago. It is a problem, but if you have a choice of scarce resources, you will never have all the auditors you want. You must make priority decisions.

It is better to put them on a guaranteed student loan program; university situations that demand it rather than auditing a lot of these contracts.

It is not an adequate explanation, but it is a frank explanation, of the situation.

AUDIT WORKLOADS

Mr. FLOOD. Take a look at page 42.

The audit agency's workload requires 3,954 (3,832 DHEW and 122 for other Federal agencies) man-years of effort annually. By utilizing the work of outside auditors and through increased staff activity annual manpower requirements have been reduced by some 2,299 man-years.

How on earth can 870 people do 3,954 man-years of work?

Mr. YOUNG. A lot of that work is done by certified public accounting firms, particularly in the situation of the intermediaries in medicare. They do that work in accordance with audit programs laid out by the auditors and by the Social Security Administration and then they check to see whether those audits are done properly.

Mr. FLOOD. Does this mean that you really need 3,954 auditors instead of 870?

Mr. YOUNG. No. What we are saying is that the number of man-years shows the total audit manpower that is presently being used. If you look at the outside manpower, plus what we have in-house, which is 960, I think, we are short about 500 man-years of effort. What we are doing now is taking a look at that gap between the work to be done and the available resources, both in-house and out-of-house, to see how that should be handled. Should we come back through the regular budget process and ask for additional auditors on the public payroll, or should we have a combination of additional auditors on the public payroll, plus greater use of the State auditor. There is a combination of in-house, plus State auditors, plus additional CPA's. That study should be done about the 1st of May, and we will be back through the normal budgetary process.

INVESTIGATIONS STAFF

Mr. FLOOD. Let's talk about the investigative staff. Remember, this committee added a number of investigators, especially last year. Now, you did mention in the statement that a director been appointed for the investigations?

Mrs. LYNCH. The selection has been made.

Mr. FLOOD. Can you tell us who it is?

Mrs. LYNCH. No; I really cannot. It has not been cleared through Civil Service, but the selection has been made.

Mr. FLOOD. How many of the 74 positions that were authorized for the Office of Investigation are now filled as of today?

Mrs. LYNCH. Thirty-two. There are 25 investigators and 7 clerical. Of those 25, 22 are in the field and 3 are in headquarters. There are two clericals in headquarters and five clerical in the field. Right now there are seven applicants in process now for investigators. We will post 22 more during the next 2 weeks.

Mr. FLOOD. How will the responsibilities of the office be defined? For instance, the Social and Rehabilitation Services, now they have just been given 108 new positions over there to focus on abuses in the medical program. On age 27 of your justifications you also talk about investigating fraud and abuse in the medicaid program. Why do you have two organizations doing exactly the same thing?

Mrs. LYNCH. Mr. Chairman, I think what you are talking about is the staff that we have dealing with program integrity. The Office of Investigation is going to be dealing with the actual criminal fraud and abuse. Mr. Young, this is your favorite subject; perhaps you would like to pick up on this.

Mr. YOUNG. I have written more on this than I would like to.

Mr. FLOOD. You see how that would arise?

Mr. YOUNG. Yes, sir, I am quite familiar with it. It is a very legitimate question. If you look at what happens in HEW programs, their characteristics, you will never solve the problems that this administration and the Congress are faced with by just catching those people who have ripped the system off to put it brutally. You have to stop that by a lot better management of the programs.

In the guaranteed student loan program there have been abuses and some white collar crime. The way to stop that is tighten up the system from a management point of view. You don't need investigators for that. In many of the medicaid systems in the States they don't have the kind of management controls and accounting that you and I would expect. Therefore, you have a lot of these activities that we call prevention of abuse and the misuse of public funds.

Now when we get to a point where somebody has actually gotten five student loans or five social security checks and we have an allegation, now we bring in the criminal investigators. These are different than the auditors. They are different than the program management people.

Mr. FLOOD. The two organizations are not doing the same thing?

Mr. YOUNG. No, if they are, we have really blown the case.

Mr. FLOOD. The same applies to the guaranteed student loan program?

Mr. YOUNG. That is correct.

Mr. FLOOD. The Office of Education is asking for 200 new positions to investigate fraud especially in the student aid programs. Again, are two organizations doing the same thing?

Mr. YOUNG. No, sir. I would like to submit that that question has come up in other committees. I would like to submit for the record exactly the activities those 200 additional people will be doing. Some will go for collection. Some will go for improvement in the system of handling the various documents, et cetera, to tighten up on that system.

I think that would be useful to the Congress and to the committee.

Mr. FLOOD. You are in a position to know. I know the question has been asked before. All right, suppose you do that. You are obviously prepared to do it, too.

Mr. YOUNG. Yes, sir.

[The information follows:]

The 200 positions identified in the fiscal year 1977 budget for preventing fraud and program abuse in Office of Education programs consist of 142 new positions and 58 existing positions. The latter would be reallocated from lower priority activities.

The 200 positions and a brief description of their intended use is as follows:

Program and number of positions	*Proposed use*
Guaranteed student loan program, +72.	Reviewing lender and school procedures for compliance with program policy (+34). Additional staff will provide initial followup on suspected cases of fraud and abuse for referral to Office of Investigations and Security, Audit Agency, et al.
	Collections (+28). Additional staff will help process 40-percent increase in default claims workload.
	Management (+10). Additional staff will help develop and implement new computerized system designed to improve management controls.
Campus-based student aid programs: national direct student loan program, college work-study, supplemental educational opportunity grants, +70.	Reviewing student financial aid practices at approximately 4,000 postsecondary institutions at least once every other year for compliance with program policy (+45).
	Complete program audits, processing financial reports, improving timeliness of policy guidance (+25).
Basic educational opportunity grant program, +47.	Improving the processing and reconciliation of of over 16,000 financial reports annually to prevent improper disbursements (+19A).
	Validating student-reported income data, resolving audits, implementing limitation, suspension, and termination procedures for problem institutions (+18).
	Examining institutional basic grant payment procedures and records and providing technical assistance to student financial aid officers on compliance with program requirements (+10).
Accreditation and institutional eligibility, State student incentive grant program, +11.	Strengthening Federal review procedures and controls for determining institutional eligibility (+9).
	Improving quality control over fiscal and program reports in new State scholarship program (+2).

INDIRECT COSTS

Mr. FLOOD. Again, this question of indirect costs arises. I think you know that some members of this subcommittee have been developing quite a concern about the increase of the indirect costs that are being paid in connection with grants and contracts. Can you tell us briefly what you are doing to try and handle that problem?

Mr. YOUNG. The concern over indirect costs comes from four different sources—this committee, a special investigating group, ourselves, and our audit reports and the Office of Management and Budget.

We are doing several things. One is, we have proposed revisions in

what we call Financial Management Circular 73–8, which is the circular that sets the ground rules on allowable indirect costs. This is put out by the General Services Administration on how indirect costs for research and contracts are to be handled.

There are several places that these ground rules are not clear. The universities have had trouble following and the auditors have had trouble interpreting them. So we are now in a cooperative mode, I would say, working with the universities and their associations, to clarify and to amend those ground rules.

In the meantime, the auditors are still making audits and we are finding problems in some of the audits. Apparently some of the universities do not understand the guidelines and if they do understand the guidelines, they are not able to carry them out effectively.

For instance, oftentimes we find salaries that are reported at more than 100 percent. We find problems of this nature. My impression is that the cooperative spirit with which the American Association of Universities particularly is working with HEW and the Office of Management and Budget will allow a reasonable resolution of this problem in the next few months.

ANNUAL INDIRECT COST PAYMENTS

Mr. FLOOD. How much is HEW paying out each year in these indirect costs?

Mr. YOUNG. It is not clear how much HEW is paying out. It is probably betwen $500 and $600 million in total to all grantee institutions.

Mr. FLOOD. How much of that is going to institutions of higher education?

Mr. YOUNG. That I can't answer.

Mr. FLOOD. For the record, would you get that on higher education, how much?

Mr. YOUNG. Governmentwide for research and development at colleges and universities it is probably around $600 million. HEW's portion would be about 50 percent of that amount. It will be another 6 months before we have more accurate numbers. We have not in the past had a system that accumulated these indirect costs. Let me make one further statement: That is there is a tendency to blame the universities for the rise in indirect costs. There are many reasons for the increase in indirect costs in universities.

One is that we have put on a lot of requirements in programs like civil rights, et cetera. These have increased indirect costs. We have put additional responsibilities on them in handing contracts. Dr. Charles Kidd of the American Association of Universities has written an excellent paper on why those costs have gone up.

A lot of people don't realize that universities who are handing research for the Federal Government are sharing costs. Frankly, as a question of public policy, I think it should be examined in the future as to whether or not we should not treat universities as we have industry and go for full costs.

Mr FLOOD. The annual Labor-HEW appropriation bill formerly used to contain a provision which put a limitation on the payment of indirect costs. That was dropped some years ago.

Mr. MILLER. Yes, sir.

Mr. FLOOD. Do you think it would be desirable to reinstate this limitation?

Mr. YOUNG. No, I do not. I think that would be grossly unfair. That came out of great frustration on the part of the Congress and many other people. Indirect costs are just as real as direct costs and must be absorbed somehow. I think the question is: Do we want to continue to have the universities do what they are doing for us? That is the fundamental question.

Most people answer that affirmatively.

Mr. FLOOD. I am not surprised at your answer. I think Mr. Miller would agree.

Mr. MILLER. I do indeed.

Mr. FLOOD. Mr. Shriver?

Mr. SHRIVER. Thank you, Mr. Chairman.

I, too, want to welcome you, Mrs. Lynch, back to the committee. I remember when you were here in another capacity. I also remember your effective work with the Bicentennial Commission.

Mrs. LYNCH. Thank you.

INCREASE IN LITIGATION

Mr. SHRIVER. I don't understand the reason that you gave for the increase in the number of cases, particularly social security court cases and claims. Your statement indicates a 19-percent increase in 1 year.

Mr. MILLER. One of the major reasons, I think, Mr. Shriver, is that there have been a number of court decisions recently which have put a great deal more formality into the denial process. It is almost impossible to make an informal denial now. It has stimulated people into much greater litigation than before. Then there are a number of other programs which social security has taken on such as SSI. There is also quite a bit of litigation in the black lung program. There has been an enormous increase in the number of people taking cases to court that pertain to some part of the social security program.

Mr. SHRIVER. Do you think it may be in part because of legal services being made available for free by the Federal Government?

Mr. MILLER. Well, I am not sure any of us can comment on that. I am not sure any of us have enough knowledge in depth of the program to know whether that might be a factor or not.

INCREASES FOR 1977

Mr. SHRIVER. In your statement on page 2, you said the increase over the prior year is for mandatory cost increases such as increased space costs. I can understand about the pay and all, but how much is there for increased costs for space?

Mr. KEARNEY. We have an increase of approximately $1.7 million for space costs.

Mr. SHRIVER. What I am looking at is Mrs. Lynch's statement. That is an increase of $4,271,000.

Mr. KEARNEY. Of that, approximately $1.7 million is for SLUC charges, payments to the GSA. The largest part of that has to do with our movement to the new South Portal Building. That is $1.5 million.

Mr. SHRIVER. At the bottom of page 31, talking about the accomplishments in 1976 in the area of financial management, one of the

items mentioned is "crosswalks of the fiscal year 1976 budget in terms of legislative authorities provided to the Congressional Budget Office, the Budget Committees, and the Senate Labor and Public Welfare Committee. What does that refer to?

Mr. MILLER. I think perhaps the easier one to describe is the last, the Senate Labor and Public Welfare Committee.

BUDGET CROSSWALKS

Mr. SHRIVER. I would rather you talk about the Budget Committee crosswalks.

Mr. MILLER. The budget crosswalks I think essentially have to do with the fact that the Budget Committees are looking at the budget by function. When you look at the material before you, we have broken it down by HEW appropriations. In many instances the Budget Committees want us to aggregate it by function.

I would like to mention, because it is such a major job, that some of the authorizing committees want us to take each section of the laws for which their committee is responsible and to associate all the budget numbers by section and subsection in the legislation for which they are responsible. This is a very major job. As a matter of fact, GAO is overseeing it.

Mr. SHRIVER. Go ahead with the Senate Labor and Public Welfare Committee.

Mr. MILLER. The last item I was discussing about the authorizing committees was essentially a description of the kind of work we have done for that committee.

PRIVACY ACT

Mr. SHRIVER. On page 35 under program plans for 1977, you say the Privacy Act will be implemented for Office of the Secretary employees. What are you going to do there?

Mr. MILLER. I think that is a question of establishing the systems that are necessary to assure that we obey the provisions of the Privacy Act. There are a number of different records that have to be kept. I think in some instances we have to centralize records that were formerly decentralized.

Mr. YOUNG. You have to keep track of every system that has the name of an employee in it. When you build additional systems, they have to be updated, published, and known to the public and they have to be known to the employee, that his name is there, so in case the person wants some data in the file you have to give it to him. That is a very time-consuming piece of work.

FEDERAL WOMEN'S PROGRAM

Mr. SHRIVER. The next item says the Federal women's program will develop a career counseling service for women in the Department.

Mrs. LYNCH. Mr. Shriver, I don't have the details on that, but I know that it is an area that we need to do a great deal on in the Department. That is one of the things that bothered me when I went there. I found we don't do very much career counseling, particularly with younger women.

May I go back to the Privacy Act for a moment? I think that as time goes along we are going to undoubtedly be bringing back some information to Congress to point out the really difficult situations we are getting into. I would hope that as the months go by and we see the difficulty that this causes a department that we can come back and discuss this with you.

Mr. SHRIVER. It would be a good idea.

OCCUPATIONAL SAFETY

On page 37 where it says, "Another new initiative in the regions will be the development of safety incentive programs mandated by the Occupational Safety and Health Act. Regional safety officers will begin the identification of environmental health hazards as well as unsafe work practices".

What does HEW have to do with that? Are you talking about the problems that exist within HEW?

Mr. MILLER. This is just directed toward our own employees.

Mr. SHRIVER. Your own safety and health problems?

Mr. MILLER. Yes; to make sure the work station is as safe as possible.

Mr. SHRIVER. What is the total number of people employed by HEW?

Mr. MILLER. About 135,000 people.

Mr. SHRIVER. That includes everything?

Mr. MILLER. Yes, sir, field and headquarters.

STUDENT LOAN COLLECTIONS

Mr. SHRIVER. You mentioned collections on student loans. Has consideration been given to putting these claims out to private collecting agencies? If not, why hasn't that been done?

Mr. YOUNG. Mr. Shriver, we looked at that a couple of years ago. As I recall, we had some problems with some General Accounting Office decision. We are looking at that again, I think. I am not absolutely sure that we are looking at that again.

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. FLOOD. Mr. Roybal?

NURSING HOME STANDARDS

Mr. ROYBAL. Mrs. Lynch, you stated that the departmental operation supports four major services which should meet work requirements directly resulting from Agency program operations. You list one of those as being the enforcement of long-term nursing home care standards. I happen to be a member of the Committee on Aging. That started to ring a bell. What is it that you do with regard to the enforcement of long-term nursing home care standards?

Mrs. LYNCH. Mr. Roybal, it deals particularly with our surveys we make of the nursing homes in maintaining the guidelines that we give to those nursing homes. One of the things we have been looking at recently is the 68-page survey we use to evaluate the safety of a nursing home.

We are looking at a study now to see if we can't cut that down to about 3 pages, primarily looking at it from the point of view of the

kind of care we are delivering to patients rather than looking at the types of issues in the 68 pages before.

I went to a nursing home the other day with one of our people and took that 68-page survey. I found very few areas in which we dealt with the quality of care that the patient was receiving. That is one of the things we are taking a look at.

Mr. ROYBAL. Based on what we have learned during the hearings we have held throughout the country, I think we can safely say that there is still a lot to be done in this field. Would you agree with that?

Mrs. LYNCH. I would agree with it, Mr. Roybal.

Mr. ROYBAL. How can you enforce some of these standards?

Mrs. LYNCH. I am not sure that you can always enforce all of them. I think the more standards that you put in there, the more difficult it is going to be for us to enforce them. Having been a State legislator, I know how difficult it is, for instance, for States to even get their own fire marshals to agree with what is going on.

You can go from one county to the next and have a great deal of difficulty in having fire marshals to agree. I would hope that as we review all our regulations, we can simplify our reporting requirements to be sure that the quality of care and the safety of people is maintained.

Mr. ROYBAL. I think you have a tremendous job to do in this field alone. I would like to know how many people you have working or devoting their full time to this work?

STANDARDS ENFORCEMENT STAFF

Mrs. LYNCH. There are 259 plus 30 in fire safety.

Mr. ROYBAL. They do their work where?

Mrs. LYNCH. All of them are in the field, in the 10 regional offices.

Mr. ROYBAL. How many of those are in Washington, of the 259?

Mrs. LYNCH. They are all in the field.

Mr. ROYBAL. That is good because it indicates that they are at least out where the problem is.

Mrs. LYNCH. That is where they belong.

Mr. ROYBAL. Do they make a report to you on a monthly basis or how do they report?

Mrs. LYNCH. I have just taken on this responsibility and have asked that I receive a report every 2 weeks until I am brought up to date. I would hope to then meet only once a month. The regional directors I deal with constantly. They are very much aware of what is going on in their regions. I would like to suggest, Congressman, if there are areas where you could provide us information, I would certainly like to meet with you and talk about this.

NURSING HOME AWARDS

Mr. ROYBAL. I am glad you anticipated my next question because I was going in that direction. I think your Department could be of great help to us. We hope that we can in turn be of some help to you. I am sure that by working together we can combine our efforts and do a better job.

Mrs. LYNCH. I would be delighted.

Mr. ROYBAL. I am also delighted that you agree that the problem is acute and that something has to be done rather soon because the abuses that are going on. Based again on hearings we have held, these conditions need to be remedied almost immediately.

Mr. LYNCH. I just wish I thought we could stop all abuses; however, I think you and I will probably both agree that day will never happen unfortunately.

Mr. ROYBAL. One of the abuses we can get to immediately is one of cleanliness.

Mrs. LYNCH. Yes.

Mr. ROYBAL. The other is the matter of treatment of the individual who is in the home. These are the two areas one finds lacking in visiting some of these homes. Very little is done really to try to keep the patient clean.

I visited some of these places where the sheets had not been changed for several days. That, to me, is inexcusable.

IMPROVEMENTS IN NURSING HOME CONDITIONS

Mrs. LYNCH. But I think we also have to agree, Mr. Roybal, that there have been great strides in a number of nursing homes today. When I think back 10 years ago, and then look around today, I can certainly see where great improvement has taken place in the quality of the nursing homes.

Mr. ROYBAL. But our philosophy has also changed. I think we are looking now at the senior citizen, the men in these homes as a human being while sometime in the past we had not become that well educated nor civilized.

Mrs. LYNCH. That is true.

Mr. ROYBAL. I think that more and more we are looking now to the time when we will realize that a great nation is known by two things, what they do for the senior citizen and what they do in the field of health and education for the youngster. These are the two areas that I believe a great nation can be judged by.

I think we are coming to that particular way of thinking. I think that eventually we are going to have a senior citizen program in this country that will be second to none. At the moment we don't but we are leaning in that direction.

Mrs. LYNCH. I will be very happy to work with you.

Mr. ROYBAL. I thank you very much.

Mr. FLOOD. That is all for the time being. Not only do I congratulate you, but I congratulate the Department on the program. It is very fortunate to have you.

Mrs. LYNCH. Thank you, Mr. Chairman.

TECHNICAL EVALUATION

Mr. MICHEL. As you know, I have been asking for some time for a technical evaluation of my welfare reform bill. My staff has informed me that the Department will not release such an evaluation to us until it is cleared by OMB. Why can't we have technical reviews by your Department? Let me emphasize that I am not asking for an administration view or position on this legislation, but simply a technical

evaluation. It would certainly seem to me that at least this much could be provided without 8 months of administrative delays.

Mrs. LYNCH. I am aware of your staff's effort with respect to your welfare reform bill. There are certain activities that the Department can and cannot do on its own initiative with respect to legislation developed outside of the Department.

Within some limits we can provide information on the costs or savings of particular provisions in legislation being developed in the Congress. I am advised that this was in fact done with respect to the welfare legislation you introduced. We also can discuss alternative ways to achieve the objectives which a bill may have. In that process it is not appropriate for the Department to take a stance for or against such provisions. There were discussions of this kind with your staff, one of which was held in my office.

Pursuant to executive branch directives we are not able to take a position for or against legislation, in whole or in part, or engage in evaluations which reflect a particular position, until such time as the Department views have been reviewed through the normal executive branch process. Within the ground rules that apply to the Department, we have tried to be as cooperative as possible, and will continue to do so.

DEPARTMENTAL DIRECTION FUNCTIONS

Mr. MICHEL. Your departmental direction activities are broken down into a number of areas, such as budget formulation, fraud investigations, and so forth. Would you also break this down for us in terms of dollars and personnel?

Mrs. LYNCH. As you know, the general departmental management budget comprises two major parts—departmental operations and departmental direction. Operations represents specialized staff services which are performed in support of the operating agencies of the Department. These services are done centrally to achieve economy of scale and to eliminate duplication of effort.

Departmental direction encompasses those activities which provide policy and administrative management for the Department. This includes activities such as financial management, administrative management, field management which supports the regional directors staff, and several others. Within these major activities are the areas of budget formulation and execution, fraud investigations, planning and evaluation, grants and procurement management, departmental program legal services, and others. I will be happy to provide for the record a list of the areas contained in these departmental direction activities.

[The information follows:]

FUNCTIONS IN DEPARTMENTAL DIRECTION

	1977 resources	
	Positions	Amount
Departmental direction:		
1. Executive direction:		
Secretary and Under Secretary	139	[1] $3,971,000
Assistant secretary for legislation	40	984,000
Assistant secretary for planning and evaluation	159	4,300,000
Subtotal	338	9,255,000
2. Public information	29	1,447,000
3. Financial management:		
Immediate office	18	5,000,000
Deputy assistant secretary, finance (budget execution)	100	3,145,000
Deputy assistant secretary, budget (budget formulation)	40	1,040,000
Financial management standards and procedures	7	292,000
Subtotal	165	4,977,000
4. Administrative management:		
Grants and procurement management	55	1,710,000
Management planning and technology	87	2,618,000
Departmental personnel management	130	3,112,000
Other, including departmental administrative services	162	4,567,000
Subtotal	434	12,007,000
5. Field management (regional directors)	290	9,066,000
6. General counsel:		
Supervisory and general legal services	66	1,763,000
Departmental program legal services	84	2,243,000
Regional legal services	54	1,474,000
Subtotal	204	5,480,000
Total; departmental direction	1,460	42,232,00

[1] The Office of Investigations is included in executive direction, in the Office of the Under Secretary. The fiscal year 1977 budget includes 56 positions and $1,428,000 in the Office of Investigations. In addition, 18 positions and $476,000 have been transferred from the Social Security Administration and will be reflected in the fiscal year 1978 budget. Total resources available to the Office of Investigation in fiscal year 1977 will be 74 positions and $1,904,000.

INCREASED SPACE COSTS

Mr. MICHEL. Your statement indicates that part of your requested increase is going for increased space costs. Since you are not requesting any new positions, why do you need increased space?

Mrs. LYNCH. There are two reasons for the total General Departmental Management increase in this area and neither are related to new positions. These are an additional amount related to a 6 percent rate increase by the General Services Administration and an increase to provide full-year costs of the new South Portal Building which will be only partially occupied in fiscal year 1976.

Mr. MICHEL. How much are you allocating for increased space?

Mrs. LYNCH. There are no funds included for increased space.

COURT CASES

Mr. MICHEL. You indicate you will have 9,000 additional court cases in 1977. Please provide for the record a breakdown of all pending court cases and anticipated new cases by programs of the Social Security Administration.

Mrs. LYNCH. We anticipate that 2,000 new Black Lung cases and 9,065 other new Social Security cases will be filed in fiscal year 1977. There are presently 11,812 cases pending. I am inserting in the record

at this point a table showing these cases by major program. Those cases anticipated in fiscal year 1977 are new cases which we expect to be filed during that period. Based on our experience of the past 7 months, there will be over 14,000 cases pending by the beginning of 1977.

[The information follows:]

TABLE I.—PENDING AND ANTICIPATED SOCIAL SECURITY COURT CASES

Program	Pending	Anticipated in fiscal year 1977
Disability (title II)	5,493	5,165
Retirement and survivors insurance	433	330
Health insurance	570	270
Black lung	4,939	2,000
Supplemental security income (SSI)	286	1,900
Concurrent SSI [1]	91	1,400
Total	11,812	11,065

[1] These are SSI disability cases which also involve title II disability issues.

Mr. MICHEL. Also provide a breakdown of pending and anticipated new court cases by program for the Department as a whole.

Mrs. LYNCH. The table which I am submitting for the record at this point shows that information by major program activity. Again, I would like to point out than many of the pending cases will be carried over into fiscal year 1977, and that the numbers representing anticipated cases are those which we expect to be filed in fiscal year 1977.

[The information follows:]

TABLE II.—DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE PENDING AND ANTICIPATED COURT CASES

Program	Pending	Anticipated in fiscal year 1977
Office of Education	86	192
Social and Rehabilitation Service/Human Development	112	183
Office for Civil Rights	57	63
Health programs	69	125
Food and Drug Administration	361	510
Social Security Administration	11,812	11,065
Business and administrative [1]	236	255
Total	12,733	12,393

[1] This category includes cases which are not peculiar to any 1 program. They include alleged employee discrimination, alleged improper withholding under the Freedom of Information Act, and cases brought under the Federal Tort Claims Act.

Mr. MICHEL. Please elaborate on the nature of these cases by program.

Mrs. LYNCH. The large majority of these cases involve Social Security programs. Litigation involving the Office of Education includes compliance in the Higher Education Area, particularly with regard to the Guaranteed Student Loan program, cases regarding eligibility for assistance under the Emergency School Aid Act, and compliance matters under Title I of the Elementary and Secondary Education Act. The Social and Rehabilitation Service presently has nine retroactive claims cases for expenditures allegedly incurred as social services under State plans. The major case, *Florida* v. *Weinberger*, may be decided in April and if the court rules against the Department, a number of other States who have been waiting the decision may file suit

against the Department. Other cases involve quality control, medicare provider reimbursement methodologies, and proper certification of nursing homes.

In the Office for Civil Rights, there are cases evolving from the *Adams* and *Brown* decisions seeking orders requiring the Department to undertake more vigorous enforcement. At the other end of the spectrum, we have been sued in order to prevent enforcement action. We are involved in Public Health Service suits by consumers on the reasonable volume of free care provisions under the Hill-Burton Act and cases involving professional standards review organizations. The Food and Drug Administration cases involve seizures, criminal prosecutions and actions seeking injunctive relief concerning foods, drugs, cosmetics, devices, biologics, and veterinary medicine. In addition to the program cases, the Department is also a defendant in other types of cases such as those involving medical malpractice and personal injury under the Federal Tort Claims Act and those brought as a result of alleged violation of the Privacy and Freedom of Information Acts.

Mr. MICHEL. Why has there been such a significant increase—9,000—in the number of court cases?

Mrs. LYNCH. The impact of new programs, in particular Supplemental Security Income and Black Lung, have given rise to a great deal of litigation. Another significant factor is the expansion of the number of people covered by Disability and Retirement and Survivors Insurance. There has also been increased public interest in Social Security programs in the past few years. This is evidenced by the volume of material which has been written about the programs and by an increasing number of Supreme Court cases involving the programs. In addition, attorneys in private practice are more interested in taking social security cases.

FAIR HEARINGS

Mr. MICHEL. How do you propose to handle the over 3 million fair hearing cases in the SSI program alone?

Mrs. LYNCH. I assume you are talking about the notices to SSI recipients which could be required under the recent Cardinale court decision. I believe a maximum of 3 million such notices could be involved. Before I go into that, I should point out that SSA does not have what is commonly called a fair hearing workload. However, SSA does have due process procedures which are designed to protect SSI recipients. Let me describe how SSA's due process procedures work. The process begins with the issuance of a notice to the claimant informing him of SSA's determination that his benefits must be adjusted and outlining the proposed reduction, suspension, or termination of benefits. This notice also informs the beneficiary of his right to appeal before SSA takes the proposed action. If the recipient appeals within 10 days, no action is taken to adjust the benefit until after his appeal is resolved. However, even if the receipient misses this deadline, he may still appeal for up to 60 days. In that case, the benefit remains reduced or terminated pending the outcome of his appeal. The appeal will be heard in the social security district office, and the recipient will be given a final written notice once a decision is reached.

Since the SSI program's inception in January 1974, SSA has given recipients due process protection as a result of the *Goldberg* v. *Kelly* court decision. However, four types of events were excluded from due process consideration by regulation. These exclusions were changes in the benefit level due to death; changes due to revisions in the law or changes in relationships among Federal programs; cases in which the beneficiary himself reported facts which required a benefit adjustment; and cases in which clerical error resulted in an incorrect payment. The *Cardinale* decision extended due process protection to all of these regulatory exclusions except death. The Government has appealed his decision and several compromises have been agreed upon by the plaintiff's attorneys. As a result of one of these compromises, SSA can stop all but one payment in a multiple payment situation. In addition, payment ceilings have been established and SSA can stop or reduce payments that exceed the ceilings. The Government is also trying to get agreement on eliminating the retroactive application of the decision. Depending upon the final outcome of this court case, SSA's due process procedures may be further revised.

Mr. MICHEL. What is the total cost departmentwide for conducting "fair hearings"?

Mrs. LYNCH. The SSA budget requests identifies approximately 1,200 man-years and $18 million in fiscal year 1976 and 550 man-years and $9 million in fiscal year 1977 to meet its new responsibilities in the due process area for its insurance programs. As I have pointed out, however, SSA has been using due process procedures in the SSI program since its inception in January 1974. Approximately 800 man-years and $15 million per year have been budgeted for doing this ongoing work.

In addition, the ongoing administrative costs of complying with the *Cardinale* court decision will be about 800 man-years and $15 million. In addition, if retroactive implementation back to January 1974 is required, an additional one-time cost of 600 man-years and $12 million would occur. Overpayments in Federal SSI benefits of less than $1 million annually would result from the decision.

No estimates to implement the *Cardinale* decision were included in the 1977 President's budget pending decisions on SSA's request that the district court reconsider and clarify certain aspects of the order—particularly those aspects dealing with continuation of payments in certain prescribed situations and the retroactivity of the decision.

Mr. MICHEL. What would it cost to clean up the backlog of fair hearings?

Mrs. LYNCH. I believe the backlog you are referring to relates to overpayments in SSA's retirement, survivors, and disability insurance programs. In October 1974 in the *Buffington-Miner* v. *Weinberger* case, a district court applied an injunction against SSA recovering an overpayment from a beneficiary without affording him an opportunity for an oral hearing. In November 1974, a moratorium was imposed by SSA on all recoupments of overpayments through the withholding of benefits, pending approval by the court of procedures for handling these cases. In July 1975, SSA began to implement court-

approved interim procedures to handle the 700,000 backlogged overpayment cases.

The current SSA budget request identifies approximately 1,200 man-years and $18 million for fiscal year 1976 and approximately 550 man-years and $9 million in fiscal year 1977 for implementing the due process procedures. Of these amounts, approximately 600 man-years and $9 million for fiscal year 1976 and 185 man-years and $3 million for fiscal year 1977 are included solely for processing the backlog. SSA expects to have completed most of the backlog of the overpaid cases during fiscal year 1976. This includes sending the initial notice to all overpaid beneficiaries and the subsequent processing except for the oral hearings. SSA is currently testing various types of oral hearings and plans to implement the one that proves to be the best at the start of fiscal year 1977. Therefore, the final processing of some of those cases that were backlogged during the moratorium will take place in 1977. I would like to add that we expect only 45,000 oral hearings to result from processing the 700,000 backlogged cases.

Mr. MICHEL. Have you ever computed what the total fair hearings costs would be if we had a totally federalized welfare program and a totally federalized health insurance program?

Mrs. LYNCH. We have not made computations as to the cost of fair hearings in these areas. Estimates of these costs would be made around the specific requirements of proposed legislation. I might point out that the administrative costs of fair hearings procedures are probably much more sensitive to the clarity and simplicity of the rules than to whether the program is administered by the Federal or State government.

Mr. MICHEL. Since fair hearings result normally from administrative decisions to eliminate or reduce benefits to people, what amounts are we losing by not having immediate fair hearings at the State and Federal level since the recipients normally continue to receive the higher level of benefits until the hearing?

Mrs. LYNCH. The Social Security Administration's supplemental security income system keeps a cumulative record of overpayments. However, the system does not separately identify those overpayments caused by delays in adusting benefits while due process rights are accorded to recipients. However, we think that category of overpayments will be held to a minimum because of new regulations which SSA implemented within the past 6 months. Under the new regulations, SSA may make a benefit adjustment if the recipient has not filed an appeal within 10 days of notification that the present benefit level is incorrect. Under the prior regulations this period was 30 days. This should limit most due process-related overpayments because most recipients do not appeal the SSA decision. Since SSA must delay only 10 days before correcting benefit levels for all recipients except the minority who appeal within the 10-day period, most adjustments can be made before the next benefit check is issued.

In addition to limiting the extent of such overpayments, SSA will also recover some of the overpaid amounts. Even though the overpayment can continue while a recipient appeals SSA's determination on his case, recovery can begin, when appropriate, once there has been a final decision. Of course, because of the financial situation of SSI

recipients, there will often be cases in which it is judged that recovery would constitute an undue hardship.

OFFICE OF INVESTIGATIONS

Mr. MICHEL. Of the 42 new positions for the Office of Investigations referred to in your statement, how many have actually been filled to date?

Mrs. LYNCH. Of the 42 new positions available to the Office of Investigations, four new employees have been hired and of these, three have entered on duty. The fourth employee—the Director, Office of Investigations—will enter on duty April 19. Seven recruitment actions for senior investigators to head up field offices are being processed and the selections will be made by the new Director, Office of Investigations. Additional recruiting actions for 22 investigator positions are being processed for announcement by the Personnel Office. It is anticipated that within the next 6 to 8 weeks at least 39 of these 42 new positions will be filled.

Mr. MICHEL. Would you provide for the record a statement of the role and functions of the Office of Investigations?

Mrs. LYNCH. The Office of Investigations is authorized to conduct investigations of alleged cases of malfeasance, fraud, misuse of funds, equipment or facilities, violations of terms or conditions of funding, and conflict of interest by employees, grantees, contractors, and other personnel working on behalf of the Department. The Director, Office of Investigations has the authority to undertake such investigations without the prior approval of higher authority. No other unit or official within the Department will undertake such investigations unless specifically authorized by the Director, Office of Investigations.

Mr. MICHEL. You have requested 108 new positions for a new Medicaid fraud and abuse unit. How will that unit differ from the Office of Investigations?

Mrs. LYNCH. The function of the Medicaid fraud and abuse unit primarily is to help the States, who have first responsibility for eradicating fraud and abuse. This unit will assist States in developing management and claims processing and systematic detection activities that indicate program deficiencies. The Office of Investigations, in contrast, will be involved with specific cases that require investigation by trained criminal investigators and which may result in prosecution for violation of Federal law.

NUMBER OF AUDITORS

Mr. MICHEL. You are stepping up your fraud and abuse activities, and the auditors are the primary force to find fraud and abuse. Yet you are not increasing the number of auditors. Can you really step up your fraud and abuse activities without increasing the number of auditors?

Mrs. LYNCH. The HEW Audit Agency provides audit coverage for all department programs. Its mission is to determine whether department operations are being conducted economically, efficiently and effectively and to provide a reasonable degree of assurance that Federal

funds are expended properly and for the purpose for which appropriated. Audits performed are not specifically designed to uncover fraudulent practices but rather are aimed at determining that delivery systems used are functioning properly and have adequate controls to carry out program provisions. This includes financial, compliance, and programmatic controls. As a result of audit, recommendations are made to improve internal controls, strengthen management processes and, in some instances, request reimbursement for improperly spent funds. On occasion matters disclosed as a result of audit go beyond the scope and expertise of the Audit Agency and require professional investigation. In some instances these are areas where questionable practices may indicate potential fraud. When such matters are uncovered, they are directed to the Department's Office of Investigations for further action. To this extent, the audit effort complements the Office of Invesigation role in detecting fraud and abuse.

As far as audit resources are concerned, the Audit Agency is presently authorized 960 positions. In addition, the Agency uses approximately 2,178 man-years of effort provided by outside auditors including public accounting firms and State auditors. Thus, a total of 3,138 man-years of audit effort are available as compared to a total workload requiring some 3,834 man-years. There is no question that a gap exists—a gap that presently equates to 696 man-years.

The fiscal year 1977 budget did not request additional audit staff at this point in time. In agreement with the Office of Management and Budget, an analysis is being made of the potential increased use of CPA and State auditor effort. This analysis will be completed during May 1976. At that time, the Department will be in a position to decide how and to what extent HEW audit staff resources may need to be increased.

Mr. MICHEL. Do you have any rule-of-thumb which indicates the amount of erroneous expenditures discovered per audit?

Mrs. LYNCH. Current data show that more than $600,000 in erroneous expenditures are identified per audit. This, however, is an average of greatly diverse amounts. For example, some reports identify only minimal amounts while others address millions of dollars of erroneous expenditures.

INDIRECT COSTS

Mr. MICHEL. When the Alcohol and Drug Abuse people were before us, they indicated that indirect costs account for 40 percent of their grants. I understand that the NIH indirect cost rate is now up to 35 percent. Do you have any figures as to what it is departmentwide?

Mrs. LYNCH. We believe the figure cited by Alcohol and Drug Abuse is in error and should be in the range of 34–35 percent. We have no reliable departmentwide information. As we have indicated previously, the Department's records do not at the present time provide for the accumulation of such information. We are endeavoring to capture this information for project grants made after July 1, 1976.

Mr. MICHEL. Do you have any figures as to the total amount of HEW money which is going into indirect costs?

Mrs. LYNCH. We have no reliable information. We would estimate somewhere between $500 and $600 million annually.

Mr. MICHEL. Can you give us figures as to the number of different agencies in which indirect cost payments are made, and the total amount for each agency?

Mrs. LYNCH. Indirect costs are paid on project grants and cost reimbursement contracts awarded by all Department agencies. Except for the National Institutes of Health, we have no reliable information on the amount of indirect costs paid by those agencies.

Mr. MICHEL. I understand that you are in the process of developing a new indirect cost formula. Would you explain how it will work and how it will differ from the current system.

Mrs. LYNCH. We have recommended to the Office of Management and Budget a series of changes to the current Federal cost principles for colleges and universities. The purpose of these recommendations is to give us a greater assurance that college and university charges for indirect costs are truly reflective of the amount of services provided to Federal grants and contracts. We have recommended clarification of language and the stipulation of a greater degree of uniformity in allocating costs which ultimately results in charges to Federal awards, given the state of the art of cost accounting now existent in the college and university community. We have not recommended, and we do not anticipate, any fundamental changes in the basic formula under which indirect costs are now computed but rather than tightening up of that formula by limiting the flexibility now afforded institutions in allocating costs. We are currently discussing our recommendations with the Office of Management and Budget and the college and university community in an effort to reach a resolution of those changes which will ultimately be made in Financial Management Circular 73–8. Some of the major changes we have suggested are submitted for the record.

[The information follows:]

CHANGES IN COST PRINCIPLES FOR COLLEGES AND UNIVERSITIES

1. Expand the scope of the circular to cover all types of Federal programs, rather than just research and training awards (for example, clinical centers, community oriented programs).

2. Replace buzz words such as "adequate," "appropriate," "generally acepted institutional practices", and so forth, which have different meanings to different readers, and have caused disputes, with words which given specificity to requirements.

3. Redefine research to include self-sponsored research including mandatory cost sharing by institutions.

4. Prescribe more definitive procedures for allocating indirect costs between Federal and nonfederally supported activities of the institution to: (*a*) Reduce disagreements on methodology between individual institutions and Government representatives; and (*b*) to bring about greater uniformity in costing data for making comparisons between institutions to assess reasonableness, probable causes of rate changes, trends, and so forth.

5. Provide more definitive guidance on time and effort reporting. Require 100 percent accountability of the effort of each individual whose salary is charged wholly or partially, to Federal awards. Requires that reports supporting S. & W. charges to Federal awards be consistent with and reconcilable to reports submitted to State/local legislatures or regulatory agencies and under Fair Labor Standards Act. Retains current requirement for monthly reporting for faculty and other professionals.

6. Limit amount of departmental administration chargeable to Federal awards to that portion of the salaries of deans and associate deans applicable to their administrative duties. All other departmental expenses are defined as being applicable to nongovernment activities.

7. Eliminate the library as an indirect cost pool and instead permit reimbursement as a direct charge to the extent that library services are actually provided to a grant or contract and approved by the awarding agency.

8. Clarify the current rules on the distinction between student aid and compensation to students for work performed on grants and contracts; requires a

bona fide employer/employee relationship as a condition for the allowability of tuition remission and other forms of compensation paid to students.

9. Make student service costs (for example, registrar admissions, deans of students, et cetera) unallowable as charges to Federal awards. These costs are incurred for and are applicable to students in their capacity as students and not in their capacity as part-time employees on Federal grants and contracts.

10. Eliminate the educational service agreement (training) indirect cost rate now prescribed in the cost principles; instead, requires that training grants and contracts be costed in line with the facilities and resources used in performing them. Thus, research training grants would take the same rate as research grants because they use the same resources. This proposal stems from college and university contention (with which we agree) that research and training are to a large extent indistinguishable.

Mr. MICHEL. Will the new formula reduce the indirect cost rate? If so, by about how much?

Mrs. LYNCH. We cannot answer that question with certainty. The new formula should provide us with the greater assurance that the charges made to Federal awards are truly indicative of the amount of benefits and services provided to those awards. Whether this would result in less costs charged to Federal grants and contracts is unanswerable at this time.

Mr. MICHEL. When the Secretary was here, he indicated it wasn't important that we know the total number of grants and contracts being issued by your Department. Well, I think it is important and I would like to have that figure, and by agency if possible.

Mrs. LYNCH. We will be happy to provide this information.

[Information follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE GRANTS AND CONTRACTS [1]

Agency	Number of grants	Number of contracts
Office of the Secretary	832	394
Office of Human Development	3,319	[2]
Office of Education	10,942	470
Office of Regional Directors	20	1,998
National Institutes of Education	129	241
Social Security Administration		3,103
Social and Rehabilitation Service	1,797	87
Public Health Service	35,034	11,532
Total	52,073	17,825

[1] Contract awards are reflected for fiscal year 1975 and grant awards for fiscal year 1974. A Department-wide grants information system is presently being developed which will produce up-to-date grant tabulations.
[2] Contract awards for the Office of Human Development are included in the total reflected for the Office of the Secretary.

Mr. MICHEL. At what levels are grants and contracts approved in the Office of the Secretary?

Mrs. LYNCH. The Assistant Secretary for Planning and Evaluation has authority for awarding grants under the policy research program. This is the only grant program within the Office of the Secretary.

The Assistant Secretary for Administration and Management has overall authority for awarding contracts in the Office of the Secretary. This authority is delegated to and exercised by Federal contracting officers in his office. Although formal contract authority rests with this office, specific contract approvals are also required from program offices entering into contracts, by the budget and finance office, and under certain circumstances, by other organizations within the Department

such as the Audit Agency and the Office of Grants and Procurement Management.

Mr. MICHEL. Under your predecessor, several task forces were appointed to study grant and contract procedures in the Department and make recommendations for improvements. I understand that this work has been completed, correct?

Mrs. LYNCH. Yes, that is correct.

Mr. MICHEL. What generally have the recommendations been—and I would suggest that you submit for the record a detailed list—and are you taking steps to implement them?

Mrs. LYNCH. Generally the recommendations concerning grants have been directed toward definition of the appropriate roles of program officials and grants officials; establishment of departmental standards for grant and contract policy and procedures; making grants management a distinct function from that of program policymaking and management; and making administrative actions in all major functions visible and open.

Regarding contracts, recommendations were directed toward: Furthering independence of contracting offices; improvement of departmental procurement policy and insuring that authority to make noncompetitive procurements was exercised only when absolutely necessary.

A detailed list of grant and contract procedures is provided for the record.

[The information follows:]

RECOMMENDATIONS ON GRANTS

(1) Grantmaking should compile manuals detailing their procedures for the monitoring of grant-assisted projects and should reevaluate and improve such procedures on the basis of regular reviews of results. Standardized monitoring records should be maintained.

(2) Grantmaking offices should determine, before making a grant, what risks there may be that grant funds will not be economically utilized solely for permissible purposes and, where risks are present but the grant should nevertheless be made, they should place necessary special conditions on the grant and make sure that appropriate assistance is available to further the grantee's compliance with requirements.

(3) Full information about discretionary grant programs, such as the governing regulations, application due dates, application evaluation criteria and, where feasible, projected funding levels, should be published in the Federal Register and elsewhere early enough to afford all potential applicants adequate opportunity to compete for grants.

(4) Grant application evaluation criteria should include, at a minimum, criteria going to the soundness of the project proposed, the reasonableness of the estimated costs, and the congruence of the project with the published program objectives.

(5) Grant applications should be date stamped, assigned identification numbers and acknowledged upon receipt, and they should be promptly forwarded from the reception point to the office responsible for processing.

(6) Grant applications should be objectively reviewed and scored by evaluation panels in accordance with the published evaluation criteria. As far as consistent with the nature of the program, evaluation panels should consist of Federal employees. Where panels include members associated with organizations applying for grants, a member should not participate in the review of an application from his organization.

(7) Where field readers are employed instead of a grant application evaluation panel, the readers should serve on terms approximating as nearly as feasible those applicable to panel members.

(8) A ranking of the grant applications should be prepared on the basis of the scores received. The appropriate program official should prepare a list of

approved applications indicating the reasons for any deviations from the ranking. Unsuccessful applicants should be promptly notified.

(9) Where a grant application is submitted for a project of such urgency that review in the normal review cycle is precluded, approval on a noncompetitive basis should be permissible but only by action of the agency head.

(10) Notices of grant award should incorporate at large or by reference all applicable terms and conditions.

(11) With some exceptions, grantees should not be authorized to make subgrants or other arrangements for performance of essential project activities by third parties without the approval of the grantmaking office. Subgrantees or other third-party performers, if any, should be selected by the grantee, not the granting agency.

(12) Grants officers, not program officials, should be responsible for the business and administrative functions involved in grantmaking and administration. There should be close cooperation between grants management and program offices. Some functions such as project monitoring should involve both grants management and program offices. Grants officers should assist and advise program offices on regulations. The grants officer should sign or countersign the notice of grant award, signifying that prescribed procedures have been followed.

(13) Each major or critical action involved in preaward and postaward grants administration should be clearly assigned to the appropriate office—usually the program office or the grants management office—and the offices should check on each other's completion of such actions.

(14) There should be grants management training courses for grants officers.

RECOMMENDATIONS ON CONTRACTS

(1) Each Department component should have one or more noncompetitive procurement review boards to review the necessity for proposed noncompetitive procurement actions.

(2) Procurement offices should be in the administrative chain of command rather than the program chain.

(3) Ideally, procurement offices should report directly to the Department components' chief administrative officers. In any case, they should be placed at organization levels at least equal to the program offices'.

(4) In the regional offices, contracting should be centralized in an office within the Office of the Regional Director.

(5) A variety of recommendations under the heading of contract management for improvements or definition of Department policy statement going to uniform use of contracting officer warrants, timely preparation of procurement packages, proscription of program officials soliciting or receiving contract proposals, contracting officer membership on technical evaluation panels, file standardization, handling of evaluation reports, closeout of expired contracts, balancing contracting officers' service and independent judgment roles, training for technical personnel and top officials, project officer continuity, cross-referencing of certain HEWPR sections, independent Government cost estimates, change of name and novation agreements and uniform classification of evaluation and data collection or analysis contracts for fee determination purposes.

Mr. MICHEL. Do you have any overall departmental policy regarding grant and contract procedures and approval?

Mrs. LYNCH. Yes. Secretary Weinberger's memorandum of February 1973, the HEW Grants and Administration Manual, departmental regulations issued in accordance with OMB Circular A–102, and the HEW Procurement Manual, set forth the overall departmental policy to be followed regarding grant and contract procedures and approval.

SCHEDULE "C" AND CONSULTANT PERSONNEL

Mr. MICHEL. Would you please provide for the record a list of the names and titles of all schedule "C" personnel including the Office of the Secretary? Would you also provide a listing and the amount of

payment which goes to each consultant, including the Secretary's Office, as well as a brief statement as to what each consultant does?

Mrs. LYNCH. Yes, I would be happy to provide that information for the record.

[The information has been supplied and is available in the committee's files.]

WORKING CAPITAL FUND

Mr. MICHEL. When the Secretary was here, he described briefly the "working capital" review fund. Where in the justifications is it referred to and described?

Mrs. LYNCH. The working capital fund provides central administrative services to the HEW agencies including the Office of the Secretary. It is a business account which provides services to the agencies on a reimburseable basis. The fund was authorized by Public Law 82–452 to finance these central services, and it is administered in the Office of the Secretary. The services provided include payroll, data processing, personnel information, and administrative services for the HEW agencies. In addition, personnel, financial, and office services are provided to the operating agencies in the field through the common regional services activity.

Funds to purchase these services are included in the user agency appropriations and are then paid to the working capital fund as services are performed. This budget is shown in the President's budget but not specifically justified before the congressional committees. However, increases for the fund are justified in each agency's budget.

Mr. MICHEL. Where has this fund been described to the Congress before the hearing?

Mrs. LYNCH. The budget for the working capital fund is included and described each year in the President's budget appendix. In the fiscal year 1977 appendix it is included on pages 380–381 under departmental management.

Mr. MICHEL. What is the total amount involved in this fund, and where do the funds come from?

Mrs. LYNCH. The total estimated level of services for fiscal year 1977 is $51,427,000. The funds come from the HEW agencies which use the services of the fund.

Mr. MICHEL. Who manages the fund?

Mrs. LYNCH. Overall financial guidance is provided by the Deputy Assistant Secretary for Finance who reports to the Comptroller. Actual administration of the fund is provided by the regional directors in the case of regional personnel, office, and financial services to the agencies and by the Assistant Secretary for Administration and Management in the case of the other services I mentioned.

Mr. MICHEL. Would you provide for us a list of all activities and operations covered by the fund, and the dollar breakdown for each?

Mrs. LYNCH. I would be happy to provide that information for the record.

[The information follows:]

WORKING CAPITAL FUND—OBLIGATIONS BY ACTIVITY

	1977 estimate	
	Positions	Amount
Data Management Center:		
Data processing	133	13,769,000
Systems planning	29	760,000
Management info	10	553,000
Subtotal	172	15,082,000
Administrative services:		
Communications	75	2,360,000
Supply	64	1,810,000
Printing	60	2,251,000
Subtotal	199	6,421,000
Regional services:		
Personnel	555	12,688,000
Financial mgmt	165	3,129,000
Office service	291	6,560,000
Subtotal	1,011	22,377,000
Personnel data services	57	1,898,000
Payroll services	214	5,649,000
Total obligations	1,653	51,427,000

OS PRINTING PLANT

Mr. MICHEL. I understand one of the activities is the Office of the Secretary's printing plant. Why the need for a separate printing plant?

Mrs. LYNCH. The printing plant is a departmental activity located in the Office of the Secretary. The plant, operated under the Joint Committee on Printing, serves as a central point of liaison and provides direction, coordination, and control to departmental activities requiring printing services. It also provides actual printing services for all HEW offices located in downtown Washington.

DELEGATIONS OF AUTHORITY

Mr. MICHEL. When the Secretary was here, he indicated that legal authority for making policy is vested in him. He also said he provides "delegations of authority, by administrative action, to the line or staff components of the Department." What specific administrative action is he referring to, and what delegations of authority are currently in existence?

Mrs. LYNCH. What the Secretary was referring to was the process of authorizing personnel in the Department to act for him—the administrative action is that of delegating authority. The Secretary's general authority to make delegations stems from the Reorganization Plan 1 of 1953 which established the Department. These delegations span the full spectrum of the responsibility for operating the Department. Examples are: Financial management, personnel management and administration, travel, procurement, and grant and contract management.

POSITIONS IN THE OFFICES OF THE SECRETARY AND THE UNDER SECRETARY

Mr. MICHEL. A total of 139 positions are listed under the Secretary and Under Secretary's offices. Would you provide us with a breakdown of these positions, their responsibilities, and the salary levels?

Mrs. LYNCH. I will be glad to. Since it will be lengthy, I will have this information submitted for the record.

[The information has been supplied and is available in the committee files.]

UTILIZATION OF BUDGET INCREASE

Mr. MICHEL. Your budget provides for nearly a 15 percent increase or $483,000 for the Offices of the Secretary and Under Secretary. A part of this I assume goes to the Office of Investigations, but that doesn't account for all of it, does it? Where does the remainder go?

Mrs. LYNCH. The bulk of the $483,000 is for the Office of Investigations to provide full-year costs for the 42 new positions which Congress provided in fiscal year 1976 for this activity. A total of $438,000 will go to the Office of Investigations, and the remaining $45,000 will provide full-year costs of the October 1975 pay raise and for small increases in administrative costs.

SBA CONTRACTS

Mr. MICHEL. What are 8(a) contracts, and how are they administered?

Mrs. LYNCH. Section 8(a) contracts are Federal contracts which are awarded to the Small Business Administration (SBA) pursuant to section 8(a) of the Small Business Act (a) and section 1–1.713–1 of the Federal procurement regulations.

The Small Business Administration is responsible for the administration of the 8(a) program and all Federal agencies are required to support the program. In placing an 8(a) contract, a Federal agency awards a contract to the Small Business Administration, the Small Business Administration in turn makes the award to an approved small business concern. The Small Business Administration, therefore, is the prime contractor to the small business concern. To be eligible for 8(a) assistance, an applicant must be an existing, newly organized or prospective profit-oriented small business concern owned and controlled by an eligible disadvantaged person.

Approval of a firm is a function of the Small Business Administration alone. The Small Business Administration may elect to negotiate the contract with the 8(a) firm, or may delegate negotiation and contract administration authority back to this Department. If the Small Business Administration requests the Department to conduct the negotiations, any agreements which may be reached as a result of such negotiations must be approved by the Small Business Administration.

Mr. MICHEL. Are they competitively bidded or are they sole-source contracts?

Mrs. LYNCH. Section 8(a) contracts are negotiated contracts awarded either on a sole-source basis or by limited technical competition among several 8(a) firms approved by the Small Business Administration for a specific requirement. The negotiation, including dollar level must be approved by the Small Business Administration.

Mr. MICHEL. Would you provide a computer-run list of all 8(a) contracts awarded in fiscal year 1975 showing the contractor, his address, the amount of money involved, and the product expected from the contractor?

Mrs. LYNCH. Yes; I will be happy to furnish that information for the record.

[The information follows:]

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LISTING OF MINORITY CONTRACTORS

Contractor	Amount	Product received
Tilman Production Inc., Highland Park, Ill.	$175,461	Audio visual services.
	86,500	9 single concept films.
John Dingle Associates, Washington, D.C.	80,000	Editorial manuscript review.
Lawrence Johnson & Associates, Washington, D.C.	23,047	National conference "Uncommonly Taught Language."
	75,000	Catalog of Federa lyouth program.
	208,120	Conference management conferences.
	41,768	Survey of over-the-counter drugs.
	194,475	Personnel evaluation of retirement and recruitment.
	123,954	Consumer education on micro biological contamination of food.
Satelite Litho Corp., New York, N.Y.	2,700	Card number.
	5,100	Do.
ABC Janitorial Services Inc., Little Rock, Ark.	77,983	Janitorial services.
Blackside, Inc., Boston, Mass.	25,103	TV production "Runaway Youth."
	17,000	Film for training welfare workers.
	39,424	Film—Post partum depression.
	43,724	Motion picture production.
	13,631	2 TV public service announcements.
	10,932	TV spot announcement youth involvement.
Health Facilities Resources Information	74,982	Design TA tool.
	131,000	Model development and national policy symposium—Drug treatment.
Systems Group, Inc.	97,800	Study of attrition in medicl and dental schools.
	29,754	Readership survey of American education magazine.
A. L. Nellum & Associates, Washington, D.C.	97,700	Analysis of GSLP data base. Collection letters to defaulted borrowers.
	224,250	
	113,287	Arrid center.
	42,079	Feasibility study—manpower for serving minority population.
	150,000	Requirement statement for 8(a) contractors.
Mitchell & Titus	4,650	Auditing room planters.
Soul Service	24,656	Guard service.
ACRA Inc., Washington, D.C.	29,711	Alternatie procedures for provisions of technical assistance in service programs.
Rehabilitation Computer, Inc., Falls Church, Va.	82,974	Preclaim collection processing.
	2,709	Backup computer support of SRS umbrella accounting system.
	34,059	Addon nutritional data bank analysis and design.
	61,970	Regional systems development plan.
Social Systems Invention Inc.	6,750	Preparation of summary reports on grant applications.
	3,637	Summary of statement grant applications.
	9,391	Preparation of summary statements of grant applications.
	94,973	Addition to work scope with additional funds and extension of time.
Tycac Construction Co., Washington, D.C.	35,976	Asphalt and concrete paving.
Technassociates, Washington, D.C.	125,805	Installation of system.
	41,939	Addition to work scope with additional funds and extension of time.
Major Construction Co.	16,000	Construct 2 still canopies.
	54,000	Development of directory of health service resources.
	71,180	National conference in health careers opportunity grant program.
	36,000	Design method to assess health care access by near-poor and poor who migrate to neighborhood out of central city.
	13,115	Funding of additional cost.
	20,000	Increase scope of work.
Mariscal & Co., Los Angeles, Calif.	49,000	Plan developing technical research center highlighting needs of disadvantage.
	55,180	Additional manpower planning.
Native American Technical Assistant Corp., Albuquerque, N. Mex.	69,000	Develop strategy re American Indian health problems.
	44,000	Conference administration for area conference under title IV, Public Law 92-318.
Team Associates, Inc., Washington, D.C.	149,955	Creation of a short-term medicaid information system.
	50,554	Evaluation of the Sun project.
	62,100	Additional work on NIE product catalog.
	78,132	Continuation of Comp. Ed. simulation models.
	9,815	Funding of additional cost.
	109,952	Develop dropout rates and dropout prediction device.
	35,000	Literature review on federal policies on racial minorities.
William Greaves, Productions, Inc., New York, NY.	8,072	Production of 1 60 second (PSA) film.
	6,437	Spanish film "You've Got a Number."
Edgar M. Williams, General Contractor, Alexandria, Va.	32,891	Partial renovation of Buildings 37, 38, 16-A and 166.
	336,850	Partial renovation of Buildings 30, 31, and 37.
	75,000	Exterior painting and sandblasting.

LISTING OF MINORITY CONTRACTORS—Continued

Contractor	Amount	Product received
Home Security Service, Morgantown, W. Va	49, 200	Janitorial service.
Automated Services, Inc., Washington, D.C	39, 600	Security service.
	18, 850	Coding of information from the joint program for the study of abortion.
	35, 090	2 monographs on minority group mental health.
	33, 350	Epidemiology methods manual.
Black Group, Inc., Washington, D.C	9, 944	EEO workshop.
	20, 230	Task order No. 1 to HRA 230–75–0092.
	31, 973	Project specification ofr conference on 11th annual higher education General Information Survey (HEGIS XI).
	3, 955	Additional funding.
	10, 298	Increase cost.
Information Planning Association, Inc., Rockville, Md.	136, 124	Assembly and distribution of committee books.
	29, 000	Manuscript editing.
	82, 000	Document abstraction.
	9, 000	Abstracting of indexes.
	34, 000	
Contemporary Research, Inc., Los Angeles, Calif	87, 008	Study of effectiveness of individualized instruction.
	114, 052	Patient drug labeling package inserts and drug information.
	11, 753	EEO conference.
Associate Control Research & Analysis, Bala Cynwyd, Pa.	87, 072	State-of-the-art paper on youth development and assessment of exemplary youth.
ACRA Inc., Washington, D.C	29, 711	Alternate procedures for provisions of technical assistant in service programs.
Systems Research Co., Philadelphia, Pa	161, 925	
Transcendental, Inc., Washington, D.C	100, 000	Keypunching tape services.
	50, 000	Do.
	45, 847	Manual process.
	57, 178	Systems analyst program support.
Koba Associates, Inc., Washington, D.C	51, 500	Identify high frequency user characteristics of community health centers.
	100, 000	Short-term assistance in evaluation of HSA programs
	194, 031	Catalog of public information in cancer education.
	15, 850	DHEW telephone.
	35, 518	Directory maintenance education reports for subsystems.
	74, 924	Program re minorities and women.
Roy Littlejohn & Associates, Washington, D.C	226, 528	Develop and perform training and provide assistance in the implementation of the PHS employee alcoholism and drug program.
	55, 672	Extension and addition to work scope.
	59, 220	Consultant man/days.
Vasquez Associates, Ltd., Milwaukee, Wis	38, 525	Psycho-motor development of preschool handicapped children.
J. A. Reyes, Inc., Washington, D.C	37, 000	Increase scope of work.
Crystal Industries, Suitland, Md	23, 708	Magnet tape maintenance.
E. H. White & Co., San Francisco, Calif	177, 877	Manpower utilization survey.
	64, 570	Operation/maintenance parent/child MIS.
Onyl Corp., Atlanta, Ga	53, 959	Followup technical assistance.
National Institute for Community Development, Washington, D.C.	30, 310	Professional at public general hospital re disadvantaged,
	560, 857	T. & T.A. in child abuse and neglect reporting system.
	161, 690	Start for development process measurements in EMS.
	10, 685	Short-term assistance in evaluation of HRA programs in delivery of health service to disadvantaged.
	73, 016	Title VI investigation New York high school.
	9, 275	
Buffington/Migo, New York, N.Y	289, 722	Technical support services for office of cancer communication OD.
	286, 355	Technical support services for the DCCR communications branch.
Sam Harris, Washington, D.C	35, 000	Conferences and seminars for productivity.
	28, 160	Logistical support for symposium.
Donald Clark & Associates, San Francisco, Calif	9, 275	Additional funding.
	54, 000	Development of directory of health services researchers.
Planning & Human System, Inc., Washington, D.C	100, 000	Validation of relevancy of health.
Expand Associates	150, 000	Development health programs and ear projects for high school guide counselors.
Institute of Modern Procedures, Inc	125, 000	Data preparation services.
Voice & Vision, Inc., Washington, D.C	30, 000	Increase scope of work.
Unidos Management Associates, Washington, D.C	7, 000	ESEA title I "How It Works."
Gilbert, Vaquez & Co	5, 273	Auditing.
Plastic Store Fixtures Co	92, 284	Unitized mail stations.
Del Green & Associates, Foster City, Calif	144, 975	Career education curriculum.
	13, 650	

LISTING OF MINORITY CONTRACTORS—Continued

Contractor	Amount	Product received
Biotech Research Lab, Inc., Rockville, Md	31, 969	RNA tumor virus transformation of skin fibroblasts.
	145, 039	Supportive services in virology tissue culture and immunology.
Carlton's Mechanical Contractor's, Inc., Washington, D.C.	21, 800	Supplementary air-conditioning Building 10, 4th floor, "D" wing.
JWK International, Annandale, Va	36, 363	Establishment of performance levels for VR evaluation standards.
	49, 000	Identification of problems in access to health service by Asian Americans.
	156, 998	Determining the status of programs to meet the needs of limited English speaking persons in IHE's.
	99, 054	Assess cost of meeting SNF/ICF standards.
	47, 085	Develop problem analysis program instruction manual.
	62, 808	Cost benefit of treating clients suffering from alcoholism.
Stores Painting Co., Alexandria, Va	46, 303	Exterior painting of various buildings on NIH reservation.
University Information Systems, Inc., Seattle, Wash	25, 000	Increase scope of work.
Inter America Research Associates, Washington, D.C.	69, 969	Management assistance to Indian and migrant program grantees.
	27, 500	Sanitation training course for migrant health workers.
Virus Research Corp., Bethesda, Md	349, 800	Conference support.
	43, 768	Identification problems in access to health service by Asian Americans.
Triangle Security	28, 000	Guard services.
United Maintenance	56, 000	Ground maintenance.
Princeton Electric Co. Inc., Adelphia, Md	12, 172	Install cable tray systems.
Admakers of Puerto Rico	8, 500	TV talent (additional work).
Plato Systems, Inc., Silver Spring, Md	47, 856	Women's program, exhibit booth.
Urban Research Group, Austin, Tex	309, 136	In-service training for selected project directors and staff of family planning projects in region VI.
	48, 278	Develop and implement family planning services performance measures in region VI.
Urban Research Group	24, 978	Increase of scope of work.
Systems Management Associates, Inc., Norfolk, Va	468, 352	Data preparation student loan.
Joseph A. Davis, Consultants, New York, N.Y	267, 000	Media recruitment ads for NHSC, IHS and BMS.
	306, 539	T. & T.A. in child abuse and neglect awareness program .
Inez Kaiser & Associates, Inc., Kansas City, Mo	39, 502	3 conferences on clinical mental health assessments and intervention in the 1st year of life.
Documentation Associates, Los Angeles, Calif	53, 440	Summarize state of knowledge in specialized topic areas.
H. & M. Title Co. Inc., Washington, D.C	13, 700	Remove and install floor tile in designated buildings.
L. Miranda & Associates, Washington, D.C	111, 312	Focus on minority women in particular women of hispanic origin.
Action Industries, Inc., Durham, N.C	9, 000	Movable walls.
Social Systems Intervention Inc., Washington, D.C	65, 971	SSA State training program.
Mercermedia, Inc., Washington, D.C	11, 962	To provide visual and graphic services.
	14, 939	Creative and technical assistance for production of FDA slide show.
Pacific T. & T.A., Berkley, Calif	309, 993	State and local child day care management studies.
Data Transformation Corp., New York, N.Y	26, 506	Processing FLSA cases for payment in DCP.
	110, 898	Survey on use of antibiotics in clinical practice.
	143, 000	Survey on the use of influenza virus vaccine in clinica practice.
Optimum Computer Systems, Inc., New York, N.Y	19, 944	User guide for DMC.
	625, 071	Increase scope of work.
Optimum Computer, Inc., Washington, D.C	53, 000	Data systems.
Spencer Roofing Co., Washington, D.C	3, 800	Cost analysis for social services.
A. J. Mechanical Co., Washington, D.C	11, 943	Repair roofs at FDA/SPAL, Laurel, Md. complex.
	131, 365	Replace water chiller.
	33, 300	Furnish and install air-conditioning, ventilating and exhaust system.
Automated Business Services, Mount Rainier, Md	18, 000	Keypunch service.
Ravin Data Processing, Washington, D.C	12, 000	Keypunch and keyverifying.
C.P.I. Associates, Inc., Washington, D.C	183, 710	Increase scope of work.
NCRO & Associates, Portland, Oreg	569, 972	Do.
United Maintenance NIH Service, Goldsboro, N.C	71, 497	Janitorial and cleaning services (NIEHS, North Carolina)
Fincher's Inc., Miami, Fla	3, 856	Guard service at Cuban Refugee Emergency Center.
Evaluation Tech. Inc., Arlington, Va	3, 821	Prepare camera-ready copy for an updated edition of SRS research document.
JWK International Corp., Annandale, Va	3, 594	Day care cost benefits and cost effectiveness analysis.
Associate Consultant, Inc., Washington, D.C	6, 640	Increase scope of work under existing contract.
Inter American Research Association, Washington, D.C.	31, 414	Increase scope of work.
E. & P. Associates, Alexandria Va	14, 000	Addressing and maining services.
Automated Dataron, Inc., Washington, D.C	30, 000	Key to tape services.
Ofield Dukes & Associates, Inc., Washington, D.C	26, 000	Public information and education program for the OCD project.
Adams & Associates, Evanston, Ill	17, 560	Study.
C. E. Pagan & Associates, Baltimore, Md	125, 000	Develop inventory of areas of health education centers type projects.
Johnson & Gordon, Janitor Service Cincinnati, Ohio	10, 660	Janitorial services for fiscal year 1975.
Human Resources Management, Alexandria, Va	92, 250	Series of conferences and prepare monographs relating to residential CBMH programs.
Curber & Associates, Inc., Washington, D.C	16, 000	Conference on death, dying and breavement.

Mr. MICHEL. In each case, what amount of the contract award goes for indirect costs?

Mrs. LYNCH. We are unable to provide this information, since the amount of indirect cost varies in each individual contractor's proposal. In order to obtain this information, it would be necessary to manually review each individual 8(a) contract file, as there is no separate available record maintained which provides this data.

Mr. MICHEL. Are any of the contractors and/or their employees former employees of the executive or legislative branch of the Federal Government?

Mrs. LYNCH. This detailed information is not available in the Department. The Small Business Administration establishes the procedures under which the 8(a) program operates. Firms applying for 8(a) program eligibility are screened by the Small Business Administration, which alone has the authority to approve or reject the applicant.

Mr. MICHEL. What kind of safeguards do you have to insure that kickbacks do not occur to the awarders of 8(a) contracts?

Mrs. LYNCH. We consider that competitive procurement offers the most practical safeguard against kickbacks; and the Department, with the approval of the Small Business Administration, has pioneered in the use of limited technical competitors among 8(a) firms only, whenever feasible and practicable. Many of our fiscal year 1976 8(a) contracts over $50,000 were awarded in this manner.

In order to reduce to a minimum the number of sole source 8(a) awards, we have drafted procedures which will require increased use of such competitions, subject to the Small Business Administration's approval. These procedures will become part of the Health, Education, and Welfare procurement regulations.

SEX-POT STUDY

Mr. MICHEL. Could you please tell us where you are on the sex-pot study at present?

Mrs. LYNCH. As you know, a meeting to review concerns which have been expressed about this grant was scheduled for March 11. The meeting was held as scheduled. Dr. DuPont, Director of the National Institute on Drug Abuse, now has the results of the meeting under consideration. We expect a recommendation from him shortly.

Mr. FLOOD. Mr. Conte?

DEPARTMENTAL MANAGEMENT REPROGRAMING

Mr. CONTE. If you intend to reprogram 50 positions from general management activities to departmental operations, what will be cut back in the former category?

Mrs. LYNCH. These positions will be taken from the major activities supported by the departmental direction portion of the general departmental request. I will provide a brief summary of these reductions for the record.

[The information follows:]

Fiscal year 1977 legal services reprograming

Activity	*1977 reduction*
Departmental direction:	
1. Office of Legislation	2
2. Office of Planning and Evaluation	8
3. Office of Public Information	1
4. Financial Management	8
5. Administrative Management	21
6. General Counsel	10
Total reduction	50

SSA BENEFICIARY COURT CASES

Mr. CONTE. How many court cases brought by beneficiaries against the Social Security Administration do you expect this year?

Mrs. LYNCH. We expect that approximately 10,000 cases will be filed by beneficiaries in fiscal year 1976. Since January 1, 2,600 such cases have been brought.

GRANTS MANAGEMENT SYSTEMS

Mr. CONTE. What is the difference between the Grant Management Systems in the various agencies and the one you have under this heading?

Mrs. LYNCH. The Office of Grants and Procurement Management, located in the Office of the Secretary is responsible for developing departmental policy in the areas of grants, procurement, and materiel. The office oversees and evaluates these activities for all Department agencies. The office is also responsible for the Department's minority business assistance program and has the overall accountability for the success of the program. Agency grant management functions are primarily involved in the review and awarding of grants and procurements. Because of the wide diversity of types of grant programs among the agencies, it is frequently necessary to tailor and adapt portions of departmentwide grant and procurement policies to fit special needs of individual programs.

CASH FLOW ANALYSIS TASK FORCE RECOMMENDATIONS

Mr. CONTE. Last year you mentioned that a task force group was studying ways to improve departmental outlay forecasting. What were the recommendations? Have they been implemented?

Mrs. LYNCH. The task force published its results in July 1975 in 12 reports which covered the major programs of HEW as well as the principal payment processes that affect outlays. These reports can be made available to the committee if desired.

I will include in the record a list of recommendations from the executive summary report. This should give the committee an idea of the scope of the problem and the type of work to be done to correct it.

To implement the recommendations, two major efforts were started as soon as the reports were published—one to improve upon the financial systems and the other to improve upon the outlay forecasting products of our outlay forecasters. We have already implemented a number of the recommendations. The progress of these efforts are being monitored by the Assistant Secretary, Comptroller.

[The information follows:]

EXCERPT OF RECOMMENDATIONS FROM THE EXECUTIVE SUMMARY REPORT OF THE DHEW CASH FLOW ANALYSIS TASK FORCE

D. Recommendations

Following are the task force's recommendations divided into two parts. The first set of recommendations is a synopsis of recommendations directed at POC and agency heads. Detailed recommendations for each POC is contained in part III of this report. The second set of recommendations is directed at the Department level, specifically the Office of the Deputy Assistant Secretary, Finance.

1. POCs and Agencies.—(*a*) Each POC and agency head should as soon as possible designate an action officer who can represent the organization in implementing the task force's recommendations and notify the Deputy Assistant Secretary, Finance of the designated person.

(*b*) Each action officer should develop within 30 days from the date of this report a detailed action plan which will identify individual tasks that need to be done, designate persons responsible for completing the tasks, identify the required resources, and set forth a completion date for each task. Each action officer should report progress against the plan monthly to the POC or agency head and send a copy of the report to the Deputy Assistant Secretary, Finance.

(*c*) Action plans should include the following:

(1) Where not already implemented, immediate assignment of permanent staff (rather than using staff on an ad hoc basis) who can develop expertise in estimating outlays and in analyzing variances.

(2) Immediate establishment of formal communications among finance, budget, program, and other offices which may have information that affects outlays.

(3) Immediate requirement for documenting all assumptions in support of the estimates. It is particularly important that POC's state clearly their economic assumptions which support their estimates and reestimates for income security programs.

(4) Identification within 90 days of all significant variables which impact on outlays for each program, and an assessment of the importance of each variable and how it should be considered in making projections. Attention should be directed first at those larger programs (identified by the task force in part III of this report) where historical spendout rates or the judgments of estimators have not proven adequate to prevent significant dollar overruns or underruns from the estimates.

(5) Development within 120 days of data collection procedures which will provide information for each of the variables. For formula grant programs, States should be requested to provide time-phased plans on the use (obligation) of allotted funds and a projection of monthly Federal cash requirements after receipt of their allocations for the current year. The plan should be provided in November so that the best possible data are available for the President's budget submission in January of each year, and updated in March and June. Pending the development of formal data collection procedures with the States, estimators in collaboration with headquarters and regional program staffs should begin immediately to test their estimating assumptions with State agency personnel in some of the larger States.

(6) Issuance within 150 days of final detailed procedures for estimating outlays for analyzing and documenting monthly variances between planned and actual outlays.

(*d*) POC's and agencies should continue their efforts to improve their accounting systems. Specifically, current plans for accounting systems development should provide for the following:

(1) Reporting of outlays at program and/or budget activity level. POC finance offices, in coordination with budget offices, should develop report specifications which include:

(*a*) data elements to be reported; (*b*) level of summarization; (*c*) reporting formats; and (*d*) frequency of reporting.

(2) Establishment of procedures which will keep errors corrected on a current basis to prevent distortions of obligations and outlays.

(3) Distributing and recording advances to DFAFS to appropriation(s) consistent with experienced outlay patterns.

Because the above recommendations are only part of a larger effort by POC's to improve their accounting systems, the task force makes no recommendation on a specific time schedule for completion. However, POC's should treat these recommendations as high priority in their accounting development plans. The plans should set forth an itemization of the tasks, a time schedule for completion, which

is indicative of high priority to correct the above deficiencies, the resources required, and the responsible persons.

(e) POC's and agencies should submit within 150 days of the date of this report all of the above required written procedures to the Deputy Assistant Secretary, Finance for review and approval.

2. Office of Deputy Assistant Secretary, Finance.—(a) The Deputy Assistant Secretary, Finance (DASF) should immediately assign a project officer for implementation of the task force's recommendations.

(b) The project officer should develop within 30 days of the date of this report a detailed action plan for approval of the Deputy Assistant Secretary, Finance, and the Assistant Secretary, Comptroller. The action plan should identify individual tasks that need to be done, designate persons responsible for completing the tasks, identify the required resources, and set forth a time for completion of each task.

(c) The action plan should include the following:

(1) Development of formats and requirements for documenting estimators' assumptions for all future outlay estimates and reestimates, beginning in July 1975 with the reestimates for fiscal year 1976. POC's and agencies should also be provided a checklist of factors which can be used as a reference for preparing estimates.

(2) A briefing and work session within 45 days with each POC, Office of Education, and PHS Agency to review their detailed implementation plans and to provide clarification and guidance regarding the task force's report and recommendations.

(3) Immediate establishment of a project group to examine DFAFS implementation problems which are still being experienced by the DFAFS operations unit and POC's and agencies. The project group should determine the causes and recommend corrective actions, including alternatives on how the payment operation and system can be simplified and made more reliable.

(4) Immediate establishment of a work group (which will work in coordination with the above project group) to develop procedures for correlating DFAFS billings for each program with the experienced pattern of grantees' expenditures. The single billing formula should be replaced with a new computer program which will provide for selection of an appropriate billing formula to correlate with reported grantee expenditures on a program-by-program basis. A second computer program should be developed which will periodically sample reported grantee expenditures to determine whether the actual expenditure pattern for each program is consistent with the billing formula being used.

(5) Immediate development, while the above procedures are being developed and programed, of stopgap procedures for correlating DFAFS billings with agency outlay plans. This is required to reduce significantly or eliminate the monthly distortions of reported outlays.

(6) Completion within 120 days of policies to be followed by the POC's as the basis for developing formal outlay estimating procedures. The policies should include among other things that Deputy Assistant Secretary, Finance, in cooperation with the Office of Management and Budget, must provide written explanations to the POC's of any changes made to their outlay estimates and to give POC's the opportunity to challenge the assumptions.

(7) Development within 120 days of written procedures to be used by DASF staff for analyzing and documenting monthly variances between planned and actual outlays. The variance analysis should identify those variances which are occurring because of congressional action or inaction and those variances which are occurring because of other factors and variables.

(d) The Deputy Assistant Secretary, Finance, should maintain close liaison with POC and agency action officers as they implement the task force recommendations and should review and approve all POC and agency procedures which are developed.

(e) The Deputy Assistant Secretary, Finance, should continue to oversee actions taken by POC and agency finance offices to improve their accounting systems and to assure that data needed for outlay estimating and variance analysis will be provided on a priority basis.

(f) Finally, the Deputy Assistant Secretary, Finance, should provide a semiannual report to the Secretary and Assistant Secretary, Comptroller, which provides an evaluation of POC and agency efforts to improve their estimating procedures and makes recommendations for further improvements.

TELECOMMUNICATIONS DEMONSTRATION PROGRAM

Mr. CONTE. Among your plans for fiscal year 1977 is listed "... Managing the implementation of the telecommunications demonstration program; ..." Would you describe what that is?

Mrs. LYNCH. It assumes passage by fiscal year 1977 H.R. 9630, the Educational Broadcasting Facilities and Telecommunications Demonstration Act of 1976. The purpose of this proposed legislation is to demonstrate the value of using telecommunications as a vehicle for providing health, education, and social services to the nation.

COST OF DRAFTING REGULATIONS

Mr. CONTE. How much is spent each year on drafting regulations?

Mrs. LYNCH. All of our agencies are involved in drafting and reviewing regulations, and it would be difficult to accurately estimate the cost of these activities. Approximately 7 percent of the General Counsel's attorney staff resources is spent drafting or reviewing regulations at an approximate cost of $600,000.

FRAUD CONTROL SAVINGS

Mr. CONTE. Can you estimate the amount of money saved through your efforts to control waste, fraud, and abuse?

Mrs. LYNCH. We can give you some ball park estimates. We would not, of course, claim that they are precise. Until recently, the Office of Investigations has only had 10 professional investigators. Cumulatively, in fiscal year 1975 and 1976, the unit estimates that it saved approximately $2 million and obtained 27 convictions and 7 indictments.

In addition, the Department of Justice has filed civil fraud suits to recover $625,000 from 20 doctors and medicaid clinic operators from among those practioners convicted for submitting fraudulent claims. You may also be interested in knowing that the HEW Audit Agency estimates recovery of about $100 million every year. These savings are actually shown in the budget.

ADDITIONAL RESOURCES

Mr. CONTE. Would allocation of more resources to your program integrity section increase significantly, the amount saved from waste, abuse, and fraud?

Mrs. LYNCH. Yes, we believe it would. We cannot, of course, predict whether the savings would be directly proportionate to the increase in resources, but there would undoubtedly be benefits from processing our workload more quickly and perhaps in greater depth.

RESIDENT'S COMMISSION ON OLYMPIC SPORTS

Mr. CONTE. On page 20 of the justification, I see a decrease of $540,000 in the President's Commission on Olympic Sports which eliminates the program. Will anything be done to, if not replace, at least monitor the situation which warranted the creation of the Commission?

Mrs. LYNCH. In its first report to the President, dated February 9 of this year, the Olympic Sports Commission made an analysis of the current system of amateur sports in the country including an identification of its problems, weaknesses, and needs. The report also described an approach for meeting these needs; the creation of a permanent "highest sports authority" that would be concerned with not only resolving disputes in amateur athletics but also the financing and development of amateur sports. Detailed recommendations as to the nature, structure and means of financing of the proposed organization will be the main topic of the Commission's second report, including legislative proposals, if any, that appear to be required to implement the recommendations.

DATA COMMUNICATIONS

Mr. CONTE. How much in savings do you expect by integrating the data communications utilities? When will this integration be completed?

Mrs. LYNCH. This is a very difficult question to answer with precision because the plan for integrating the data communications utilities spans a time-frame from fiscal year 1975, when HEW planning began, through fiscal year 1980 when the last enhancements are expected to be completed and the utilities fully operational. We have had to make a number of assumptions to support our planning, including a projection of expected growth and increased costs if the integration were not effected. Based on these assumptions, we originally estimated the savings fiscal year 1975 through fiscal year 1980 at approximately $40 million. A substantial portion of the estimated savings were expected to be realized through cost avoidance on anticipated growth. It should be recognized, however, that data communications is a rapidly advancing field of technology, experiencing exponential growth and in some areas, reduced costs due to competition by new providers of data communications services. Additionally, Government policy toward the procurement and utilization of this new technology is undergoing far-reaching change. This impacts on planning, and in turn, savings projections.

Mr. FLOOD. Thank you Mrs. Lynch. It is good working with you again.

JUSTIFICATION OF THE BUDGET ESTIMATES

APPROPRIATION ESTIMATES

GENERAL DEPARTMENTAL MANAGEMENT

For expenses, not otherwise provided, necessary for departmental management, including hire of six medium sedans [$85,519,000] *$93,661,000* together with not to exceed [$12,751,000] *$912,872,000* to be transferred and expended as authorized by section 201(g)(1) of the Social Security Act from any one or all of the trust funds referred to therein.

For an additional amount for "General Department Management", $413,000.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

DEPARTMENTAL MANAGEMENT

General Departmental Management

Amounts Available for Obligation[1/]

	1976	1977
Appropriation	$85,932,000	$93,661,000
Proposed supplemental for pay raise	2,610,000	---
Subtotal, appropriations	$88,542,000	$93,661,000
Comparative transfers to:		
"Assistant Secretary for Health", for Long-Term Care support function	-110,000	
"Assistant Secretary for Human Development", for personnel services function	-151,000	
Subtotal, transfers to	-261,000	
Comparative transfers from:		
Social Security Administration, "Limitation on Salaries and Expenses", for the Regional DHEW Safety Management Program and the HQ regional budget staff	+138,000	
Social and Rehabilitation Service, "Salaries and Expenses", for the Commissioner on Welfare, the Regional DHEW Safety Management Program, and the HQ regional budget staff	+143,000	
Office of Education, "Salaries and Expenses", for the Regional DHEW Safety Management Program and the HQ regional budget staff	+35,000	
National Institutes of Health, "Office of the Director", for the HQ regional budget staff	+1,000	
Food and Drug Administration, "Salaries and Expenses", for appropriated legal functions and the HQ regional budget staff	+202,000	
Health Resource Administration, "Health Resources", for the Regional DHEW Safety Management Program	+23,000	
Health Services Administration, "Health Services", for the Long-Term Care Life Safety Enforcement function, the Regional DHEW Safety Management Program, and the HQ regional budget staff	+380,000	
"Office for Civil Rights" for the Civil Rights review authority and the HQ regional budget staff	+122,000	
"Assistant Secretary for Human Development" for accounting support, the emergency planning function, the Regional DHEW Safety Management Program, and the HQ regional budget staff	+186,000	
Subtotal, transfers from	$1,230,000	
Receipts and reimbursements from:		
Trust funds	12,751,000	12,872,000
Total obligations	$102,262,000	$106,533,000

1/ Excludes the following amounts for reimburseable activities carried out by this account: 1976 - $6,359,000; 1977 - $5,524,000.

Summary and Explanation of Changes

1976 Estimated Obligations	$102,262,000
1977 Estimated Obligations	106,533,000
Net Change	+4,271,000

	1976 base		Changes from base	
	Pos.	Amount	Pos.	Amount
Increases:				
A. Built-in:				
1. Annualization of 217 new 1976 positions	--	$ 2,815,000	--	+2,493,000
2. Anticipated increases in charges for space and building management	--	11,379,000	--	+1,701,000
3. Reimbursement to the Working Capital Fund and other increased administrative costs	--	7,330,000	--	+669,000
4. Annualization of October 1975 pay raise	--	2,610,000	--	+1,011,000
Subtotal	--	---	--	5,874,000
Decreases:				
A. Built-in:				
1. One less working day than in FY 1976	---	263,000	--	-263,000
2. President's Commission on Olympic Sports	---	540,000	--	-540,000
Subtotal	---	---	--	-803,000
B. Program:				
1. South Portal Building. These funds were provided on a one-time basis to prepare the South Portal Building for occupancy	---	800,000	--	-800,000
Total, decreases	---	800,000	--	-1,603,000
Total, net change	---	---	--	+4,271,000

Obligations by Activity

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
1. Departmental Direction:						
Executive Direction:						
Secretary and Under Secretary	139	$3,488,000	139	$3,971,000	--	+$483,000
Assistant Secretary for Legislation	42	1,013,000	40	984,000	-2	-29,000
Assistant Secretary for Planning and Evaluation	167	4,416,000	159	4,300,000	-8	-116,000
Subtotal	348	8,917,000	338	9,255,000	-10	+338,000
Public Information	30	1,459,000	29	1,447,000	-1	-12,000
Financial Management	173	5,104,000	165	4,977,000	-8	-127,000
Administrative Management	455	12,090,000	434	12,007,000	-21	-83,000
Field Management	290	8,949,000	290	9,066,000	--	+117,000
General Counsel	214	5,443,000	204	5,480,000	-10	+37,000
President's Commission on Olympic Sports	--	540,000	--	---	--	-540,000
Subtotal, Departmental Direction	1,510	42,502,000	1,460	42,232,000	-50	-270,000
2. Departmental Operations:						
Audit Agency	870	24,563,000	870	25,365,000	--	+802,000
Facilities Engineering:						
Facilities Engineering	397	11,025,000	397	10,529,000	--	-496,000
SLUC (GSA Space Rent)	--	11,379,000	--	13,080,000	--	+1,701,000
Long-Term Care	259	5,792,000	259	6,679,000	--	+887,000
Legal Services	231	7,001,000	281	8,648,000	+50	+1,647,000
Subtotal, Departmental Operations	1,757	59,760,000	1,807	64,301,000	+50	+4,541,000
Total Obligations	3,267	102,262,000	3,267	106,533,000	--	+4,271,000

Obligations by Object

	1976 Estimate	1977 Estimate	Increase or Increase
Total number of permanent positions	3,267	3,267	--
Full-time equivalent of all other positions	170	170	--
Average number of all employees	3,238	3,335	+97
Personnel compensation:			
Permanent positions	65,034,000	67,325,000	+2,291,000
Positions other than permanent	2,732,000	2,748,000	+16,000
Other personnel compensation	239,000	242,000	+3,000
Military personnel	432,000	438,000	+6,000
Total, personnel compensation	68,437,000	70,753,000	+2,316,000
Personnel benefits:			
Civilian personnel	5,566,000	5,743,000	+177,000
Military personnel	77,000	78,000	+1,000
Travel and transportation of persons	3,713,000	3,691,000	-22,000
Transportation of things	245,000	251,000	+6,000
Rents, communications, and utilities	14,023,000	15,982,000	+1,959,000
Printing and reproduction	797,000	730,000	-67,000
Other services	8,725,000	8,625,000	-100,000
Supplies and materials	457,000	450,000	-7,000
Equipment	222,000	230,000	+8,000
Total, Obligations by object	102,262,000	106,533,000	+4,271,000

Significant Items in House and Senate
Appropriations Committee Reports

Item I	Action to be Taken or Taken
1976 Senate Report Purchases of Furniture and Carpeting The Committee "directs that within this account and other HEW programs, unnecessary purchases such as furniture and carpeting be closely monitored and regulations in this area strengthened".	Control of Purchases: Unnecessary purchases are controlled in two ways: -- They are circumscribed by DHEW regulations contained in the HEW Materiel Management Manual. These regulations strictly limit the quantity and quality of all property to the minimum necessary to effective performance of assigned duties. -- Departmental policy requires use of serviceable excess property available from governmental sources. An annual inspection of all facilities is made to locate such property. In FY 1975 over $8 million of excess property was reassigned from within the Department or from other departments. Monitoring the System: The property control system is monitored and improved in two ways: -- The Office of Grants and Procurement Management reviews annually a sample of procurement activities in the Department to evaluate effectiveness of performance and conformance with regulatory requirements. -- In FY 1977 the Office will develop a training and technical assistance program for all Departmental procurement activities. Improving Regulations: Improvement and updating of regulations is a goal of the annual sample reviews. As problems are discovered and corrected, the regulations and policies governing the system are improved. The Materiel Management Manual is now being revised to clarify standards for use of executive level furniture and use of GSA furniture under the Office Excellence Program.

Item II	Action to be Taken or Taken
1976 House and Senate Reports - First FY 1976 Supplemental Report by the Secretary on the status and needs of the Investigations function.	Lanuage is contained in both the House and Senate reports on the first FY 1976 supplemental requiring the Department to enhance its resources directed toward investigating allegations of fraud and abuse in the use of the Department's funds. An Office of Investigations has been established reporting to the Under Secretary with an authorized staff of 74. This includes 18 transferred from the Office of Investigations and Security, SSA. The Committees were informed of these organizational decisions by memoranda dated December 30, 1975, and January 15, 1976. The Senate and House reports requested a report prior to the FY 1977 budget hearings on the magnitude of fraud and misuse of HEW funds plus the Secretary's assessment of resources and administrative flexibility needed to deal with these problems. This report will be delivered before Departmental witnesses testify on FY 1977 appropriations.

General Departmental Management

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1967:				
Appropriation	$14,696,000	$17,491,000	$16,690,000	$17,040,000
SSA transfer	4,434,000	5,032,000	5,032,000	5,032,000
BFCU transfer	34,000	34,000	34,000	34,000
FDA transfer	29,000	29,000	29,000	29,000
1968:				
Appropriation	$22,988,000	$20,988,000	$21,597,000	$21,597,000
SSA transfer	5,877,000	5,597,000	5,597,000	5,597,000
BFCU transfer	35,000	35,000	35,000	35,000
FDA transfer	29,000	29,000	29,000	29,000
1969:				
Appropriation	$29,380,000	$25,380,000	$25,380,000	$25,380,000
SSA transfer	6,855,000	6,228,000	6,228,000	6,228,000
BFCU transfer	36,000	36,000	36,000	36,000
FDA transfer	29,000	29,000	29,000	29,000
1970:				
Appropriation	$29,901,000	$29,475,000	$29,475,000	$30,583,000
SSA transfer	6,400,000	6,210,000	6,462,000	6,462,000
BFCU transfer	38,000	38,000	38,000	38,000
FDA transfer	29,000	29,000	29,000	29,000
1971:				
Appropriation	$49,084,000	$47,114,000	$47,114,000	$47,114,000
SSA transfer	5,788,000	5,696,000	5,696,000	5,696,000
BFCU transfer	38,000	---	---	---
FDA transfer	29,000	29,000	29,000	29,000
1972:				
Appropriation	$49,086,000	$49,086,000	$49,086,000	$49,086,000
SSA transfer	5,926,000	5,926,000	5,926,000	5,926,000
FDA transfer	29,000	29,000	29,000	29,000
1973:				
Appropriation	$60,925,000	$61,617,000	$61,617,000	$61,617,000
SSA transfer	9,324,000	9,546,000	9,546,000	9,546,000
FDA transfer	29,000	29,000	29,000	29,000
1974:				
Appropriation	$73,216,000	$71,216,000	$66,916,000	$66,916,000
SSA transfer	11,211,000	11,211,000	11,211,000	11,211,000
FDA transfer	29,000	29,000	29,000	29,000
1975:				
Appropriation	$93,270,000	$89,310,000	$74,094,000	$78,067,000
Supplemental	2,551,000	2,551,000	2,551,000	2,551,000
SSA transfer	13,917,000	13,917,000	13,917,000	13,917,000
FDA transfer	29,000	29,000	29,000	29,000
1976:				
Appropriation	$94,004,000	$88,258,000	$86,218,000	
SSA transfer	12,751,000	12,751,000	12,751,000	
Proposed Supplemental	2,610,000	---	---	
1977:				
Appropriation	93,661,000			
SSA transfer	12,872,000			

NARRATIVE JUSTIFICATION

Activities	1976 Estimate Pos.	1976 Estimate Amount	1977 Estimate Pos.	1977 Estimate Amount	Increase or Decrease Pos.	Increase or Decrease Amount
Departmental Direction	1,510	$42,502,000	1,460	$42,232,000	-50	$-270,000
Departmental Operations	1,757	59,760,000	1,807	64,301,000	+50	+4,541,000
Total	3,267	102,262,000	3,267	106,533,000	--	+4,271,000

General Statement

The General Departmental Management appropriation supports two basic categories of activities: 1) those closely associated with the Secretary's roles as policy officer and general departmental manager, and 2) specialized staff services which are performed for the operating Agencies on a central basis to achieve economy of scale and eliminate duplication of effort.

The FY 1977 budget request is $106,533,000 and 3,267 positions, an increase of $4,271,000 and no positions over the FY 1976 level. The "Departmental Operations" portion of this total is $64,301,000 and 1,807 positions. This represents 60% of total dollars and 55% of total positions requested for FY 1977.

The Department faces a major expansion of court cases brought by beneficiaries against the Social Security Administration. We have analyzed the relative priority of ongoing activities and have decided to reallocate resources from lower priority areas to handle this Social Security litigation increase. This budget represents a request to reprogram 50 positions from general management activities to Departmental Operations to enable the General Counsel to handle an estimated 9,065 new court cases which will occur in fiscal year 1977. This reprogramming would not affect new FY 1976 positions contained in the FY 1976 appropriation.

Departmental Direction - The policy and general management role of the Secretary is reflected in the "Departmental Direction" portion of the budget which includes $42,232,000 and 1,460 positions in FY 1977, a decrease from FY 1976 of 50 positions which would be reallocated to higher priority Legal Services workloads. Departmental Direction activities are listed as follows:

-- Executive Direction encompasses the immediate office of the Secretary and Under Secretary; staff to develop the Department's legislative program; and staff to coordinate program planning and evaluation. It also includes the Office of Investigations the function of which is to investigate allegations of fraud and abuse by recipients of Federal funds. Ten FY 1976 positions would be reprogrammed from the Assistant Secretary for Legislation and the Assistant Secretary for Planning and Evaluation to the Legal Services activity;

-- The Public Information activity provides the public with information concerning the Department's programs and policies. One FY 1976 position would be reprogrammed to Legal Services;

-- Financial Management includes oversight of the Department's budget and financial operations. Eight FY 1976 positions would be reprogrammed to Legal Services. None of them would come from the Audit function which is budgeted under Departmental Operations;

-- The Administrative Management activity provides direction to all non-financial, administrative operations of the Department. These operations include personnel, training and career development; grants and procurement; equal employment opportunity; environmental policy; safety and printing management; and Agency data systems management. Twenty one FY 1976 positions would be reprogrammed to the Legal Services activity;

-- Field Management includes the staff of the 10 Regional Directors who provide general management of the Department's regional programs;

-- The General Counsel provides legal services related to the Department's programs with the exception of the Food and Drug and Social Security Administrations. Services related to general management problems and to development of legislative proposals are also provided. Ten FY 1976 positions would be reprogrammed to Legal Services.

Departmental Operations - The service role of the Secretary is reflected in the "Departmental Operations" portion of the budget request which includes $64,301,000 and 1,807 positions in FY 1977. This is an increase of 50 positions which would be reprogrammed from Departmental Direction activities to meet increased Legal Services workloads. This portion includes the four Secretarial activities which perform service workloads generated by Agency program operations. These activities are listed below:

-- The Audit Agency assures that the Department's programs are conducted with maximum efficiency and integrity by both its own employees and the 50,000 entities which execute 250 programs;

-- Facilities Engineering and Property Management directs all facilities operations within the Department; guides construction by organizations receiving Federal funds; and conducts a program to channel U.S. Government surplus property into health, education, and welfare related purposes;

-- The Long-Term Care activity directly benefits the public through enforcement of Federal regulations governing standards of care in the nation's nursing homes;

-- The Legal Services activity, conducted by the Department's General Counsel, performs the legal workloads, primarily litigation, of the Social Security Administration and the Food and Drug Administration. Fifty positions would be reprogrammed from Departmental Direction activities to meet increased Social Security litigation workloads.

Executive Direction

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Subactivities:						
Secretary and Under Secretary	139	$3,488,000	139	$3,971,000	---	+$483,000
Assistant Secretary for Legislation	42	1,013,000	40	984,000	-2	-29,000
Assistant Secretary for Planning and Evaluation	167	4,416,000	159	4,300,000	-8	-116,000
Total	348	$8,917,000	338	$9,255,000	-10	$+338,000

General Statement

The staff offices supported by this activity assist the Secretary in policy formulation and direction for the operating programs of the Department. In addition to direct staff for the Secretary and Under Secretary, the activity supports development of the Department's legislative program, liaison with Congress and program planning and evaluation. The Assistant Secretary for Planning and Evaluation also manages the Policy Research program. Effective November, 1975, the Division of Investigations was transferred to the Under Secretary's office from the Administrative Management activity.

Ten positions would be reprogrammed to the Legal Services activity to handle increased Social Security litigation workloads. None of the 10 would come from the investigations activity.

Secretary and Under Secretary

FY 1976 Accomplishments:

The investigatory functions of the Department have been reorganized into the new Office of Investigations under the direct authority of the Under Secretary. The Office, which will be headed by a career civil servant, investigates fraud and abuse in the management of Departmental programs and in the utilization of Federal assistance funds provided by the Department.

The FY 1976 staff will be 74 positions which consists of 14 base positions, 30 positions appropriated by Congress in the first FY 1976 supplemental appropriation, 12 positions included in the regular FY 1976 appropriations bill, and 18 positions transferred from the Social Security Administration's Investigations Branch. The 18 positions were transferred effective December 28, 1975 which was too late to be reflected in the FY 1977 President's budget. These positions will be funded by Social Security on a reimburseable basis for the remainder of FY 1976 and FY 1977. The transfer will be reflected in the FY 1978 budget as a functional transfer.

Workloads facing the Office were substantial in FY 1975. The staff of 14 in that year worked on 175 cases of which 38 were closed.

Program Plans, FY 1977:

The Office anticipates additional workload increases in FY 1976 and FY 1977. The major areas of concern will be the Social Security, Medicaid, and Guaranteed Student Loan programs. As recent publicity about proprietary schools, student

loan defaults, and nursing homes indicates, these programs face major problems of controlling fraud and abuse by recipients of Federal funds.

It is too early to indicate the adequacy of the resources that have been made availabe to perform these investigatory workloads. The Under Secretary has initiated an analysis of current and anticipated workloads facing the new Office. When the analysis is completed and more experience with the expanded staff is gained, reestimates will be made of the adequacy of the total staff of 74 positions. If workloads cannot be handled effectively, additional resources will be requested through the normal budget-appropriations process.

Office of the Assistant Secretary for Legislation

The Assistant Secretary for Legislation, with a FY 1977 staff of 40 positions, assists in the development of the Department's legislative program. He coordinates these proposals with the agencies of HEW, the Office of Management and Budget, the White House, the Congress, and other interested parties and provides information to the staffs and Members of Congress concerning HEW activities. Nearly 20 percent of all public laws enacted in the 93rd Congress impact upon this Department. The number of public laws requiring the participation of this office increased from 50 in FY 1974 to 72 in FY 1975. This office, which includes Congressional Liaison, handled approximately 30,000 letters and 90,000 telephone inquiries in FY 1975 from Members of Congress that almost entirely deal with constituent problems. In FY 1977, the Office of the Assistant Secretary will be involved in coordinating legislative initiatives begun in the 94th Congress as well as those initiated in the 95th Congress.

Office of the Assistant Secretary for Planning and Evaluation

The Assistant Secretary for Planning and Evaluation is the principal advisor to the Secretary on health, education, and welfare policy planning and program evaluation. His staff also reflects the interests of women and minority groups in the performance of these functions. The FY 1977 staff level is 159 positions.

The Assistant Secretary also administers the Policy Research activity, included in the Department's request as a separate appropriation.

FY 1976 Accomplishments

-- The Education Planning Staff completed a number of analyses of the Federal role in financing elementary, secondary, post-secondary and compensatory education. Major studies focused on the characteristics of communities which benefit from aid for elementary and secondary education and the types of colleges which benefit from the Basic Educational Opportunity Grant Program.

-- In Telecommunication policy activities, successful ATS-6 Satellite Technology Demonstrations led to the formation of a consortium of social service users to plan and implement operational satellite servics in health and education.

-- In the area of Disability and Long Term Care, a series of studies and planning documents were completed.

-- The Gary Income Maintenance Experiment was completed. A final report was made and analysis of the final data was begun. In the Health Insurance Experiment, all four sites are in full operation, and analysis of data gathered on physician capacity and excess demand for physician services was completed this year.

-- A report to Congress on the definition of poverty was submitted in January 1976.

-- The Office of Health Planning continued its leadership role in negotiations on the development of designs for a National Health Insurance program; developed approaches to cost control to restrain the rapid increases in medical care expenditures; aided in developing an implementation strategy for the State and area health planning agencies required under the National Health Planning and Resource Development Act of 1974.

-- Three major research efforts were concluded in the area of special concerns: women in the health professions schools, a survey of Asian Americans, and a compilation of reference materials and data resources on Asian Americans. The Office also participated in the development of final regulations and athletic guidelines for Title IX of the Educational Amendments of 1972.

Program Plans - FY 1977

In FY 1977 plans call for:

-- Continuing analysis of the costs of effectively serving the educationally disadvantaged and developing improved assessments of program evaluation needs;

-- Studying the differing financial problems of public and private colleges and examining the impact on students of proposed reforms in the Guaranteed Student Loan Program;

-- Synthesis of the Disability and Long Term Care options to produce policy and reform alternatives for Departmental consideration;

-- Managing the implementation of the Telecommunications Demonstration Program;

-- Completion of special poverty studies required by the Education Amendments of 1974;

-- The conduct of research on the status and needs of Puerto Ricans, Chicanos and Asian Americans for higher education;

-- The provision of major technical support for long term developmental work on a new major survey of income and related social characteristics;

-- Developing more effective procedures for integrating the Department's budget, policy development, implementation, legislation and regulation development, and management-by-objectives activities.

Public Information

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Public Information.....	30	$1,459,000	29	$1,447,000	-1	-$12,000

General Statement

The Office of the Assistant Secretary for Public Affairs coordinates the Departments 15 public affairs activities and administers the Freedom of Information Act which ensures the public's right to know about government activities and programs.

One position would be reprogrammed to the Legal Services activity to handle increased Social Security litigation workloads.

Accomplishments 1976

-- Arranged press conferences and interviews; wrote, edited and cleared agency press releases; reviewed all agency publications and audiovisual products; responded to inquiries from the media, wrote speeches and editorial statements; and prepared briefing materials on Departmental activities and policies.

-- Completed a review of the performance of the ten regional public affairs operations.

-- Processed feature stories and news releases of special interest to the Black, Spanish and Indian-oriented press and broadcast news media.

-- Worked with the Fair Information Practice Office (which administers the Privacy Act) in order to assure that the rights of inquirers under either the Freedom of Information Act or the Privacy Act are taken into consideration.

-- Participated in numerous briefings and informal sessions for HEW and/or other Federal personnel to assist them in becoming more familar with requirements and procedures involved in answering requests under the Freedom of Information Act within the 10-day limitation. This has resulted in requests for extensions being invoked infrequently.

-- Coordinated the public affairs efforts at the Vietnamese and Cambodian refugee centers established to assist refugees in settling in America.

Program Plans FY 1977

-- Continue review of publications and audiovisual products developed by the agencies, including those developed under grant or contract, with emphasis on development of more effective planning and evaluation procedures and techniques.

-- Develop a computer-based media analysis capability which will summarize and analyze news clippings and stories across the country.

-- In cooperation with the Office of the General Counsel, clarify and augment departmental Freedom of Information regulations to make them consistent with the 1974 amendments.

Financial Management

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Subactivities:						
Immediate Office	6	$223,000	5	$201,000	-1	-$ 22,000
Deputy Assistant Secretary, Comptroller	13	295,000	13	299,000	--	+4,000
Deputy Assistant Secretary, Finance	103	3,187,000	100	3,145,000	-3	-42,000
Deputy Assistant Secretary, Budget	43	1,088,000	40	1,040,000	-3	-48,000
Financial Management Standards and Procedures	8	311,000	7	292,000	-1	-19,000
Total	173	$5,104,000	165	$4,977,000	-8	$-127,000

General Statement

The Office of the Assistant Secretary, Comptroller assists the Secretary in financial management of the Department. The Office has two activities: Financial Management" and "Audit". The latter provides direct Audit coverage of the Department's operating programs and is included in the Departmental Operations portion of the budget. "Financial Management" covers those activities which are of a policy nature and provide overall guidance to Departmental programs. These activities include supervision of the Department's financial and budget processes.

Eight positions will be reprogrammed to the Legal Services activity to handle increased Social Security litigation workloads.

Accomplishments FY 1976

-- A Task Force study of DHEW cash flow has been completed. This study was undertaken to improve the Department's outlay estimating and reporting capabilities.

-- Initial development of productivity measures for accounting operations functions was begun in FY 1975. In FY 1976, work has been carried on to evaluate and refine these measures.

-- Serious problems in implementing the Departmental Federal Assistance Financing System were identified and steps were taken to resolve the problems. The review included an in-depth examination of the impact of the DFAF System on accounting operations throughout the Department and on outlay estimating.

-- An effort has begun to identify ways of simplifying the Department's accounting systems and operations.

-- Major revisions were recommended for cost principles for colleges and universities.

-- A training program on indirect costs was held for the Regions and for awarding agencies.

-- Crosswalks of the FY 1976 budget in terms of legislative authorities were

provided to the Congressional budget office, the Budget Committees and the Senate Labor and Public Welfare Committee.

-- A program has been undertaken to make on-site reviews of Regional indirect cost rate negotiation activities.

Program Plans - FY 1977

-- Methods of measuring productivity in accounting operations will be made available to accounting functions throughout the Department.

-- Recommendations of the DHEW Cash Flow Task Force will be fully implemented.

-- Efforts to simplify the Department's accounting systems and operations will be continued.

-- Emphasis will be placed on improving the Department's use of operating budgets for program implementation.

-- Recommendations will be made on revising cost principles which apply to State and Local Governments (FMC 74-4).

-- A reporting system will be established to identify indirect costs awarded under DHEW grants and contracts.

-- Work will continue with the CBO and the Budget Committees to provide the budget information required by the Congressional Budget and Impoundment Control Act of 1974.

Administrative Management

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Administrative Management...	455	$12,090,000	434	$12,007,000	-21	-$83,000

General Statement

The Assistant Secretary for Administration and Management provides direction to all administrative activities and services of the Department. The Assistant Secretary administers two sub-activities, "Administrative Management" and "Facilities Engineering". The latter consists of engineering/architectural support of the Department's operations, the Surplus Property program, and the Safety Management program. These activities are represented in the Departmental Operations portion of the budget. "Administrative Management" consists of those activities which are of a policy nature and which provide overall guidance to the operating agencies. These department-wide activities include: Equal Employment activities; Management Planning and Technology; Environmental Affairs; International Affairs Management; Grants and Procurement Management; Personnel Administration; Training and Career Development; and Administrative Support including data management service, property management and printing.

Twenty-one positions would be reprogrammed from this activity to the Legal Services activity to handle large Social Security litigation workloads.

Grants and Procurement Management - FY 1976 Accomplishments

The Office of Grants and Procurement Management, with a current staff of 62 positions, provides overall guidance for the Department's grant, contract and procurement administration.

-- The Office reviewed twelve procurement and grant activities in several Headquarters offices.

-- The Office developed and implemented a standardized automated property management and accounting system for all regional offices with further expansion during FY 1977 for implementation by headquarters program components.

-- Curriculum for the first formal Department-wide grants training program was developed to provide standardized guidance and technical assistance to over 2,000 grants officers in more than 400 grant offices.

-- It is anticipated that the Department's minority business volume will be as follows:

	1975	1976
8(a) Contracts	$15,366,000	$21,552,000
Non-8(a) Contracts	26,784,000	29,462,000
Federally assisted construction contracts	1,000,000	1,500,000
Bank Deposits	5,000,000	6,000,000

Program Plans - FY 1977

-- The office will review 15 extramural programs within the 200 extramural programs issuing contracts and grants at both the Headquarters and Regional Office locations. A follow-up effort on all reviews completed in FY 1976 will be made in order to insure that major review recommendations are either adopted or mutually resolved.

-- Regulations governing agency administration of the grant, contract, and procurement functions will be significantly updated.

-- A training program for grants officers will be implemented and a training program for providing technical assistance to all activities having materiel management responsibilities will be developed.

-- For FY 1977, an increase of $112,036,000 in small business awards, from $329,322,000 to $441,358,000, is forecast.

Office of Management Planning and Technology - FY 1976 Accomplishments

The Office of Management Planning and Technology is currently staffed with 92 positions. The Office is responsible for Departmental management planning and technology, manpower management, telecommunications, fair information practices, environmental affairs, and international affairs management functions.

-- The Fair Information Practice Staff implemented final regulations for the Privacy Act of 1974 and the Family Educational Rights and Privacy Act of 1974. Approximately 500 inquiries a month were received and answered for FERPA.

-- Work continued on the development of the Department-wide Management Information System. The Departmental Contract Information System was established and the Department Grant Information System pilot data base began testing.

-- Partial integration between manpower management initiatives and the budget cycle was achieved through workload-based analyses for organizations requesting increases.

-- The office completed development of the Departmental Paperwork Management Program. The Department reports a savings of approximately $200 thousand in reduced or streamlined internal reports.

-- The Office of Environmental Affairs developed procedures for compliance with the National Archeological Preservation Act. OEA also developed an explanatory document for further amplification of this Department's Initial Criteria for compliance with the National Environmental Policy Act (NEPA).

Program Plans - FY 1977

-- The Office will continue development of the three integrated data communications utilities which was commenced during FY 1976. This effort will ensure that all major data systems within DHEW -- eg. Personnel Data, Payroll, Facilities Management, Long-Term Care Management Information -- will be accessible to all potential users in the Department. These networks will consolidate approximately 30 networks currently in use and will handle over 96% of data communications for DHEW by 1980, effecting an estimated $10 million savings.

-- The manpower management program will make a major effort to control manpower costs through increased attention to good manpower practices by increasing the number of work measurement systems throughout the Department.

Other Administrative Functions - FY 1976 Accomplishments

-- The Spanish Speaking Program provided advice and assistance to over 500 Spanish Speaking applicants and trained managers and supervisors in equal employment opportunity for Spanish-speaking Americans.

-- The Department's Equal Employment Opportunity Staff issued 67 decisions on formal complaints during the first four months of FY 1976 compared to 80 in all of FY 1975. The Department's Affirmative Action Plan has been published and is pending Civil Service Commission approval.

-- The Department's Federal Women's Program prepared a career development handbook for the Department's Agencies.

-- Training was provided to the Regional Personnel Offices in the implementation of self-evaluation techniques.

-- The Office of Executive Manpower and Career Development increased the number of executive development courses offered to the Department's executives.

Program Plans, FY 1977

-- The Privacy Act will be implemented for Office of the Secretary employees.

-- The Federal Women's Program will develop a career counseling service for women in the Department.

-- Training programs will be conducted on affirmative action planning and complaint processing by the Equal Employment Opportunity staff.

Field Management

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Field Management.....	290	$8,949,000	290	$9,066,000	---	+$117,000

General Statement

The Field Management activity consists of the HEW Regional Directors' staffs. These staffs help general purpose local and state governments develop the capacity to coordinate human service delivery programs; assist HEW program administrators in responding to local and state coordination efforts; develop and implement plans to integrate Regional resources to achieve general departmental goals; and evaluate the administration of selected program initiatives on behalf of the Secretary. The Regional Director also administers such departmental operations as Long Term Care, the Federal Property Administration program, and regional offices of the Federal Engineering and Construction program. Administrative functions performed for regional offices of the Department's agencies include personnel, financial management and office services supported through the Department's Working Capital Fund.

Accomplishments - FY 1976

-- HEW regional offices strengthened significantly their intergovernmental relations work by further developing "state desks" in the offices of Regional Directors and expanding HEW support of Federal Regional Councils and Federal Executive Boards.

-- A number of Capacity Building demonstration grants ("Partnership Grants") to state and local governments were administered and monitored during the year. The Capacity Building effort seeks to strengthen human services delivery programs of state and local governments.

-- Evaluations of the implementation of Interagency Day Care Requirements, the Early and Periodic Screening, Detection and Treatment program, and A-95 (Grants and Contracts Review procedures) implementation were completed.

-- Regional capacity to use automatic data processing in support of program management was instituted along with an improved system for Regional Director review of proposed grants.

-- The number of departmental actions reviewed for their impact on the social or physical environment doubled over the 1975 level, reflecting the Department's increasing sensitivity to the requirements of NEPA and the development of management systems to implement those requirements.

-- The Department's Safety Management Program was regionalized to implement the requirements of the Occupational Safety and Health Act.

Plans FY 1977

No new positions are requested in FY 1977. Primary emphasis will be put on expanding assistance to states and communities with human resource planning and management initiatives that cut across agency lines. Regions will also inaugurate intensive evaluation of existing Partnership Grants and begin to disseminate the new ideas developed through those programs to all units of state and local govern-

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ment as well as within appropriate Federal Agencies. It is expected that successful models and techniques will be shared in such areas as efforts of local governments to reduce costs and increase benefits through joint planning and administration of human service programs, interdisciplinary training programs and approaches to needs assessments, information and referral systems. As an additional help to state and local governments, regional directors' staffs will develop processes for soliciting, reviewing and acting on internal policy changes, procedural reforms and waivers proposed by state and local governments.

Another new initiative in the regions will be the development of safety incentive programs mandated by Occupational Safety and Health Act. Regional safety officers will begin the identification of environmental health hazards as well as unsafe work practices and develop specific abatement programs for each condition.

Finally, regions will continue to implement the equal opportunity employment program and newly mandated responsibilities such as the Public Information and Privacy Acts and the National Environmental Protection Act.

General Counsel

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Subactivities:						
Supervisory and General Legal Services	66	$1,679,000	66	$1,763,000	--	+$84,000
Departmental Program Services	84	2,136,000	84	2,243,000	--	+107,000
Regional Services	64	1,628,000	54	1,474,000	-10	-154,000
Total	214	$5,443,000	204	$5,480,000	-10	+$37,000

General Statement

The Office of the General Counsel provides legal services for the Secretary, the Department's operating agencies, and the staff of the regional offices. The General Counsel is comprised of two major subactivities entitled "General Counsel" and "Legal Services". The latter encompasses legal workload entirely related to operation of the Food and Drug and Social Security Administrations and is included in the Departmental Operations portion of the budget. The General Counsel subactivity includes Supervisory and General Legal Services, regional staff not allocated to Social Security, and headquarters program divisions other than those supporting the Social Security and Food and Drug Administrations. Ten positions would be reprogrammed from this activity to handle increased Social Security litigation workloads.

Supervisory and General Legal Services - Accomplishments FY 1976

-- The Business and Administrative Law Division settled approximately 730 claims arising out of the Tuskegee Syphilis Study for approximately $10 million; aided in the development of procedures and criteria for the Freedom of Information Act; prepared regulations implementing section 3 of the Privacy Act of 1974; and continued its participation in the interagency effort to develop uniform Government-wide patent and copyright policy.

-- The Legislation Division continued to be responsible for all legislative drafting within the Department and has drafted approximately 55 separate bills in calendar year 1975. The Division also continued to be responsible for overseeing the preparation of the Department's reports to the Congress and OMB on proposed and pending legislation; 268 reports were prepared during this same period.

Program Plans - FY 1977

The workloads of the Business and Administrative Law Division will be affected by three areas of concern:

-- The Privacy Act which requires the Department and educational institutions to give an individual access to records and files kept on that individual.

-- The strict timetable imposed by the 1974 amendments to the Freedom of Information Act coupled with an increase in the number of requests for legal services in this area.

-- Medical malpractice cases which will dominate the personal injury area in FY 1977. Approximately 80% of those claims to the Public Health Service Claims office are litigated. Asbestosis suits, resulting from the alleged failure of the Department to give sufficient warnings regarding dangers surrounding the use of asbestos, are expected to total 400 in FY 1977 compared with 152 claims in FY 1975.

Deparmtental Program Divisions - Accomplishments FY 1976

-- The promulgation of confidentiality regulations covering virtually all alcohol and drug abuse treatment programs in the country produced a great demand for legal services from the Public Health Division. Two events in the field of human experimentation have required considerable legal attention. The first was the creation of the National Commission for the Protection of Human Subjects and the second was the Department-initiated effort to provide special protection to certain groups of subjects such as prisoners, fetuses, and children.

-- The Human Resources Division was involved in approximately 50 new court cases in CY 1975 concerning such issues as federal and state enforcement of Departmental sterilization regulations; the right of a nursing home to a termination hearing under the Medicaid program; disregard of WIN public service employment earnings; and the challenge to federal regulatory amendments governing resources in AFDC. Among the regulations which have been drafted and/or finalized are those implementing the Child Support Enforcement program under Title IV-D of the Social Security Act and the Runaway Youth Act.

-- The Education Division assisted in the drafting of over 250 Federal Register documents in CY 1975, many of which were designed to implement P.L. 93-380, the Education Amendments of 1974. The Division was involved in over 30 court cases in 1975, including various court cases regarding eligibility for assistance under the Emergency School Aid Act. The Division also participated in some 13 administrative proceedings before the Title I Audit Board for the purpose of resolving outstanding audit issues.

Program Plans - FY 1977

-- The Public Health Division will continue to be deeply involved in implementation of the Special Health Revenue Sharing Act of 1975 which makes substantial revisions in sections 314(d) of the Public Health Services Act (dealing with provision of comprehensive public health services), the Family Planning and Population Research Act, the Community Mental Health Centers Act, the migrant health program, the community health centers program, the National Health Service Corps, the nurse training programs, and which promulgated a number of new programs. Implementation of the National Health Planning and Resources Development Act of 1974, which established a totally new and comprehensive system for national health planning and development, will also require considerable legal services.

-- The Human Resources Division anticipates handling 120 cases in FY 1977. In addition to these "ordinary" cases, there have been about a dozen cases in the past two years which require extensive preparation and are long-term ongoing matters: the New York Social Services hearing; the retroactive social services cases; and the quality control cases.

-- The Education Division will have to respond to increased workloads pertaining to program abuses, particularly in the Guaranteed Student Loan Program and in the area of the Family Educational Rights and Privacy Act of 1974. In FY 1977 these two areas are expected to generate approximately 75 administrative proceedings.

Audit Agency

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Audit Agency.....	870	$24,563,000	870	$25,365,000	---	+$802,000

General Statement

The HEW Audit Agency's mission is to provide necessary audit service to the Department to ensure efficiency, effectiveness, and economy in operations carried out both internally and through grantees and contractors. The Audit Agency is responsible for seeing that some 50,000 entities participating in administration and execution of the Department's 250 programs receive adequate audit attention. Additionally, OMB has assigned the Audit Agency responsibility for auditing all Federal funds at approximately 98 percent of the Nation's 2,400 institutions of higher education and the indirect cost allocation plans prepared by some 950 State and local government units.

No new positions are requested for FY 1977.

Accomplishments - FY 1976

The Audit Agency issued some 7,088 audit reports during FY 1975 -- 5,083 of which covered DHEW activities. The remainder were audits performed for other Federal agencies under the OMB system of audit cognizance. During this same period, actions were taken to recover $84.4 million in Audit - recommended financial adjustments. Distribution of these funds follows:

Agency	Recoveries FY 1975 (millions)
Office of Education	$ 8.7
Social & Rehabilitation Service	66.3
Health Agencies	2.1
Social Security Administration	5.2
Office of the Secretary	2.1
	$84.4

Besides identification of improper expenditures, reports included findings and recommendations of significance for more efficient and effective program management.

During FY 1976, the Audit Agency is continuing to focus its resources on those areas most in need of audit attention. Of special significance is the audit effort devoted to the Supplemental Security Income Program. Early audit attention to this complex and high dollar volume program has identified a number of problems on which the Social Security Administration is taking corrective action. All 37 of the new audit positions allowed by Congress in the FY 1976 request will be allocated to audit of the Supplemental Security Income program.

Special attention is also being devoted to selected schools participating in the Department's Student Financial Aid Programs. The major focus of these audits is to check carefully into the operating and financial practices of the schools

to evaluate compliance with Department regulations.

Program Plans - FY 1977

The Audit Agency's workload requires 3,954 (3,832 DHEW and 122 for other Federal agencies) man-years of effort annually. By utilizing the work of outside auditors and through increased staff productivity, annual manpower requirements have been reduced by some 2,299 man-years.

During FY 1977, continuing efforts will be made to enhance the Audit Agency's effectiveness in meeting Department audit needs. Specifically, the audit planning process will continue being refined to assure that resources are more sharply focused on areas most needing audit attention. Actions will also be taken to increase the work performed by independent public accountants and State auditors. This effort will involve -

-- analyzing the Department's programs to identify audit needs which can be met by non-Federal staff,

-- determining which non-Federal audit delivery systems can best provide this service,

-- developing necessary standards and audit guides, and

-- strengthening the Audit Agency's capabilities for reviewing and evaluating work performed by others to insure it meets Department audit needs.

Facilities Engineering and Property Management

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Subactivities:						
Facilities Engineering and Property Management	397	$11,025,000	397	$10,529,000	--	-$496,000
S.L.U.C. (GSA Space Costs)	--	11,379,000	--	13,080,000	--	+1,701,000
Total	397	$22,404,000	397	$23,609,000	--	$+1,205,000

General Statement

The Assistant Secretary for Administration and Management administers the Office of Facilities Engineering and Property Management (OFEPM). OFEPM provides architectural/engineering services to construction projects supported through HEW programs and manages HEW-owned or operated real property. The Office promotes maximum utilization of all Federal surplus property and allocates this property to State agencies for distribution to eligible applicants in the health, education, and welfare area. OFEPM also has responsibility for the Departmental Safety Program. The Office has a current staff of 397 positions, 300 of which are located in the regions. No new positions are requested for this activity.

FY 1976 Accomplishments

-- Long-Term Care - Emphasis was placed on enforcement of the life-safety conditions of participation by nursing homes in the Medicare and Medicaid Program. The Office concentrated on evaluations of the annual State surveys of 8,400 skilled nursing homes, 8,000 intermediate care facilities and 6,600 hospitals receiving Title 18 and 19 support to determine compliance with the life/safety code and to assess elimination of architectural barriers to the handicapped.

-- Technical architectural/engineering support services were provided to 2,200 Federally assisted construction projects with an estimated value of 9.9 billion dollars and 168 direct Federal construction projects valued at 472 million dollars.

-- Personal property with an estimated acquisition cost of approximately $390,000,000 will be allocated to State agencies for distribution to eligible health, educational, and civil defense donees. This is $40,000,000 over the original estimate for FY 1976. The acquisition cost of real property to be transferred for health and educational purposes is estimated at $45,000,000.

-- OFEPM continued its Value Management Program which provides advice to administrators of Federally-assisted programs on advance design and construction technology. This program will result in cost avoidance in FY 1976 of approximately $50,000,000 for an estimated total of $600,000,000 since 1970. In addition to providing advice to Federally-assisted programs, the Office supervised the design and construction of 168 projects directly funded by the Department. A handbook, "Design of Barrier Free Facilities," was published and adopted by the Department as a compliance control document.

Program Plans - FY 1977

-- Long-Term Care - Efforts will continue to enforce the life-safety conditions of participation by nursing homes which receive Federal funds under the Medicare and Medicaid Programs.

-- OFEPM will continue its emphasis on providing technical assistance to Federally assisted health and education construction programs with projects estimated between 9 and 10 billion dollars. The "Representative Cost of Higher Education Academic Facilities" publication will be published in FY 1977 for distribution throughout the academic community.

-- Efforts will be concentrated on managing the transfer to the States of available personal property which is expected to increase in FY 1977. Increased emphasis will be applied to on-site reviews to determine that transferees are properly fulfilling obligations undertaken to use the property in health or educational programs.

-- The Office will provide complete data on space inventory and planning, budget development, scheduled deficiency correction, identification of life, safety, health, environmental, and energy concerns, for the Department's installations.

-- Efforts to develop and evaluate a comprehensive safety and occupational health program for departmental employees; to provide technical assistance to program and staff activities in the application of standards; and to develop an education and training effort to reach management, supervisors, employee and professional safety staffs, will be continued.

Long Term Care

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Long-Term Care.....	259	$5,792,000	259	$6,679,000	---	+$887,000

General Statement

The Office of Long Term Care Standards operates under the line authority of the Regional Director. The function was organized in 1975 to consolidate functions which had been separately administered by Social Security Administration, Social and Rehabilitation Services, and Public Health Service . The objective of the Long-Term Care Office is to insure that recipients of long term care, whose costs are reimbursed by Medicare or Medicaid, receive quality care in a safe environment according to standards established by Federal laws and regulations. This objective is achieved in three ways: review and evaluation of state surveys of skilled nursing and intermediate care facilities; conduct of direct Federal validation surveys; technical assistance and training for State personnel, nursing home operators and employees and public interest groups.

Accomplishments - FY 1976

-- Completed review of State surveys for all skilled nursing facilities. Reviewed 50% of State surveys of intermediate care facilities.

-- Completed direct surveys of 5% of skilled nursing facilities (SNF's) and intermediate care facilities (ICF's).

-- Provided direct training on revised regulations and administered contracts to Health organizations and associations which provided additional training for providers.

Program Plans - FY 1977

No new staff is requested for FY 1977. The program for FY 1977 will seek to integrate and consolidate various initiatives to:

-- Review of 70% of all State surveys of nursing homes including a 100% review of SNF's.

-- Attempt to increase direct validation surveys to 6%.

-- Improve the timeliness of HEW survey and certification procedures.

-- Integrate survey and certification work with utilization review and medical reviews.

-- Address the issue of patients' personal rights, including improved accountability for personal needs funds.

-- Assist at least half the States in developing better survey and certification processes that tie in with deinstitutionalization strategies.

-- Increase the availability of spaces for Medicare patients in SNFs. Previously the Federal standards governing the Medicare program were more exacting than those governing the Medicaid program. This caused many facilities to provide care to only Medicaid patients, thus increasing the states' share of patient care. Recent changes in the regulations have elevated Medicaid standards to the level of Medicare standards, and this should increase the number of spaces available to Medicare patients. The Office will give technical assistance to these facilities to enable them to meet the revised regulations.

Legal Services

	1976 Estimate		1977 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount
Subactivities:						
Social Security Division.....	168	$5,092,000	281	$6,712,000	+50	+$1,620,000
Food and Drug Division.....	63	1,909,000	63	1,936,000	--	+27,000
Total.....	231	$7,001,000	281	$8,648,000	+50	+$1,647,000

General Statement

This portion of the Department's General Counsel's Office handles the legal workloads of the Social Security Administration and the Food and Drug Administration.

This budget represents a request to reprogram 50 positions to the Legal Services activity to handle increased Social Security litigation workloads. These positions would be reprogrammed from within current resources of the Departmental Direction activities of General Departmental Management appropriation.

Accomplishments FY 1976

-- The General Counsel anticipates a total of over 7,600 new court cases related to Social Security Programs. An unusually large number of new regulation and policy statements were handled by the Division as a result of such issues as Federal-state cost sharing audits, the Joint Commission on Accreditation of Hospitals, Utilization Review, the Freedom of Information Act and the Privacy Act.

-- The Food and Drug Division was heavily involved in complex court proceedings concerning the regulation of food sanitation, paper food packaging material, vitamins, methadone control programs, heart pacemakers, and human and veterinary drug products.

Program Plans - FY 1977

A reprogramming of 50 positions is requested for increased litigation in the headquarters Social Security Division and the Regional Attorneys' offices. Based on current and projected workloads in the Bureau of Hearings and Appeals, there will be 9,065 new cases filed in court in FY 1977--an increase of 1,425 over the FY 1976 estimate of 7,640. In addition to this very high volume of new cases, the impact of rising caseload in previous years will be felt--there will be 16,000 to 17,000 cases pending in various stages in FY 1977.

The reprogramming will provide 237 positions for social security litigation. FY 1976 availability is 187 positions (97 in FY 1975; 31 new positions in the FY 1976 budget; 59 other-than-full-time-permanent slots which were provided to handle Supplementary Security Income cases).

The table below shows the number of new cases expected and the average number of staff hours expended on each type of case. The "Concurrent SSI" category is added because experience has shown that approximately 50% of the disability cases received in the SSI area also involve Title II disability issues. These concurrent cases require the interpretation and application of two statutes and the writing of two different legal arguments as to the scope of judicial review. Therefore, although a less complex Title XVI disability case requires 50 staff-hours, the additional issues in a concurrent case increase this time to 65 hours. Of the total hours per case, 86% is for activities at the district (trial) court level. The remaining hours per case represent time spent for post-trial, appellate, and Supreme Court activities.

TYPE OF CASE	NUMBER OF CASES
Disability	
Title II	5165
Title XVI (SSI)	1400
Title XVIII	120
Subtotal	6685
Concurrent SSI	1400
Non-Disability	
Title II (R.S.I.)	330
Title XVII (SSI)	500
Title XVIII	150
Subtotal	980
Total	9065

-- An overall projected workload increase of 20% is expected in the program branches of the Social Security Division. These increases result from the continuous growth and expansion of SSA programs; passage of legislation (even minor amendments) which requires new regulations and implementing policies; SSA putting more of its policies into regulations, rulings, and Commissioner's Decisions; and from court decisions affecting SSA's administrative procedures requiring legal services to guide implementation.

-- The Food and Drug Division expects to devote a great deal of time to the review of the Food and Drug Administration's far-reaching new law enforcement mechanism--"Regulatory Letters" (formal notices charging violations of law, setting date for corrective action with advice that court proceedings will be instituted upon failure to take corrective actions).

-- Litigation against FDA has become much more complex in that it now includes primarily the defense of regulations. Moreover, this litigation has substantially increased in importance since, if a regulation is overturned, it affects the entire industry, whereas loss of a single case affects only that specific product.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

GENERAL DEPARTMENTAL MANAGEMENT

Program Pupose and Accomplishments

Activity: Departmental Direction

Sub-Activity	1976 Estimate Pos.	1976 Estimate Amount	1977 Authorization	1977 Budget Estimate Pos.	1977 Budget Estimate Amount
1. Executive Direction.....	348	$8,917,000	---	338	$9,255,000
2. Public Information.....	30	1,459,000	---	29	1,447,000
3. Financial Management.....	173	5,104,000	---	165	4,977,000
4. Administrative Management..	455	12,090,000	---	434	12,007,000
5. Field Management.....	290	8,949,000	---	290	9,066,000
6. General Counsel.....	214	5,443,000	---	204	5,480,000
7. President's Commission on Olympic Sports.....	---	540,000	---	---	---
Total, Departmental Direction.....	1,510	42,502,000	---	1,460	42,232,000

Purpose: To assist the Secretary in formulating overall policy direction for departmental programs and to provide general management services for the Department's operating agencies.

This activity is distinct from the Departmental Operations activity which is conducted in support of Agency program operations.

Explanation: To provide salaries and expenses for (1) The Executive Direction activity which supports the immediate staff of the Secretary, Under Secretary, and the Assistant Secretaries for Legislation and Planning and Evaluation. Included in the Under Secretary's staff is the Office of Investigations. Included in the Planning and Evaluation activity is staff to administer the Policy Research program; (2) The departmental financial and administrative management functions; (3) The Office of the General Counsel excluding legal services for the Food and Drug and Social Security Administrations; (4) The staffs of the Regional Directors; and (5) The Office of Public Affairs.

Accomplishments in FY 1976:

-- The Office of Investigations will commence full operations with its authorized staff of 74 positions.

-- The Assistant Secretary for Legislation participated in the development of 72 public laws and handled 30,000 letters and 90,000 telephone inquiries from Members of Congress.

-- The Assistant Secretary for Planning and Evaluation completed analyses of a number of programs, among which were the Federal role in financing elementary, secondary, post-secondary and compensatory education and disability and long-term care. The Gary Income Maintenance Experiment was completed.

-- The Office of Public Affairs established procedures for implementation of the Freedom of Information and Privacy Acts.

-- The Comptroller completed a study of the Department's cash flow; made recommendations for improving outlay estimating and reporting; devised methods for measuring productivity of accounting operations, and began work on simplifying DHEW accounting operations and systems.

-- The Assistant Secretary for Administration and Management developed a standardized automated property management and accounting system for all departmental regional offices. The Department's Spanish Speaking program attained full coverage.

-- The Regional Directors implemented capacity building grants to State and local governments; developed a management system to implement the National Environmental Protection Act; and assumed responsibility for implementing the Occupational Health and Safety Act as it affects departmental personnel.

-- The General Counsel was involved in a large number of court cases concerning such major issues as the Department's Quality Control regulations and Federal standards for day care facilities under Title XX. The Office assisted in drafting regulations for many programs including the Work Incentive Program, the Social Services Programs under Title XX, and confidentiality regulations covering alcohol and drug abuse treatment programs.

Objectives for FY 1977: This budget represents a request to reprogram 50 positions from Departmental Direction sub-activities to Departmental Operations to handle legal services workloads related to an estimated 9,065 new Social Security court cases which will occur in FY 1977.

-- The Office of Investigations will analyze the capabilities of its full staff of 74 to handle the Department's investigations workload which will stem primarily from the Medicaid, Social Security and Guaranteed Student Loan programs.

-- The Assistant Secretary for Planning and Evaluation will complete special poverty studies required by the Education Amendments of 1974 and will provide technical support for long-term developmental work on a new major survey of income and related social characteristics.

-- The Comptroller will make refined productivity measures available to DHEW accounting operations; continue simplification of the Department's accounting operations; make recommendations for revising cost principles which apply to State and local governments; and establish a system to report indirect costs awarded to DHEW grantees and contractors.

-- The Assistant Secretary for Administration and Management will establish a Career Development Institute to provide training to career executives to obtain the most effective public leadership. Emphasis on increasing Spanish Speaking employment will continue.

-- The Regional Directors will expand human services integration assistance to the States; inaugurate evaluation of existing Partnership Grants; and continue their efforts in the areas of equal employment opportunity, freedom of information, environmental protection, and privacy.

-- The General Counsel will implement the Special Health Revenue Sharing Act of 1975 and the National Health Planning and Resources Development Act of 1974; respond to an estimated 75 administrative proceedings resulting from efforts by educational programs to stop program abuses especially in the Guranteed Student Loan Program; and provide increased legal services related to Medicaid malpractice cases, the Privacy Act, and the strict timetable imposed by the 1974 amendments to the Freedom of Information Act.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

GENERAL DEPARTMENTAL MANAGEMENT

Program Purpose and Accomplishments

Activity: Departmental Operations

Sub-Activity	1976 Estimate Pos.	1976 Estimate Amount	1977 Authorization	1977 Budget Estimate Pos.	1977 Budget Estimate Amount
1. Audit Agency.....	870	$24,563,000	---	870	$25,365,000
2. Facilities Engineering...	397	22,404,000	---	397	23,609,000
3. Long-Term Care.....	259	5,792,000	---	259	6,679,000
4. Legal Services.....	231	7,001,000	---	281	8,648,000
Total, Departmental Operations.....	1,757	$59,760,000	---	1,807	$64,301,000

Purpose: To provide services in support of and essential to operation of the Department's programs.

Explanation: To provide salaries and expenses of (1) The HEW Audit Agency; (2) The facilities engineering and surplus property functions and GSA space and reimburseable service charges; (3) The regional Long-Term Care Standards Enforcement Offices; and (4) The provision of legal services to the Social Security and Food and Drug Administrations.

Accomplishments in FY 1976:

-- The Audit Agency issued 7,088 reports in FY 1975 and recommended recoveries amounting to $84.4 million, with the major amounts related to SRS and the Office of Education. Major audit resources are being focused on the Supplemental Security Income Program and on student financial aid programs. A flexible system was devised for using computer - assisted audit techniques designed to increase staff productivity.

-- The Office of Facilities Engineering concentrated on evaluation of State surveys of 16,400 nursing homes and 6,600 hospitals receiving Medicare and Medicaid support to determine compliance with the life/safety code; The Office provided technical architectural/engineering support services to 2,200 federally assisted construction projects and 168 direct Federal construction projects.

-- The Office of Surplus Property located personal property with an acquisition cost of approximately $390,000,000. Real property having an acquisition cost of $45,000,000 will be transferred for health and educational purposes.

-- The Regional Long-Term Care offices completed 100% review of State surveys on all skilled nursing facilities; reviewed 50% of State surveys of intermediate care facilities; completed direct surveys of 5% of skilled nursing and intermediate care facilities; and provided training in revised regulations.

-- The Social Security Division of the General Counsel and the Regional Attorneys' offices received a total of 7,640 court cases involving Social Security; The Food and Drug Division was deeply involved in complex court proceedings concerning the regulation of such items as human and veterinary drug products, heart pace-

makers and paper food packaging material. The Food and Drug Administration's new law enforcement mechanism ("Regulatory Letters") to secure compliance and consumer protection in the shortest possible time and with the least expenditure of funds, required considerable legal review by the Division.

Objectives for FY 1977: This budget represents a request to reprogram 50 positions from current resources within the Deparmental Direction activities to the Legal Services. There would be no net increase in FY 1977 General Departmental Management positions as a result of this reprogramming.

-- The reprogramming to Legal Services would enable the Social Security Division of the General Counsel and the Regional Attorney's offices to handle 9,065 Social Security court cases expected to be filed in FY 1977, a 19% increase over the FY 1976 estimate of 7,640. The food and Drug Division will be heavily involved in two areas: (1) "Regulatory Letters" which require legal review just as any other enforcement action and (2) More complex litigation which primarily involves defense of regulations.

-- The Audit Agency will place emphasis on focusing manpower resources on areas most needing audit attention. Efforts will be made to increase the scope of audit work performed by independent public accountants and State auditors.

-- The Office of Facilities Engineering will continue enforcement of life/safety standards in nursing homes; screen available surplus property and provide assistance to prospective transferees; provide complete data on inventory, budget development, deficiency correction, and life, safety, health, environmental, and energy concerns, for the Department's installations.

-- The Regional Directors will complete 70% review of state surveys of all nursing homes; attempt to increase direct validation surveys to 6% of total institutions; improve timeliness of survey and certifications procedures; integrate survey and certifications work with utilization and Medicaid reviews; and address the issue of patients' rights, including improved accountability for personal needs funds.

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Transition Quarter Analysis

	1976 Estimate	Transition Quarter
Appropriation	$88,542,000	$22,366,000
Receipts and reimbursements from:		
Federal funds	12,751,000	3,284,000
Total obligations	$102,262,000	$25,650,000

Explanation

The interim budget request of $25,650,000 contains two increases to permit the General Departmental Management appropriation to continue during the interim period at the FY 1976 operational level. These increases are:

1. Annualization for 217 new positions included in the FY 1976 budget, $614,000. These funds are one quarter of the amount required to fully annualize these new positions.

2. Anticipated administrative cost increases, $233,000. These increases involve reimbursement to the Department's Working Capital Fund for General Departmental Management's share of annualizing new WCF positions. They also reflect anticipated increases in other administrative costs.

MONDAY, MARCH 22, 1976.

POLICY RESEARCH

WITNESSES

WILLIAM A. MORRILL, ASSISTANT SECRETARY FOR PLANNING AND EVALUATION
CHARLES MILLER, DEPUTY ASSISTANT SECRETARY, COMPTROLLER
CHARLES F. KEARNEY, DIRECTOR, DIVISION OF OS BUDGET SERVICES
BETTE S. MAHONEY, DIRECTOR, OFFICE OF RESEARCH EVALUATION AND DATA SYSTEMS
DR. LARRY L. ORR, DIRECTOR, OFFICE OF INCOME SECURITY POLICY RESEARCH

Mr. FLOOD. We now take up "Policy Research." That is quite a title.

This presentation will be made by William A. Morrill, Assistant Secretary for Planning and Evaluation. We have your biographical sketch which we will place in the record at this point.

[The biographical sketch follows:]

Name: William A. Morrill.

Position: Assistant Secretary for Planning and Evaluation, Department of Health, Education, and Welfare.

Birth date and place: April 23, 1930, Bronxville, N.Y.

Education: B.A. (government), Wesleyan University, 1952; M.P.A. (public administration), Syracuse University, 1953.

Experience: Assistant Secretary for Planning and Evaluation, Department of Health, Education, and Welfare, April 1973–present.

Assistant Director, Office of Management and Budget—special responsibilities for natural resources and economic, science and technology programs—May 1972–April 1973.

Deputy county executive, Fairfax County, Va., 1971–1972.

Deputy Director for Programing, National Security Programs Division, Bureau of the Budget, 1969–1971.

Assistant Division Director, Air Force—strategic forces/research and development—National Security Programs Division, Bureau of the Budget, 1967–1969.

Assistant Division Chief, Air Force—strategic forces/research and development—Military Division, Bureau of the Budget, 1965–1967.

Military Division—AEC unit, Bureau of the Budget, 1962–1965.

Management analyst, acting chief, plans and policy, directorate of manpower and organization, U.S. Air Force, 1953–1962.

Awards: William A. Jump Memorial Foundation Meritorious Award, 1966.

Mr. FLOOD. I see you have some people with you.

Mr. MORRILL. Yes, Mr. Chairman, I have with me to my left, Dr. Bette Mahoney who directs the Office of Research Evaluation and Data Systems within my office, and to my right, Dr. Larry Orr, the director of research in the income security area which handles many of the large experiments which take up the bulk of the appropriation involved here, the income maintenance experiments and the national health insurance experiment.

Mr. FLOOD. I see you have a prepared statement.

Mr. MORRILL. Yes, sir.

Mr. Chairman and members of the committee: My associates and I are here to present the Department's fiscal year 1977 request for policy research, statistical analysis, and demonstrations dealing with income munity Services Act of 1974 and section 1110 of the Social Security

Act. This request of $24,950,000 will allow us to continue prior year research, statistical analysis and demonstrations dealing with income maintenance, employment, health costs and insurance, collection of statistical data, development of a design for a new income survey, and research into a variety of economic, welfare, and delivery of social services issues.

In recent months we have supplied the Congress with material addressing concerns raised by this committee during our fiscal year 1976 appropriation hearings. As you remember the concerns related to the purpose and value of the research conducted in this activity and the possibility of duplication between research projects within policy research and those conducted by other agencies and Federal departments. In an appendix to our regular fiscal year 1977 budget justification and in the annual report to Congress on policy research activities, we dealt at length with those concerns. We think those two statements contain an impressive listing of research results and a variety of specific steps taken to avoid duplication with other research. In spite of the tangible successes we have described, I would caution the committee against underestimating the value of that research which does not have an immediate impact on program policy or program operations. Indeed, some of the most valuable data we have concerning the nature of poverty is from the panel study of income dynamics, which has been described in testimony last year. That study continues to provide us with data which identifies characteristics of families coming into or out of poverty. Even though we cannot point to specific policy changes resulting from that study, it is nevertheless invaluable as a source of data which identifies characteristics of poverty that are beyond the control or boundaries of public policy. This data, incidentally, is used extensively by both government and private researchers in public discussions on poverty related issues.

By the same token, one of our most direct uses of policy research results has come about unexpectedly from byproducts of research and demonstration efforts. An ADFC test program being conducted by SRS was developed as a result of findings generated by the operation of the income maintenance experiments. The AFDC program in Colorado is testing a system of more frequent income reporting for determining eligibility and amount of benefits. SRS staff and my staff are hopeful that substantial savings of hundreds of millions of dollars annually can be realized under this system, if implemented on a national scale. Such a new system would have the additional advantage of targeting benefits on the neediest recipients, increasing benefit responsiveness to changes in need, and providing the fiscal capacity to raise benefits for the neediest recipients. I think this is a good example of both the value of our research activities and the kind of cooperation between my office and the operating agencies that is the best safeguard against duplication of effort. We are confident that in the next few years the income maintenance and the health insurance experiments and such surveys as the update of the 1967 survey of institutionalized adults will provide us with many more results which can be used by various agencies and offices in the Department, particularly SRS, SSA, and the Public Health Service.

I would like to briefly touch on some of the progress we have made over the past year and some directions in which we are headed. These points are dealt with at greater length in our justification and supplemental statement. Approximately 60 percent of the funds in this request will go to continue the income maintenance and health insurance experiments.

Just recently the State of Colorado initiated a test of that monthly retrospective accounting period. The Department is interested in its application nationwide. We estimate that if we are able to administratively put that into place, the potential for dollar savings and for a more error-free system is a large one indeed.

We will be following that application and if it works well, we will be exploring with the States a more widespread use of that particular approach. There was a direct case in point of how we move from research into application and prospectively into a nationwide approach to that.

We now have a substantial and growing body of results from these experiments and while final reports have been completed for only two of the four income maintenance experiments, we are already receiving data useful for policy analysis. Mr. Chairman, I have with me a synopsis of findings already obtained from the experiments and the partnership projects with State and local government. With your permission I would like to insert it in the record at this point. We are just beginning to identify aspects of the results requring further analysis but are confident that a great deal of the information generated by the experiments will help us in the area of program policy and operations.

Some recent additions to the accomplishments listed in our annual report to Congress include the following items:

A mandated report on the measurement of poverty is being transmitted to Congress. The official measure of poverty has a number of limitations, many of which are shared by the various possible alternatives. The report explores the advantages and disadvantages of each alternative in detail and includes an examination of data available for improving poverty measurements.

The partnership projects in State and local governments are nearing the completion of their second year. We are beginning to see improvements in delivery of human services resulting from these grants. These improvements are amplified in the brief appendix.

In past justifications we have argued that there is an important advantage to location of the policy research activity within the Office of the Secretary. A good example of how the presence of a good research staff with crosscutting expertise can be highly valuable is our ability to design a questionnaire used for the survey of income and education required by section 822 of the Education Amendments of 1974. Because of the staff's familiarity with the wide variety of problems involved and with the many programs of the Department, it was possible to quickly design a supplement to the larger mandated survey. With a very marginal expenditure of funds, valuable data about food stamps, assets, disability, health plans, housing and rental costs, and AFDC and SSI recipiency, will be obtained on a State-by-State basis.

Along with the Annual Report to Congress we have circulated

copies of the fiscal year 1975 Policy Research Digest to other components within the Department, other agencies and to several places within Congress including this committee.

APPROPRIATION REQUEST

This request of $24,950,000 is lower than any we have made to the Congress since this program came to the Department in fiscal year 1974. It reflects some difficult decisions and choices amongst ongoing efforts from previous years, but we feel that with careful management we can achieve the objectives in the experiments, studies, and surveys described in our justification for fiscal year 1977.

SUMMARY

In summary, Mr. Chairman, we believe that this request will allow us to continue our pursuit of both long range and current year objectives in this policy oriented research activity.

POLICY RESEARCH APPROPRIATION

Mr. FLOOD. In last year's budget you asked for a separate appropriation for policy research.

Mr. MORRILL. Yes, sir.

Mr. FLOOD. And Congress kind of went along with that. Would there be any problem if we include that in the appropriation for departmental management?

Mr. MORRILL. Mr. Miller may want to have a word on that subject. We debated the request that we made last year because it seemed to us that it was different from the activities that were basically conducted in departmental management, and it gave it some specific visibility for your committee to consider, and I guess it was a judgment call as to which way is the best way to go.

I think the advantage of a separate appropriation is to give it some specific focus to be considered here, and we thought that was warranted and appropriate.

Mr. MILLER. It just isn't an overhead activity, and your questioning on the general department management account about growth related to a discussion of overhead, this is a separate operating program of its own, which I personally don't believe belongs in the overhead account.

PEOPLE ASSIGNED TO POLICY RESEARCH

Mr. FLLOD. How many people are assigned to policy research?

Mr. MORRILL. There are not explicit people identified with this account, itself. The funds used here are for grants and contracts.

Mr. FLOOD. Don't you have a specific number of people assigned to policy research?

Mr. MORRILL. Some people work in a dual capacity, Mr. Chairman; that is, they are policy analysts on my staff, and they may be a project monitor, in adition, on a particular piece of research work.

I can try and give you an estimate of the man-years. There may be only about a half dozen or so who are full time on monitoring the work under this and nothing else.

[The information follows:]

The current man-year estimate for total time spent on in-house research as well as the development and monitoring of externally funded policy research projects is 24.5 man-years. Only four people in the Office of the Assistant Secretary for Planning and Evaluation spend full time on the policy research activity.

Mr. FLOOD. Do those people actually perform research, or do they just supervise and monitor the research program?

Mr. MORRILL. We have a very modest in-house research capacity on our own staff. There are a handful of people who are doing their own personal research. Primarily those involved here are doing project monitorship of the work of others, grantee or contract.

OTHER HEW RESEARCH FUNDS

Mr. FLOOD. What other HEW funds are used for policy research?

Mr. MORRILL. What you see before you is the entirety of that work done in the Office of the Secretary. Within the agencies, as the chairman is aware, in Health, Education, Social Security, SRS, staffs who are involved also in——

Mr. FLOOD. What is the dollar amount of those other HEW funds?

Mr. MORRILL. I am frank to say I don't have that number at my fingertips.

Mr. MILLER. We could try to provide it, Mr. Chairman. I think we would have to agree with your staff on the definition.

Mr. FLOOD. Work that out.

Mr. MORRILL. We will be glad to.

[The information follows:]

POLICY ORIENTED SOCIAL RESEARCH IN HEW

Agency research budgets which contain significant amounts of policy oriented social research are listed below:

[In millions of dollars; fiscal years]

	1975 actual	1976 planned	1977 estimate
Health:			
Alcohol Drug Abuse and Mental Health Administration	140	125	128
Health Resources Administration	42	34	32
Assistant Secretary for Health	6	13	14
Health Services Administration	17	14	2
Health subtotal	205	186	176
Education: Office of the Assistant Secretary for Education, subtotal	12	12	12
Welfare:			
Office of Human Development	59	62	56
Social Security Administration	23	26	27
Social and Rehabilitation Service	9	9	9
Welfare subtotal	91	97	92
Total	308	295	280

CONTROL OF RESEARCH FUNDS

Mr. FLOOD. Do you have any control over how those funds are used?

Mr. MORRILL. This gets to the question, I think, of duplication. There is an effort made by my office to provide, first of all, an overall picture of what research problems are important.

Through interaction we are keeping informed of the plans of those agencies as well as our own to make sure that we do not have duplication of effort, and if I find a case, say, of potential duplication, then between the agency head and myself, we sit down and say how do we avoid having that duplication occur.

Mr. FLOOD. That is your control of funds? What I want to know is, do you have any control over how the other funds are used?

Mr. MORRILL. Not directly on the research funds; no, sir. On evaluation I do have a responsibility with respect to that.

USE OF GRANTS AND CONTRACTS

Mr. FLOOD. Two-thirds of your budget is for contracts, and about one-third for the grants. How do you decide whether to use the money for a contract or for a grant when you award these projects?

Mr. MORRILL. The general guidance that is provided within the Department provides a set of rules as to what is appropriate for grant and for contract. The grants in this program are typically with State and local governments for the purpose of improving their human service delivery systems. That takes up by far the largest number of the grant total, in doing business with those entities, it seems appropriate to use the grants.

In other cases it will be more of an individualized determination.

POLICY RESEARCH AS EVALUATION

Mr. FLOOD. On the matter of policy research, to what extent is policy research considered as evaluations. Can you describe the relationship between those two now?

Mr. MORRILL. First of all, on the evaluation side, the authorities are typically in the authorizing bills, which allow 1 percent set-aside to the Secretary for evaluation activities of HEW programs. Internally within the Department there has been a general ground rule that up to as much as 25 percent might be used by the Office of the Secretary on those evaluations with the agencies using the remainder. We typically have not used the full amount of the 1 percent authorizations.

A process goes on within the Department on the part of the agencies and within my own organization to plan what evaluations will be conducted. With respect to the question of the dividing line between evaluation and research, it is not an easy clear-cut one in my mind.

The thrust of it is, though, the evaluation looks to what the programs have done. Are we meeting the objectives? Are there unmet needs? Whereas the research is looking more ahead, answering the "what if" questions, if we were to change in a particular way, or what information do we need about, say, the poverty population to allow us to plan in the future.

MAJOR RESEARCH SUBJECT AREAS

Mr. FLOOD. In the report you sent us on the 1975 policy research program, you have a chart there on the last page that shows the major research subject areas. For the record, suppose you insert that chart, and then add the comparable figures for 1976 and the 1977 estimate.

Mr. MORRILL. Yes, sir.

[The information follows:]

OBLIGATIONS BY AREA IN POLICY RESEARCH

[In thousands of dollars; fiscal years]

	1975 actual	1976 planned	1977 estimate
Area of research:			
A. Income maintenance and employment	$12,094	10,700	11,040
Income maintenance experiments	(11,700)	(9,820)	(10,700)
Other	(394)	(880)	(340)
B. Health	5,172	4,650	5,200
Health insurance experiment	(4,735)	(4,350)	(5,000)
Nonexperimental health research	(178)	(100)	(100)
Other health research	(259)	(200)	(100)
C. Other human services	4,895	4,813	3,395
Education research	(658)	(500)	(300)
Survey of institutionalized adults	(75)	(768)	(50)
Capacity building	(2,630)	(2,500)	(2,400)
Long-term care and other services	(1,532)	(1,045)	(545)
Policy options for women and minorities	(0)	(0)	(100)
D. Basic research and statistical studies:	4,068	4,787	5,315
New income survey	(0)	(300)	(1,850)
ESEA section 822(a) survey suppl	(0)	(400)	(50)
Institute for Research on Poverty	(1,615)	(1,700)	(1,700)
Scientific computation	(948)	(850)	(850)
Other	(1,505)	(1,537)	(865)
Total	26,229	24,950	24,950

BLOCK GRANT PROPOSALS

Mr. FLOOD. Was that policy research program involved in any way with the administration's block grant proposals?

Mr. MORRILL. Not in a direct way. There was some information in the education area that was being developed through the research side that had some bearing or background information that might be useful. We did, through that program, a study of the use of handicapped educational funds in the local education agencies. We had been looking at some issues in connection with title I of the elementary and secondary education program, but it was an indirect bearing.

NUMBER OF SEPARATE PROJECTS

Mr. FLOOD. Tell me this: How many separate projects are now being supported?

Mr. MORRILL. I am not sure I have a total count. I may best supply that for the record on the estimate total numbers for 1975 and 1976.

Mr. FLOOD. And an estimate for 1977.

Mr. MORRILL. All right.

[The information follows:]

NUMBER OF POLICY RESEARCH PROJECTS

Types of project actions	Fiscal years— 1975	1976	1977 estimate
Grants	56	53	52
Contracts	25	27	28
Inter-agency transfers	17	14	14
Total	98	94	94

LENGTH OF PROJECT FUNDING

Mr. FLOOD. Are all these research projects funded on a year-to-year basis?

Mr. MORRILL. Some are short term in nature. That is a small individual effort that is done in 1 month, 3, 4 months. Some of them are large ongoing activities, such as the income maintenance experiments.

Mr. FLOOD. Not all are funded year to year?

Mr. MORRILL. They are not all multiyear.

Mr. FLOOD. Suppose you tell us how you determine whether a project should be continued or terminated? Do you have a process, formula or yardstick?

Mr. MORRILL. Yes, sir. Of course some of it is done on an annual basis, that is, if we have an ongoing project that we may want to raise a question about. Others, once you get into them, you are making a commitment for a multiyear period.

For example, on the income maintenance experiments with which the committee is familiar, those typically are 5- to 7-year activities which, once one gets into, only take a periodic review, say, every 2 or 3 years to see if we are still gaining the results, if we should finish what we started. But they will not necessarily be reviewed from the ground up every year.

In a few of our projects—assisting States, we went in with the notion that we would go for, say, a 2- or 3-year period if they continued to perform. Others are reviewed annually or may themselves be over within a year and not subject to reexamination.

I am trying internally, with respect to my processes, to insure the highest level of quality and because of lower availability of funds, that has been a necessary activity. We are conducting very substantial review systems not only by the office originating the project but indeed with others throughout the organization who are not directly involved to make sure we have a subject that is of importance, that the methodology and the techniques for doing the research are there before we undertake it.

IMPACT ON PROGRAM POLICY

Mr. FLOOD. In your statement you mention, with reference to the policy research that it, "does not have an immediate impact on program policy or operations." You know, some of these projects have been going on for nearly 10 years. How long do you have to wait before you have an impact?

Mr. MORRILL. In the large-scale experiments, one necessarily waits until the end, if it is a 5-year operation, and hope that if you have decided correctly, that the issues are still the ones that are very much in debate at the end of the period.

I think so far the evidence is that that is in fact the case, that the questions, for example, in the income maintenance experiments under certain welfare schemes, will people be moved to work, or stop working, is still a relevant question, and one about which we need information.

It should be noted, though, that we don't in these cases wait until the very end to find out everything.

In the health insurance experiments, for example, we already have some very useful data, although we are just barely at the beginning of that experiment in terms of operations. Yet already we have some knowledge about what, for example, waiting times to see physicians look like across the country. Perhaps somewhat, at least to my surprise, the area where the longest waiting times exist turned out to be within the small-sized cities rather than in the rural areas as one might have off-hand expected.

BEST EFFORTS

Mr. FLOOD. You talk here about a lot of projects of different kinds. Of all those projects, which one would you consider what we call exhibit A? Which one produces the most tangible benefits?

Mr. MORRILL. I suppose that is a little like asking us to choose among our children. It is difficult to say which ones are the most valuable.

Mr. FLOOD. Not ones, just one, exhibit A.

Mr. MORRILL. I think today I would have to say that the income maintenance experiments will probably produce the largest body of valuable information, closely followed by some of the data base information we have on the poverty population that has been evolved over a period of time. That data allows us not only internally, but with respect to Congress and other organizations to respond to questions, what if we made these changes, what would be the effect on cost and caseloads. Or for example, if we adjusted a welfare system in the following way what would happen? Rather than standing around with a blank look on our face, we can provide some approximate answers to that kind of question.

Mr. FLOOD. Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

CHARACTERISTICS OF POVERTY

You say one of your studies identifies characteristics of poverty that are beyond the control or boundaries of public policy. What might some of these characteristics be?

Mr. MORRILL. This came out of a longitudinal or long-term study which was financed by these funds, and we found that very often family composition—do people get married, divorced, the cause of family breakup—make more difference to their poverty status than other factors. Do they become disabled? A sharp drop in income often is a result of a disability case, and the Government at the Federal level hasn't moved in saying you have to get married or the disability thing, if it is a physical thing, is quite beyond our control, if that happens to an individual. And those seem to be more important determinants than some other factors.

AFDC INCOME REPORTING PERIODS

Mr. SHRIVER. You indicate that money might be saved by more frequent income reporting on AFDC. How often are such reports required now?

Mr. MORRILL. Under the AFDC program there is a requirement for, I think, not less often than every 6 months and typically quarterly

it is reexamined. One of the things that is true about the low-income population is that their incomes are going up and down during the course of a year and to the extent that you can get a picture of their income every month, their grants can be adjusted accordingly to their circumstances.

Mr. SHRIVER. Would this require much additional administrative expense?

Mr. MORRILL. It will involve some, and particularly for those States that have large caseloads it would involve computerization of records in order to be able to handle it.

STUDY ON MEASUREMENT OF POVERTY

Mr. SHRIVER. You mention the report which measures poverty.

Mr. MORRILL. Yes, sir.

Mr. SHRIVER. That has been completed?

Mr. MORRILL. Yes; it is in its very final stages, and we hope to have it to the Congress quite soon. It is a technical report dealing with the various measures that people have either used or talked about and the advantages and disadvantages of each.

Under Public Law 93–380 the Congress mandated a study into the measures of poverty. I think they were patricularly interested in whether we could go to regional variations, for example.

USE OF INFORMATION

Mr. SHRIVER. You say at a very low cost you can obtain valuable data about food stamps, assets, disability, health plans, housing, and rental costs, AFDC, SSI recipiency, on a State-by-State basis. How would you use that information, and how would others use it?

Mr. MORRILL. Generally, the question comes up either in the executive branch or in discussions with the Congress. If we made a change, for example, in the assets tests from what it is to something else, how much would we save or how much more would the alternative cost, who would be affected, who would be the winners and the losers? We are now more able to answer that question and say we think the number is X and the dollar cost or savings is Y, and for quite a long time we couldn't do that. We were guessing.

EXPIRATION OF AUTHORIZATION

Mr. SHRIVER. When does the authorization for policy research expire?

Mr. MORRILL. It is part of the Community Services Act of 1974, which, I believe, has a 3-year life.

HEALTH INSURANCE STUDY

Mr. SHRIVER. How long will it take to complete the health insurance study you mentioned?

Mr. MORRILL. That will still be several years ahead of us. Let me ask Larry ORR. I think the final year of operation will be 1980.

Mr. ORR. About 1980. We will be doing some interim analyses in the meantime. That is a study in which we actually enroll people in health

insurance plans which differs systematically, and the bulk of the sample will be enrolled for 3 years, and a small portion will be enrolled for 5 years to look at longer term effects.

STUDY ON FEDERAL DAY-CARE STANDARDS

Mr. SHRIVER. I am interested in the data concerning the cost implication of implementing new Federal day-care standards. It is a matter that is right now before the Congress.

Mr. MORRILL. Yes, sir.

Mr. SHRIVER. Can you tell us what your study revealed in this area?

Mr. MORRILL. Perhaps I might stop to say that this was a case where it turns out what we did was highly relevant at the time because we are having this debate now within the Congress about what should be the approach to the standards. It did indicate that within the Denver area, where this effort was undertaken, that there could be, as I recall, a 5–10-percent increase in cost if one were to fully enforce the Federal standards, higher if you looked at yet tougher standards.

In addition to that, it did provide some information that indicated there was a fairly strong preference as the situation now stands among those seeking day care. They are looking more for noninstitutionalized settings for day care, the youngster in the neighbor's home or neighborhood babysitter or what-have-you, which, of course, is an approach which is much lower cost and predominates in the country compared to these institutionalized settings. The institutionalized setting is what the argument is all about, the staffing ratios particularly.

But the study did indicate there would be increased costs where the Federal standards are fully enforced in that location.

Mr. SHRIVER. Did your study go into what the staffing requirements should be?

Mr. MORRILL. Not in that particular study, Mr. Shriver. In connection with another mandate from the Congress in the title XX legislation, itself, we are with the Department conducting what is known as the appropriateness study of the Federal day-care standards, including the staffing ratios. That is in process and, as we testified before the authorizing committees concerned with that legislation; that will be coming out in the fairly near future, in about the next 6–9 months.

To say an additional word about that, there is probably no single staffing ratio in my view that we are ever going to get to that is precisely the right number. It is just not a question of quantity; it is also the quality of the individual care giver, and indeed without trying to prejudge the results, it is more than likely that there is probably a range of right numbers depending on both quality and quantity considerations.

Mr. SHRIVER. Thank you.

Thank you, Mr. Chairman.

Mr. FLOOD. Mr. Roybal.

POLICY RESEARCH REQUEST

Mr. ROYBAL. You stated that your request of $24,750,000 is lower than any that you have made to Congress since this program came to the Department in fiscal year 1974?

Mr. MORRILL. Yes, sir.

Mr. ROYBAL. Can you really achieve the objectives in the experiments, the studies, and the surveys that you have described in the justification with the money that you have reqeusted?

Mr. MORRILL. I would be frank to say, sir, it is a tough fit, but we are going to manage. We have been in the past at an operating level of about $27 million, and this level now of $24.9 million is forcing some reconsideration.

I think, on the one hand, that can be considered perhaps as a healthy undertaking, albeit a painful one that I had to make sure I was doing the most important things with the resources I had, but it is a tight budget; we can live with it.

Mr. ROYBAL. What you have told me, then, is you hope you can do it. You are going to make every effort?

Mr. MORRILL. Yes, sir.

Mr. ROYBAL. But you haven't answered my question to say, "Yes, I will do it."

Mr. MORRELL. I will go all the way to say yes, I will do it.

Mr. ROYBAL. Next year, we will reexamine that and see what you can accomplish and compare it with your account for this year.

Thank you very much.

Mr. FLOOD. Mr. Michel?

RELATIONSHIP WITH OTHER AGENCIES

Mr. MICHEL. Do you have a line or a staff relationship with the SRS Administrator?

Mr. MORRILL. As Assistant Secretary for Planning and Evaluation I am responsible for advising the Secretary on economic, social and analysis matters, while at the same time managing and overseeing departmental program planning and evaluation activities. My relationship to all line agency heads, including the SRS Administrator, is a staff one related to these areas. They neither report directly to me nor are they responsible to me.

ORIGIN OF WELFARE REFORM IDEAS

Mr. MICHEL. What welfare reform ideas have you pursued that orginated in SRS as opposed to your own office? Please be specific.

Mr. MORRILL. As proud as we are of the inventiveness and high quality of HEW staff, we must admit that most welfare reform ideas have not originated in either my office or SRS. They have originated from a variety of sources including Congressmen, academics, policy analysts, and private citizens.

We have tried to maintan a cooperative atmosphere in which this large number of ideas can be considered. The proposal for prior month budgeting, for example, developed from my office's recasting of an SRS proposal which had originally emphasized reporting frequencies. The ideas behind this proposal came in part from the experience of

local welfare administrators and in part from the lessons of the income maintenance experiments. Other specific proposals have had similarly diverse origins.

With respect to general legislative changes in the welfare area, most of these have developed over the years from the experiences of various local and State welfare offices. The current legislation to consolidate work expenses in the AFDC program, for example, had been adopted in various forms by individual States prior to SRS's recommendations that the Department introduce it as legislation.

RELATIONSHIP OF BUDGET TO AGENCIES

Mr. MICHEL. How much of your budget is concerned with the program areas within SRS, the Office of Education, NIH, the Public Health Service, NIE, the Health Resources Administration, the Office of Civil Rights, and the Office of Human Development? What is the involvement of these offices in these studies?

Mr. MORRILL. I am inserting for the record, a table which breaks down the policy research budget for a 3-year period by major category of funding and identifies those components of the Department relating to the projects in those categories. As you can see in the table, the vast majority of the funds deal with issues which cut across agency lines and that is one of the reasons why those projects are done out of the Office of the Secretary. I might also add that some of these activities relate to programs and research conducted in other departments, notably, the Department of Labor, Agriculture, and Housing and Urban Development.

The involvement of outside agencies in these studies takes several forms. First through interagency task forces or individual analyst contacts, they have an opportunity to comment, and contribute to the development of all of these projects over $50,000 in size. Their reviews are taken into account when I consider requests for contract proposals.

Some projects, such as supported work and the congressionally mandated measurement of poverty study are monitored by working groups including members of the related agencies. We try to keep them aware of our progress on these projects through an extensive dissemination effort. Final results are published in summary form, in the Federal Register, our annual report on policy research, and in periodic working papers and summary reports. Most of these and other items are distributed widely throughout the executive branch and Congress. The example from my opening statement regarding income accounting periods is a case in point where SRS and this office are working together to use results from thes projects to make specific program changes.

[The information follows:]

OBLIGATIONS BY AREA IN POLICY RESEARCH

[In thousands of dollars]

Area o fresearch	1975 actual	1976 planned	1977 estimate
A. Income maintenance and employment—Related agencies (PHS, SRS, SSA)	12,094	10,700	11,040
Income maintenance experiments	(11,700)	(9,820)	(10,700)
Other	(394)	(880)	(340)
B. Health—Related agencies (PHS, SRS, SSA)	5,712	4,650	5,200
Health insurance experiment	(4,735)	(4,350)	(5,000)
Nonexperimental health research	(178)	(100)	(100)
Other health research	(259)	(200)	(100)
C. Other human services—Related agencies (OE, SRS, SSA, PHS)	4,355	4,813	3,395
Education research	(658)	(500)	(300)
Survey of institutionalized adults	(75)	(768)	(50)
Capacity building	(2,630)	(2,500)	(2,400)
Long-term care and other services	(992)	(1,045)	(545)
Policy options for women and minorities	(0)	(0)	(100)
D. Basic research and statistical studies—Related agencies (OE, NIE, PHS, SSA, SRS, HD)	4,068	4,787	5,315
New income survey	(0)	(300)	(1,850)
ESEA sec. 882(a) survey supplement	(0)	(400)	(50)
Institute for Research on Poverty	(1,615)	(1,700)	(1,700)
Scientific computation	(948)	(850)	(850)
Other	(1,505)	(1,537)	(865)
Total	26,229	24,950	24,950

GRANTS AND CONTRACTS LISTS

Mr. MICHEL. In response to my question, the Under Secretary has provided us a list of the grants and contracts awarded by your office for the past 5 years. Would you please provide for the record a list of grants and contracts that were sole source awards, as against those competitively bidded?

Mr. MORRILL. I will be happy to provide that for the record.

[Clerks note: The information has been supplied and is available in the committee's files.]

GUARANTEED INCOME APPROACH

Mr. MICHEL. Some of those who believe in the guaranteed income approach think that the negative income tax would promote the work ethic. Doesn't the New Jersey negative income tax study in fact show that there would be a reduction in work effort on the part of male heads of households as the result of implementation of the negative income tax?

Mr. MORRILL. Both economic theory and common sense predict that everything else remaining the same, providing cash transfers will tend to reduce work effort. The question which the New Jersey experiment was designed to address was, by how much? We wanted to know whether one should expect large-scale withdrawals from the labor force if cash transfers were extended to this group or whether only minor reductions would occur. Moreover, we wanted to know how sensitive the labor supply response would be to the generosity of the plan, in terms of basic benefits and benefit reduction rates. We found in the New Jersey experiment that, for male heads, the reduction was very small indeed, less than 6 percent for all of the measures of labor supply analyzed. In fact, using conventional tests of statistical significance, none of the observed reductions in labor supply were significantly different from zero.

DATA FROM THE NEW JERSEY EXPERIMENT

Mr. MICHEL. Please provide in summary the data that indicates this reduction in the work effort.

Mr. MORRILL. Detailed estimates of the labor supply effects of the experiments are available in the summary report released by my office. I will be glad to provide copies of this report to members of the committee.

To summarize briefly, the results for male heads were analyzed separately for three different ethnic groups and four measures of work effort: labor force participation; 2.6 percent in employment rate; and 5.6 percent in weekly hours. However, wage rates of heads receiving transfers rose somewhat, resulting in an increase in weekly earnings of 0.1 percent. Blacks showed no change in labor force participation, but increases of 0.9 percent in employment rate, 2.3 percent in weekly hours, and 9.3 percent in weekly earnings. Spanish-speaking heads had decreases of 2.7 percent in their employment rate and 0.7 percent in weekly hours, with increases of 1.6 percent in labor force participation and 6.4 percent in weekly earnings.

Again, however, I want to emphasize that none of these differentials, either positive or negative, are significantly different from zero, using conventional tests of statistical significance. The overall picture, then, is one of very small effects on the work effort of male heads of low-income families.

WORK REDUCTION RESULTS IN OTHER STUDIES

Mr. MICHEL. What do your other income maintenance studies show with respect to this factor?

Mr. MORRILL. As we indicated in the appendix provided along with my prepared testimony, the findings to date from the other experiments are broadly consistent with the New Jersey results. At this point, however, we have only partial, preliminary results from the Gary and Seattle/Denver experiments. The final report of the rural income maintenance experiment is currently in preparation; we expect to release that report in the next month or so.

COST OF THE NEW JERSEY EXPERIMENT

Mr. MICHEL. How much has been spent on the New Jersey experiment to date?

Mr. MORRILL. The total cost of the New Jersey experiment was approximately $8 million.

CONTRACTORS FOR THE EXPERIMENTS

Mr. MICHEL. Who are the prime contractors and the subcontractors in the income maintenance experiments.

Mr. MORRILL. The prime contractors or grantees and major subcontractors in each of the experiments are as follows:

For the New Jersey experiment, the grantee was the Institute for Research on Poverty of the University of Wisconsin, and the subcontractor was Mathematica. The institute was also the grantee for the rural experiment, and there was no major subcontractor involved in

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this project. For the Seattle and Denver experiments the prime contractors are the Washington Department of Health and Social Services and Colorado Department of Social Services, respectively. The major research subcontractor for these experiments is Stanford Research Institute; the field operations subcontractor is Mathematica; and the manpower program subcontractors are Seattle Community College and the Community College of Denver. For the Gary experiment, the prime contractor was the Indiana Department of Public Welfare and the major subcontractor was Indiana University.

Mr. MICHEL. How were the contractors selected? Are they sole source or bidded contractors?

Mr. MORRILL. The New Jersey and rural experiments were funded by grants to the Poverty Institute. Mathematica was selected as field subcontractor for the New Jersey experiment on a sole-source basis to replace the original field subcontractor, which had failed to perform satisfactorily. The Seattle and Gary sites were competitively selected from a number of income maintenance proposals submitted by various States. Denver was chosen as a companion site for the Seattle experiment to serve as a control for the poor labor market conditions in Seattle. Once a site was selected, it was necessary to use the appropriate State welfare agency as the prime contractor. The subcontractors for the Seattle and Denver experiments were chosen on the basis of competitively bidded contracts. In the case of the Gary experiment, Indiana Department of Public Welfare selected the subcontractor from proposals from Indiana University and Purdue University.

ADVANTAGES OF LOCAL ADMINISTRATION

Mr. MICHEL. Are any of your income maintenance studies examining the issue of State and local administration versus a centralized Federal administration?

Mr. MORRILL. Our experiments are basically neutral with respect to the question of Federal versus State and local administration. They are designed to analyze the behavioral effects, including work effort response, of particular combinations of basic benefits, benefit reduction rates, and allied services such as manpower training and day care. We believe that the experimental results would be applicable to either a Federal or a State and local program, as long as the operating characteristics of the program—such as filing unit definitions, definitions of income, accounting periods, and adjustments for family size—do not depart markedly from those used in the experiments.

INCOME MAINTENANCE COSTS

Mr. MICHEL. Don't your findings to date indicate that negative income tax ideas with the most streamlined features in them, such as the use of an annual accounting period, would not permit you to tighten up on income maintenance costs?

Mr. MORRILL. No, they don't. The additional cost of a negative income tax can be positive or negative depending on many factors, including the benefit levels and rules of the program itself and the extent of reduction or replacement of other programs. The specific feature you mention, an annual accounting period, would in fact decrease costs in comparison to the procedures currently employed in AFDC, SSI, and food stamps.

FLUCTUATION IN RECIPIENT INCOMES

Mr. MICHEL. If not, how do you explain your statement last year that: "Most low and lower middle income families have considerable fluctuation in their monthly incomes throughout the year. This implies that for purposes of both equity and responsiveness to need, welfare recipients should report their income monthly, and benefits should be adjusted promptly on the basis of such reports"?

Mr. MORRILL. In answering this question, it is important to keep in mind the distinction between a reporting requirement and an accounting period. The accounting period is the period of time over which income is counted to determine a person's eligibility and amount of benefit. Most accounting periods in use today are monthly. Lengthening the accounting period from a month to a year would reduce benefit costs by eliminating the eligibility of persons who have low incomes for short periods of time—e.g., a month—but are above the eligibility level when their income is measured over a full year's period. A reporting requirement is simply how often a person is mandatorily required to provide an updated report of their income and circumstances. Most reporting requirements used today are semiannual or annual. This infrequent reporting requirement appears to be a primary cause of overpayments in our various transfer programs since the welfare agency's estimate of a recipient's monthly income used in the benefit calculation is often no longer current.

Thus, savings accrue with monthly reporting of income by reducing overpayments, while savings accrue under annual accounting periods by the reduction or elimination of the eligibility of persons who have very low income for only short periods of time. These features are not mutually inconsistent, but could in fact be combined in a single system.

INCOME REPORTING TESTS

Mr. MICHEL. You further pointed out that a mandatory monthly retrospective reporting in the AFDC program could save up to $700 million in overpayments and eligibility payments, and that you were going to pilot test this idea in one or more States. Have these tests started yet, and if not, why not?

Mr. MORRILL. Such tests are currently underway in the State of Colorado. In Denver, the State has placed approximately 10 percent of the regular AFDC caseload on a monthly retrospective reporting system. This test is designed to provide more accurate estimates of the effects of such a system on overpayments and ineligibility rates within the context of a real-life program, as well as providing measures of the recipients' ability to report income accurately and on time, and testing administrative procedures. A second test will involve the entire AFDC caseload of Boulder County, Colo. This test will supplement the Denver results, and provide better estimates of the administrative costs of changing over an entire payments system to monthly reporting. This test is scheduled to begin in August 1976.

Mr. MICHEL. In view of the amount of money involved, is an effort being made to implement this step in the AFDC program itself?

Mr. MORRILL. The purpose of the experiments discussed above in Colorado is to test the implementation and administrative aspects of

the monthly retrospective reporting system. These experiments are the first steps in implementing this procedure to the entire AFDC program.

The pilot study is being undertaken because of the interest not only of HEW researchers but also State and local administrators. Some jurisdictions have moved recently to a monthly reporting system, and other jurisdictions are interested in the results of this experiment before proceeding themselves. The Department published a notice of proposed rulemaking which would have implemented a prior-month budgeting system, but implementation of these rules has been postponed until the preliminary findings of the Colorado experiment are available.

POVERTY POPULATION

Mr. MICHEL. What portion of the total U.S. population is at the poverty level or below year after year, and does not rise above it?

Mr. MORRILL. Our best estimate is that about 2.5 percent of the total U.S. population stays below the poverty line year after year. This estimate comes from the panel study of income dynamics, a survey of about 5,500 families—including about 16,000 individuals—who have been interviewed every year since 1966. Over the first 6 years of the study, 2.5 percent of all individuals were below the poverty line all 6 years. It should be noted that the estimate based on the panel study of the number of persons whose average income over the 6 years is below the poverty line is about 7 percent, or three times as large as the number of poor every year. The number of poor in at least 1 of the 6 years is 21 percent.

Mr. MICHEL. How many of those who are below the poverty level year after year are at or above the retirement age?

Mr. MORRILL. Our best estimate is that between one-fifth and one-quarter of those poor year after year are at or above the retirement age, that is, 65 or over. No tabulations on exactly this point are available, although such tabulations could be produced from available data. However, the percentage in various age groups which are in the bottom quintile of the income distribution every year have been tabulated from the panel study. These tabulations show that about one-fifth of those in the bottom quintile every year are 65 years of age and over.

The upper bound of the bottom quintile is considerably above the poverty line—actually it is very close to 1.5 times the poverty line—and it seems likely that the old make up a larger proportion of the very poorest every year than of those in the bottom quintile every year. Hence, we estimate that if one looked at only those below the poverty line every year, as many as one-quarter of them might be 65 or over.

DEFINITION OF POVERTY LEVEL

Mr. MICHEL. How do you define the poverty level?

Mr. MORRILL. The poverty level is a statistical series maintained by the Census Bureau in accordance with guidance issued by the Office of Management and Budget. There are 124 separate income levels or poverty cutoffs. These vary by size of family, age, and sex of family head, number of children, and farm or nonfarm residence. The poverty cutoffs were developed by Mollie Orsahansky of the Social Security

Administration. They are based on the Agriculture Department's 1961 economy food plan and on the average ratio of total income to food expenditures as measured in the 1955 household food consumption survey. The cutoffs are updated annually for price changes through the Consumer Price Index.

Mr. MICHEL. When will your mandated report on the measurement of poverty be submitted to Congress, and can you provide us a summary of what it says or will likely say?

Mr. MORRILL. The report is now being prepared in final form for transmittal to Congress in the next couple of weeks. It does not recommend any single poverty measure. Rather, it lays out the conceptual, statistical, and adminitstrative implications of a variety of measurement systems.

WORK TEST IN NEGATIVE INCOME TAX PROGRAM

Mr. MICHEL. You have indicated in prior testimony that you think a strong work test would be in order to insure the integrity of a negative income tax type program. We already know that work requirements are not working. How would you make a work requirement program work?

Mr. MORRILL. Work tests in transfer programs may reqire: (1) job search, (2) acceptance of job offers, or (3) work. It is important to remember that requiring work would also involve providing jobs. The effectiveness of these requirements depends upon administering the requirement efficiently. But more importantly, the appropriate design and effectiveness of a work test depends upon the objective of the work requirement. For example, when the objective of the work requirement is to restrain transfer costs by increasing the recipients' earned income, work programs need to stress additional jobs, otherwise work requirements would primarily redistribute existing jobs. Recipients can, through an investment of additional human capital, be made more attractive to employers. However, additional employment of recipients will primarily be at the expense of others in the labor force. While this redistribution might be more equitable, its main effect would be to increase the turnover on welfare programs and not to reduce the total transfer costs. If, on the other hand, the objective is to restrain transfer costs by keeping potential recipients off the program, work requirements need to impose higher costs on recipients. For example, recipients could be required to spend more time in registration, search, and verification of work-related activity or to accept poor and unsuitable jobs. Finally, if the objective is to insure that only recipients who are honestly trying to find work receive benefits, then the key to an effective work requirement is how accurately we determine the recipient's job search effort.

WORK REQUIREMENT ENFORCEMENT

Mr. MICHEL. Are you undertaking any studies to determine how to administer and enforce a work requirement and otherwise make it work?

Mr. MORRILL. A serious constraint in studying mandatory work requirements is that Federal regulations do not permit human subjects to be placed at risk while participating in a study. Therefore, studies

of mandatory work requirements are limited to examining effects of existing work programs and, effects of potential programs that would voluntarily encourage work. First, in regard to existing programs, HEW's operating agency for the AFDC program, SRS, is conducting a large-scale longitudinal evaluation of WIN, the AFDC work test. The WIN program was altered during the course of the study, and the evaluation will suffer. Nevertheless, the results should provide information on the overall effects of the work test as well as a data base that can be used to support research aimed at examining the effects of different aspects of the WIN program and the effects on different populations.

Second: With regard to programs and policies to voluntarily encourage work, we are exploring different approaches for different target populations. For example, HEW is collaborating with other Federal agencies in the supported work project, which is designed to test an innovative approach to direct provision of jobs to individuals such as exoffenders and long-term welfare mothers who have serious labor market handicaps. In the income maintenance experiments, we are exploring the encouragement of greater work effort among female heads of family through lower tax rates and provision of day care, counseling, and job training. For male heads of low-income families, the question is not so much how to encourage greater work effort, but how to render assistance without reducing work effort significantly. In our income maintenance experiments, we have found that over 90 percent of this group are already in the labor market at any given point in time.

INCOME TRANSFER SYSTEM GOALS

Mr. MICHEL. Last year you indicated that there were some generally agreed upon goals for an income transfer system. You stated goals in the area of adequacy, equity, work incentives, family stability incentives, administrative efficiencies, objectivity and understandability, coherence, and control. An objective evaluation of these goals without consideration of the fact that we are a constitutionally established republic would seem to lead to the conclusion that any alternative in come support system should be uniform and centralized under a single executive entity. However, since we are a union of 50 States, what experiments, as opposed to your current income maintenance experiments, are you conducting to carry out these goals within each of the 50 States instead of under the aspices of the Federal Government?

Mr. MORRILL. The goals do imply some uniformity of approach throughout the income transfer system; but they do not—in my view—mandate complete centralization under a single Federal executive entity. The choice on who should administer a revised system—one or more levels of government and one or more entities at any given level—should logically emerge from the way one chooses to reconcile these competing goals.

As I noted earlier in response to another question, the income maintenance experiments are neutral about the question of which level of government should administer the income maintenance programs. Some of the work in policy research—particularly in the services area—is directed to improving State performance. The partnership program with State and local governments supports project grants to State

and local governments for the purpose of identifying opportunities and techniques for improving the capaciy of State and local government to plan and deliver human services in a comprehensive, coordinated manner. In addition we have looked at the question of integrating services, in our service integration targets of opportunity grants. From 1971 through 1974, the Department provided a total of $12.5 million to these demonstration projects. The section 1115 program conducted by SRS is the major departmental vehicle for support of State improvements in the income maintenance area.

MODIFICATION OF THE WELFARE SYSTEM

Mr. MICHEL. Does it distress you that Mr. Nathan, one of your predecessors, and Mr. Dwight, former head of SRS, do not share your conclusion that the so-called system of welfare is simply no longer subject to any kind of overall policy or fiscal control? In fact, Mr. Nathan has recently said in the National Journal that what appears to be a nonsystem is in fact a system which should not be drastically changed, but rather modified. Do you disagree, and if so, why?

Mr. MORRILL. I am not distressed by disagreement among individuals about what is wrong with or what ought to be done about the welfare system. While few seem satisfied with the present situation, there are wide differences about corrective measures. It seems to me that such circumstances call for reasoned and careful debate about the specific problems involved to the present programs.

It is my view that improvements can be made in the present programs, and the administration has made recommendations to the Congress for such changes. It is also my view that there are serious limitations on how much can be achieved on an incremental basis.

For example, within the present structure, it would be impossible to make the filing unit rules identical across all programs. As a result, there are serious limits to the extent of consolidation and simplification that can be achieved. Other problems with the current system are also hard to deal with in an incremental manner. Whether and how, for example, should cash assistance be provided to poor intact families? Requiring all States to enact an AFDC–UF program could be one approach, but it would not cover many working poor and could hardly be considered incremental. Similarly, the benefits in many low-benefit States could be increased through some kind of national minimum in AFDC, but this would be a tremendous change in Federal-State relations.

Finally, past actions and existing proposals are not totally reassuring on the issue of fiscal control. For example, many might have preferred to resist the recent extensions of unemployment insurance coverage but were left with little choice to this inefficient means because we have no alternative cash assistance for many individuals and intact families. The last time I heard Mr. Nathan discuss possible packages of incremental reform, he included mandating AFDC–UF, a national minimum in AFDC, elimination of the purchase requirement in Food Stamps, and instituting a national housing allowance program. The total costs of such a package suggest anything but fiscal control to me. I would also note that he is not one of my predecessors at HEW, but had a position related specifically to the FAP proposal.

STATE REACTIONS TO DISCUSSIONS ON GUARANTEED INCOME

Mr. MICHEL. Aren't you concerned that all the discussion on the guaranteed income approaches may be raising false hopes on the part of the States of getting out from under their responsibility for effective management of their welfare and medicaid programs?

Mr. MORRILL. The discussion of major reforms of the welfare system including alternatives which stipulate Federal operation have been underway for 5 to 10 years. I think most States and State officials are sufficiently responsible to recognize that they should proceed with the best management possible of the present programs while the debate about change is underway. Further, they also know that if a sweeping change were enacted, there would be at least a 2-year implementation period. I believe the overwhelming majority of State officials view the issue realistically, and some of the recent improvements in State management of the present program support this realistic approach on their part.

INSURING QUALITY CONTROL

Mr. MICHEL. In terms of saving the taxpayers' dollars, wouldn't it be more proper to spend your evaluation dollars on methods of insuring that quality control, work requirements, monthly retrospective reporting, and the use of penalties all function effectively?

Mr. MORRILL. We believe that the taxpayer is best served by a balanced mix of basic research into the nature and causes of poverty, applied research into alternative approaches to alleviating it, and direct evaluation of the effectiveness of existing poverty-related programs and ways of improving them. There are, of course, no specific evaluation authorities for the cash welfare programs. However, we have attempted to insure that a balanced mix of research and evaluation is undertaken within the research authorities and appropriations provided—primarily section 1110 of the Social Security Act and section 232 of the Community Services Act. In practice, what has evolved in a division of responsibility in which SRS does primarily research and evaluation that is directly related to existing welfare programs—the kind of program effectiveness studies you are referring to. My office does more long-term research on crosscutting policy issues and longer range policy options.

I believe that this arrangement has worked well and utilizes to best advantage the expertise of both agencies. Of course, the dividing line is not hard and fast, and we often work closely with SRS at the staff level on specific projects. For example, the SRS income reporting projects I mentioned earlier grew out of basic research in the income maintenance experiments sponsored by my office, and we are working closely with SRS in their implementation.

While evaluation of programs is important, we feel that research into the problems those programs are designed to address is equally important. Much of what we now know about the poverty population, for example, is a direct result of studies and surveys conducted under this policy research program over the last 10 years. Indeed, it is only on the basis of this research, that I am able to respond to your question about the proportion of the U.S. population that remains poor year after year. Our studies of marital stability and fertility, early retire-

ment, disability, and the demand for health care—to name just a few examples—provide important information about the underlying nature and determinants of the size, composition, and needs of the target groups our programs are designed to serve. This information is vital if our programs are to be well designed and well targeted.

COMPETITIVE VS. SOLE SOURCE CONTRACTS

Mr. MICHEL. How many of your contracts in the last 5 years and in the current fiscal year have been issued on a sole source basis?

Mr. MORRILL. Over the past 5 years, for contracts over $10,000, 61 have been sole source awards. In the same period we have competed 98 contracts over $10,000. I might point out that we have become increasingly competitive in our contracting process. In the first 2 years of this period, there were 35 sole source contracts and 27 awarded competitively. In the next 3 years, there were 26 sole source awards and 71 contracts awarded competitively. So far in fiscal year 1976, we have awarded 11 contracts sole source and 25 contracts competitively.

Mr. MICHEL. How much have the following contractors received in total contracts and/or grants and for what purposes during the last 5 years and in the current year, either as the prime contractor or grantee or as a subcontractor or subgrantee? Rand Corp., Arthur D. Little, Team Associates, ABT Associates, Mathematica, Inc., Aspen Systems Corp., Urban Institute, Lamda Corp., Macro Systems, Inc., Syracuse University, Rutgers University, University of California, Ohio State University, and MIT?

Mr. MORRILL. I can provide you with totals for contract and grant awards. We do not as a general rule keep records on subcontracts which could indeed involve hundreds of awards for supplies and services. We have, however, kept track of the major subcontracts in the income maintenance and health insurance experiments and I will include those for the record. In looking at those amounts, I should point out that these figures do not include funds passed by the subcontractor directly to families enrolled in the experiments.

[The information follows:]

OBLIGATIONS TO SELECTED CONTRACTORS AND GRANTEES FROM FISCAL YEAR 1971 TO DATE

	Prime contractor/ grantee	Subcontractor in the experiments
Rand Corp	$6,347,055	
A. D. Little	53,014	
TEAM Associates	200,364	
ABT Associates	321,048	
Mathematica, Inc	1,779,979	$19,757,344
Aspen Systems Corp	239,252	
Urban Institute	2,232,898	
University of Wisconsin	4,182,496	
Stanford Research Institute	159,160	12,097,511
Lamda Corp	454,169	
Macro Systems, Inc	338,198	
Syracuse University	300,000	
Rutgers University	311,810	
University of California	920,726	
Ohio State University	322,081	
MIT	209,591	

INCOME MAINTENANCE EXPERIMENT CONTRACT WORK

Mr. MICHEL. With respect to the above question, I note that the Indiana, Washington, and Colorado income maintenance experiments are conducted by their State welfare departments. Who actually is doing the contract work for these departments?

Mr. MORRILL. The major research subcontractor for the Seattle and Denver experiments is Stanford Research Institute, with Mathematica, Inc. being responsible for the major field operations. The Community College of Denver and Seattle Community College carry out the manpower components of these experiments. Indiana University was responsible for operating the Gary experiment.

LENGTH OF THE EXPERIMENTS

Mr. MICHEL. I understand that you have just extended the Colorado and Washington experiments for a period of 20 years. What is that all about?

Mr. MORRILL. The experiments have not been extended for 20 years. However, a very small subsample of the Seattle/Denver families—about 4 percent of enrolled families—were enrolled for a period of 20 years. The reason for enrolling this small subsample is to provide assurance that the results from the basic experiment are not biased by the short-term nature of the experiment. By analyzing the responses of the basic 3- and 5-year families and the special 20-year subsample over the first 3 and 5 years of participation in the experiment, we can determine whether there are any significant behavioral differences among the groups which would be attributable to their different perceptions of the permanence of the experimental program.

After 5 of these years have passed, or in 1978, the research purposes relating to the enrollment of this special subsample will have been accomplished and the experiment will come to a close at that time. Payments will continue to the subsample families for the remainder of their period of enrollment through the regular State administrative mechanisms.

CONFLICT OF INTEREST LAW AND POLICY

Mr. MICHEL. What safeguards do you have to ensure that kickbacks are not involved in any of the awards of contracts or grants from your office?

Mr. MORRILL. Employees of this department are given copies of the Federal conflict of interest law—18 U.S.C. sections 201 et seq.—and the Department's Standards of Conduct—45 CFR Part 73—and are held responsible for adhering to them. In addition, the Assistant General Counsel for business and administrative law, who is the Department conduct counselor, and senior members of his staff frequently give lectures to representatives of different departmental components explaining the law and regulation.

Mr. MICHEL. What is your conflict of interest policy?

Mr. MORRILL. The Department's conflict of interest policy has been published in regulation form at 45 CFR Part 73. This regulation has been reprinted in a booklet—HEW Form 539—and a copy of this booklet is distributed to all new employees.

Mr. MICHEL. How would you know if one of your own employees was a shareholder or had other financial interest in any of the companies that you are doing business with?

Mr. MORRILL. Subpart E of the Department's Standards of Conduct—45 CFR section 73.735–501 et seq.—spells out the requirement that no employee of the Department participate personally and substantially in a particular matter where a company in which he or she has a financial interest. Appendix C to this regulation lists those employees who are required to file financial interest statements with the Department. The present listing is based on the organization in effect as of June 1, 1970. A complete revision of this appendix C, bringing in other employees on the basis of changes in department organization since then, has been approved by the Civil Service Commission and we expect it to be published in the Federal Register shortly.

Mr. MICHEL. Could you check with your employees on this question of interest in the companies you are doing business with and supply it for the record?

Mr. MORRILL. As I indicated previously, there exists a requirement for employees to file financial interest statements with the Department. To the best of my knowledge none of my current employees have a financial interest in any company with which we are doing business.

Mr. MICHEL. Are any of your employees, including consultants, on any one else's payroll that is doing business with you by way of grants or contracts? After checking with your employees, please provide this for the record.

Mr. MORRILL. To the best of my knowledge none of my employees are on any one else's payroll that is doing business with us by way of grants or contracts. I would, however, assume that any individual consultant may at one time or another be on the payroll of contractors or grantees with whom we are doing business.

EMPLOYEES FROM CONTRACTING FIRMS

Mr. MICHEL. Are any of your current employees former employees of the grantees or contractor you are dealing with?

Mr. MORRILL. Yes, there are. In many instances, when this department, or any other Government agency, wishes to hire an employee with experience in a particular subject matter, such a prospective employee has often had previous experience with organizations with whom we deal as grantees or contractors. As long as such employees do not have any agreement concerning reemployment with their former employers—see 18 U.S.C. 208(a)—there would be no bar to their participation as a Government employee in matters in which a former employer had a financial interest.

Mr. MICHEL. How many of your office's former employees, and for that matter, for the department as a whole, are working for or are employed by the contractors or grantees that you deal with? Please provide this for the record after consulting with your contractors. Please indicate their names and positions.

Mr. MORRILL. Undoubtedly some employees who leave this department go to work either immediately or at a later date for organizations which are contractors or grantees of this department. Like all Government agencies, this department does not require employees who leave our service to notify us of the name of their new employers. Accord-

ingly, there is no way for us to supply the information requested from departmental records.

Mr. FLOOD. Mr. Conte?

NEW RESEARCH PROJECTS

Mr. CONTE. Will the request allow any new research projects?

Mr. MORRILL. This request is basically a continuation request. No major new initiatives are planned. If any important new policy issues emerged requiring research or analysis I would have to make choices against the existing activities described in this request.

MAJOR RESEARCH PROJECTS

Mr. CONTE. What are the major research projects you did this year?

Mr. MORRILL. A number of projects were completed this year. The major ones included a report with initial findings from the Gary income maintenance experiment and ongoing findings from Denver and Seattle; completion of a congressionally mandated study on the measurement of poverty, and completion of an updated survey of institutionalized adults.

Mr. CONTE. What if any impact did those projects have on policy?

Mr. MORRILL. The major impact on policy is in the administration of the AFDC program where we are implementing findings from the experiments regarding income accounting periods. In addition an important study from the experiments gives us information on the costs of implementing alternative day care standards. The updated survey of institutionalized adults gives us current baseline data for use in long-term care research and consideration of policy alternatives to institutionalized care, such as home health services. As you know, I have maintained that ongoing activities in this program also have some impact on policy even though we are still 2 to 4 years away from completing many of these projects. The appendix in our budget justification and the synopsis of selected findings to date from the income maintenance experiments discusses these impacts at greater length.

MORE FREQUENT INCOME REPORTING

Mr. CONTE. In the opening statement you mentioned that the Colorado system of more frequent income reporting for determining eligibility for AFDC could save hundreds of millions of dollars. Will this be implemented on a national scale?

Mr. MORRILL. The original simulation research on monthly retrospective reporting indicated that hundreds of millions of dollars could be saved if this system were implemented nationwide. The pilot tests in Colorado are designed both to validate the original research and to develop a model administrative structure for such a system which could be easily adopted by other States. Assuming that the Colorado tests confirm that monthly retrospective reporting of income is cost effective, it is anticipated that such a system will be implemented nationwide.

RESULTS FROM THE EXPERIMENTS

Mr. CONTE. Have you had any results yet from the income maintenance experiments?

Mr. MORRILL. We now have a number of results from the experiments. The research finding on the need for monthly retrospective reporting of income welfare recipients is an excellent example of one significant finding from the experiments. Another important finding is that the labor supply response of male heads of families to income maintenance programs of the type tested in New Jersey is very modest, a reduction in work effort averaging only about 6 percent. In addition to these findings, I have submitted for the record a synopsis of findings to date from the income maintenance experiments which contains many other examples of experimental results, including results on the following topics: (1) The impact of income maintenance payments on family stability, (2) the impact of income maintenance payments on the school performance of children, (3) the demand for child care of working mothers, and (4) the impact of Federal day care standards on the cost of child care.

RELATED OUTSIDE RESEARCH

Mr. CONTE. Are private groups duplicating any of your research?

Mr. MORRILL. To the best of our knowledge no private groups are duplicating any of our research. There are numerous institutes and universities involved in related social research and our staff makes every effort to keep abreast of such work as it is underway. However, the major outside basic poverty research taking place is supported by funds from this program at the University of Wisconsin's poverty institute and the University of Michigan's center for policy studies.

Mr. CONTE. Would it be more economic to provide grants for other groups to do this type of research?

Mr. MORRILL. In fact about 45 percent of the funds in this program support the types of grants you refer to. Another 8 percent goes to other agencies, notably the Census Bureau, to conduct specified projects and data gathering activities. The other 47 percent goes to outside groups in the form of contracts. We have found that the contractual mechanism is usually much better for getting results where we are looking for analysis on specific policy related issues.

NATIONAL HEALTH INSURANCE EXPERIMENT

Mr. CONTE. Last year you indicated that it was still too early to report any results from the national health experiment. Can you tell us about it now?

Mr. MORRILL. It will be several years before there is sufficient data from the health insurance study to provide reliable results on the effects of the experimental insurance plans on participating families. Although we are now in the second year of operations in Dayton, Ohio, we have just begun field activities in the remaining three sites. We have just completed enrollment of the sample in Seattle, and are conducting baseline interviews preparatory to enrollment in Fitch-

burg and Franklin County, Mass. and Charleston and Georgetown County, S.C.

As part of this study, however, we have produced several valuable new data bases and conducted analyses of a number of existing data sets, as well as gaining experience with the design and administration of income-related insurance plans. For example, as part of the site selection process for the experiment, we conducted a national survey of physicians, focusing on such characteristics as prices, office staffing, hours of work, patient load, and waiting times to appointment. One of the more important results of that survey is that access to physicians, as measured by waiting times to appointments, appears to be poorest in small cities, rather than either large cities or rural areas. This is not to say that there are not significant barriers to use of medical care in these areas; we know, for example, that utilization is significantly lower in rural areas. But it does suggest that the important barriers to use of care may be such factors as transportation difficulties, inadequate insurance coverage, or low incomes, rather than scarcity of physicians.

More generally, the survey seems to indicate a good deal of flexibility in the supply of physicians' services in response to variations in demand. Across regions and types of area represented by the sample, wide variations in numbers of patients per physician were accommodated by variations in the use of medical aides and physical facilities. In some areas, such as the rural South, doctors see more patients simply by working longer hours. A followup to this survey, to measure changes in access over time, has been conducted by the Department's Bureau of Health Manpower, and the results of the original survey are being studied for their implications regarding the Department's designation of health scarcity areas.

Analyses of existing data bases completed to date as part of the study include studies of the effects of coinsurance on the use of outpatient care, the effects of the Federal income tax treatment of private insurance premiums on the amount of insurance purchased, the effects of waiting times and other nonmonetary barriers on the use of care, and finacing options for national health insurance. We would be glad to provide copies or summaries of any of these studies to members of the committee.

In the course of the design of the experiment, we have also made a great deal of progress in developing measures of health status and quality of care for use in measuring experimental outcomes. This is an area where very little prior work has been done, and we believe that the measures developed for this study will provide greatly improved capabilities for evaluating a wide range of health care programs, including any national health insurance plan that may be enacted. In particular, we are devoting a good deal of attention to measures of quality of care that can be derived from health insurance claim forms, and thus could be used as an ongoing evaluative tool in public health insurance programs.

Within the coming year, we will have completed, and begun to analyze, baseline interviews with over 8,000 households in the experimental sites. This will be the most detailed and comprehensive data set available on existing health insurance coverage, use of medical care, and family socioeconomic characteristics. These data will allow

much better estimates of the effects of existing insurance plans on the use of care and the distribution of health insurance coverage and health care costs. In addition, we will have administered comprehensive physical screening examinations to over 3,000 participants in the study. Taken in conjunction with the baseline data for these same individuals, this data set will provide valuable new information on the distribution of medical problems and health care needs.

POLICY EVALUATION

Mr. CONTE. What percent of your budget is spent on policy evaluation?

Mr. MORRILL. Program and policy evaluation activities conducted by this office are usually funded out of departmental evaluation funds. I have always maintained however that there is probably no completely accepted definition between what is evaluation and what is research. If we look at our budget in terms of how much of it is involved with analysis of policy issues then I would have to say that almost all of our budget deals either directly or indirectly with assessment of current or proposed policy. The answer very much depends on how the term is defined.

RESEARCH ON ALTERNATIVE DAY CARE STANDARDS

Mr. CONTE. What implications do your research into costs of implementing alternative day care standards on the recently adopted Federal standards?

Mr. MORRILL. This research which is based on data from the Seattle and Denver income maintenance experiments, provides the first detailed cost analysis of implementing the Federal day care standards. It confirms that many day care centers do not comply with the existing Federal standards, and that even more, of course, would be out of compliance if the now suspended stricter day care standards were implemented. It shows that similar problems exist for family day care homes.

To bring all day care centers into compliance with existing Federal standards would increase average center care costs by about 5 percent while costs would increase by about 11 percent if the stricter standards were implemented. The research also shows that compliance costs vary significantly by the proprietary nature of the center. For example, private for profit centers face substantial cost increases ranging from 11 to 22 percent. Since private for-profit centers constitute about a third of all center care provided, substantial numbers of users of center day care face significant increases in the cost of their child care if either standard is effectively enforced.

Because licensed family day care homes account for about 50 percent of all licensed care, they were also studied to determine the cost of bringing such homes into compliance with Federal standards. In essence, the question is how many additional family day care homes would be needed to provide for all those children now in licensed family day care homes, if the existing homes were required to reduce the number of children in order to comply with the Federal child and staff standards. The study shows that the number of licensed

family day care homes would have to be increased by about 7 percent in order to meet that criteria with costs increasing by similar amounts. Such costs would have to be met by the users directly or through increased subsidies from the Government.

Mr. FLOOD. Thank you very much.

This concludes our hearings for the HEW witnesses for the 1977 budget estimates, and we will begin hearings next week with the public witnesses. They will tell us the other side of the story.

We have had, in the judgment of the committee, excellent hearings, and a great deal of useful information has been developed.

CONTRIBUTION OF MR. MILLER

Mr. Miller has sat through these hearings with us, and we have always regarded him pretty highly. He has always helped us to understand the things that are behind these budget estimates, and we want to thank him for the contribution that he has made in developing the information which this subcommittee needs to do its job properly.

Mr. MILLER. Thank you.

Mr. SHRIVER. I want to be associated with your remarks, particularly about Charley Miller, Mr. Chairman. I personally have found that he has made a fine and helpful contribution.

Mr. ROYBAL. Mr. Chairman, may I also compliment Mr. Miller? I think he has done an excellent job. We haven't necessarily agreed 100 percent——

Mr. FLOOD. Did I say that? I should have said that.

Mr. ROYBAL. You haven't said it, but I do—we haven't always agreed about recommended decreases, but nevertheless I can understand why the recommendations were made.

Mr. MILLER. Mr. Chairman, I hope the committee knows that over the longtime I have worked with you. I have tried to show my respect for and real joy in working with you. It is a good committee.

Mr. FLOOD. Thank you very much.

POLICY RESEARCH APPROPRIATION ESTIMATE

For carrying out, to the extent not otherwise provided, research studies under section 232 of the Community Services Act of 1974 and section 1110 of the Social Security Act, $24,950,000.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE—DEPARTMENTAL MANAGEMENT

POLICY RESEARCH

Amounts available for obligation

Appropriation:	
1976 estimate	$24,950,000
1977 estimate	24,950,000

Summary of changes

1976 estimate	$24,950,000
1977 estimate	24,950,000
Net change	----------

No increases are requested over the fiscal year 1976 level.

	1976 estimate	1977 estimate	Increase or decrease
OBLIGATIONS BY ACTIVITY			
Policy research	$24,950,000	$24,950,000	
OBLIGATIONS BY OBJECT			
Other services (contract funds)	16,075,000	16,075,000	
Grants, subsidies, and contributions	8,875,000	8,875,000	
Total obligations by object	24,950,000	24,950,000	

Significant Items in House and Senate Appropriations Committee Reports

1975 SENATE REPORT	ACTION TAKEN OR TO BE TAKEN
1. The committee expressed concern that the program was duplicative of research conducted by other agencies and Federal Departments. It requested further information be provided prior to the fiscal year 1977 hearings as to the program's purposes and utility to the Department.	1. This information is provided in a special appendix to this justification.

AUTHORIZING LEGISLATION—POLICY RESEARCH

	1977	
Legislation	Authorized	Appropriation requested
Community Services Act of 1974, section 232, and Social Security Act, section 1110.	No more than 15 percent of amount appropriated for title II of the CSA can be authorized for section 232. The amount authorized under section 1110 is indefinite.	$24,950,000

POLICY RESEARCH

Year	Budget estimate to Congress	House allowance	Senate allowance	Appropriation
1974: Appropriation	$29,810,000	$29,810,000	$29,810,000	$29,810,000
1975: Appropriation	31,810,000	27,500,000	24,950,000	24,950,000
1976: Appropriation	29,260,000	26,300,000	24,950,000	
1977: Appropriation	24,950,000			

Policy Research

	1976 Estimate	1977 Estimate	Increase or Decrease
Subactivities:			
a. Income Maintenance and Employment.....	$10,569,000	$10,770,000	+$201,000
b. Health.....	4,650,000	5,200,000	+ 550,000
c. Other Human Services.....	3,995,000	3,565,000	- 430,000
d. Basic Research and Statistical Data.....	5,736,000	5,415,000	- 321,000
Total.....	$24,950,000	$24,950,000	---

General Statement

The Policy Research activity consists of special purpose studies, social experiments, models, and surveys housed within the Office of the Assistant Secretary for Planning and Evaluation. This appropriation request is authorized under two separate acts, Section 232 of the Community Services Act of 1974, and Section 1110 of the Social Security Act. This research activity is unique in two respects. First, it is the only comprehensive assessment of the impact of current or proposed social policies and programs on the poverty population. Secondly, the planning, evaluation, and coordination functions of the office itself provide numerous opportunities for addressing policy issues or aspects of analysis not covered in other Agencies and for applying the products of this research to policy formulation activities. Examples of both of the above types of research activities are described in the FY 1975 Report to Congress on the Policy Research Program.

This request will continue most of the experiments, studies, and statistical survey activities from FY 1976. Reductions or additions in each subactivity reflect the completion of some projects and a larger focus on continuation of others. Income Maintenance Experiments, the Health Insurance Experiment, small studies in the area of Long Term Care, delivery of services at the State and Local government level, and statistical data activities supporting in-house policy analysis continue to be the main project areas in this program. The development of an improved income survey for analyses of program target and poverty population will proceed into the design and test stage.

The increase in the Health subactivity will fund the Health Insurance Experiment at a full year's level. Reductions in the Other Human Services subactivity reflect completion in FY 1976 of the update of the Survey for Institutional Adults. Basic Research and Statistical Data reductions result from a lower level of support to the Institute for Research on Poverty and completion of work done with Census to improve simulation and modeling techniques used in estimating costs of alternative human service programs.

Income Maintenance and Employment - Accomplishments in 1976

The major emphasis in this research area has been on carrying out carefully controlled experiments designed to yield statistically reliable results on the major behavioral and societal effects of alternative income maintenance policies, with particular emphasis on the labor supply or work incentive effects of such policies. Except for the data being generated by these experiments, virtually no other hard data are available on the likely responses of individuals to changes within our income maintenance system. In addition to providing unique data on these responses, the experiments also provide important information on ways to improve the administration of the current welfare system.

During this year several major experimental studies were completed. Reports of initial findings on the Gary, Seattle, and Denver Income Maintenance Experiments and a final report on the Rural Experiment were completed. These studies made an important contribution to our understanding of the impact of income maintenance on the employment efforts of individuals. In addition to these major studies on labor supply, several other policy relevant studies were finished, including one important experimental study which shows the costs of implementing alternative day care standards. This has important implications for the recently adopted Federal day care standards. A number of smaller studies were also carried out to analyze the effects of income transfer on marital stability, to predict welfare costs and caseloads under alternative income maintenance policies, and to analyze the effect of the recession on income security programs.

Program Plans for 1977 - Several important experimental studies will become available in 1977 while more detailed research studies leading to conclusive reports on all the experiments will be carried out throughout the year. More detailed studies on labor supply effects and major new experimental studies on the effects of income maintenance on family stability, fertility, the school performance of children, the demand for day care and social services, and the interaction of income maintenance and manpower training will be completed. In addition, several smaller non-experimental research projects will be carried out.

The $10,770,000 requested will continue the experiments and analysis of findings.

Health - Accomplishments in 1976

Research in the health area has been devoted primarily to support of the Health Insurance Study. This is a major multi-site experiment which is designed to measure the impact of a wide range of cost-sharing arrangements on the demand for health care and the effects on health status over time. It will yield a unique data base, including detailed data on health care utilization and resultant changes in health status; measures of quality of care; and, demographic and economic data on families over time. In addition, the experiment will provide valuable information on the feasibility of administering income-conditioned insurance plans. In FY 1976, activities culminated in full scale operation for all four experimental sites. Analysis of data gathered in FY 1974 and 1975 on physician capacity and excess demand for physician services was completed this year. These data and the analytic results have already received wide circulation.

Other research in the health area included non-experimental research on related health-insurance questions, research on the organization and delivery of care, a study of the effectiveness of the private health insurance market, and studies dealing with Medicaid reimbursement and physician billing practices for low-income patients.

Program Plans for 1977 - All four sites of the Health Insurance Study will be fully operational and additional preliminary analysis of experimental data will be undertaken. Research using non-experimental data will continue including work using existing data bases on the demand for care. Work planned will also focus on theoretical modelling of insurance, including demand and supply of insurance and the feasibility of risk-spreading in competitive insurance markets. Studies on Medicaid reimbursement and physician billing practices for low-income patients will continue from FY 1976.

Other Human Services - Accomplishments in 1976

Research in this area spans a variety of programs which affect the disadvantaged, including programs in the area of education, social services and State and local government capacity building. In FY 1976, accomplishments include completion of an updated survey of institutionalized adults, simulation of an incentive reimbursement system for long term care alternatives to institutional care for the elderly; and progress in examining the nature, extent and costs of disability - including the adequacy, equity and efficiency of existing programs. Completed Education studies focused on the characteristics of communities which benefit from aid for elementary and secondary education and the types of colleges which benefit from the Basic Educational Opportunity Grant Program. The Partnership demonstration activity is in full operation with grants made to forty State and local governments for the purpose of improving the comprehensive planning and delivery of human services.

Program Plans for FY 1977 - In FY 1977 plans include (1) the use of current baseline data originating from the completed survey of institutionalized adults for use in all long term care research and (2) evaluation of alternatives such as home health services to institutional care. Synthesis of these plus the disability studies will produce policy and reform options for Departmental consideration. Also in FY 1977, a small study will commence on the status and needs of Puerto Ricans, Chicanos, and Asian Americans for higher education.

Basic Research and Statistical Data - Accomplishments in 1976

Basic Research and Statistical activities focus on the basic determinants of poverty, improvements in the collection of data and the development of models related to poverty, and the provision of statistical and computational support to research and analysis related to income maintenance and health insurance reform. The University of Wisconsin Institute for Research on Poverty performs basic research on issues related to poverty and, in addition, some work directly related to current policy issues. Other research includes the collection of longitudinal data on changes in family income.

During this year an analysis of the first seven years' data from the Panel Study of Income Dyamics were completed, as well as several in-house policy studies using these data. A wide range of policy-related studies were completed by the Institute for Research on Poverty, including publication of major volumes on black-white income differentials and integration of income effects on the poverty population. Long-term simulation studies of the AFDC and Social Security programs were also undertaken for use in-house policy analysis. A report on the measurement of poverty mandated by the Education Amendments of 1974 was submitted to Congress. Planning and initial development were commenced for a major new income survey.

Program Plans for 1977 - In 1977 most activities will continue but at a reduced level. Support will be continued for the Institute for Research on Poverty and some modelling and data collection activities, primarily in the areas of income dynamics and the measurement of non-cash income and program benefits. Computer support will be provided for in-house policy analyses, and work will continue on the development of a new income survey to provide better data on program target groups and the poverty population.

Appendix

Purpose, Value, and Unique Nature of Policy Research

During the FY 1976 hearings for the Policy Research appropriation, the Senate Appropriations Committee expressed concern as to the real purpose and value of the research conducted in this activity and the existence of duplication between research projects within Policy Research and similar research conducted by other agencies and Federal Departments. This statement is included in the Department's justification to address these concerns and comply with the Committee's request that further information be provided prior to the FY 1977 hearings. It largely supplements the Department's Report to the Congress on the Policy Research Program, Fiscal Year 1975, submitted to the Congress in October, 1975.

Purpose and Value of the Policy Research Program

The Assistant Secretary for Planning and Evaluation serves as a principal advisor to the Secretary on economic, social, and program analysis matters. Implicit in this responsibility is the development of short and long range objectives and the conduct of program evaluations in order to construct alternative strategies in the areas of health, education, social services, and human development. Of paramount concern are the problems of our low income population, problems which cut across all of the above areas.

The overall objective of Policy Research activities is to obtain information about the basic causes of and methods for preventing and eliminating poverty and dependency and about improved methods for delivering human resource services. Such information is obtained through the conduct of basic and applied research, statistical analyses and demonstrations and evaluations which have demonstrated a high probability of impacting on the formulation or modification of major Federal policies and programs. The transfer of this program from OEO into the Office of Planning and Evaluation has resulted in an organization which can rapidly introduce knowledge gained from research activities into the policy formulation process. Indeed, most of our existing knowledge concerning the characteristics and composition of the poverty population has been developed through surveys, social experiments, and special purpose studies within this activity. Data bases and simulation models produced within this program have been used frequently by other Departments and the Congress in their examination of policy and legislative alternatives in such areas as negative income tax proposals and other welfare reform issues, food stamp eligibility, and the design of the Federal revenue sharing formula.

The program's utility can be judged by the impact its results have on policy formulation and the use made of the new knowledge generated from its activities. The following examples illustrate both impact and use of program results:

- Pilot testing of a new income reporting system in the AFDC program, modeled after procedures developed in the income maintenance experiments. Data from the experiments indicate that substantial savings can be realized under this system, which after testing, the Department may propose for implementation on a national scale. The new reporting system has the additional advantage of targeting benefits on the neediest recipients, increasing benefit responsiveness to changes in need, and providing the fiscal capacity to raise benefits for the neediest recipients.

- Use of data from the Seattle/Denver income maintenance experiment to assess the cost implications of implementing new Federal day care standards.

- Use of data from the Panel Study of Income Dynamics for a wide variety of other policy analyses, including the impact of rising food and fuel prices on the low income population and the effects of welfare on marital stability.

- Estimation of the long-run distributional impacts of alternative Social Security benefit formulas, based on individual earnings projects from the Dynamic Income Simulation Model.

- Short-run (one- to two-year) projections of AFDC costs and caseloads for Departmental planning and budgeting purposes, using a simulation model developed under the Policy Research program, as well as long-term (ten year) projections of the AFDC eligible population under different forecasts of demographic trends using the Dynamic Income Simulation Model.

- Evaluation of alternative measures of poverty in response to a Congressional mandate using special tabulations from the Decennial Census, Current Population Survey, Survey of Economic Opportunity, and the Panel Study of Income Dynamics. The Survey of Economic Opportunity and Panel Study of Income Dynamics (Michigan Longitudinal) were both developed under the Policy Research program.

It is our contention that both impact and use have been maximized by organizationally placing and continuing this program within an office at the apex of the Policy formulation process within the Department. The Management and Coordination section of our Report to the Congress spells out in detail how program activities have been placed in the Office of Planning and Evaluation's organizational units, and indicates the opportunity for widespread impact they have both inside and outside the Department.

Duplication

While Congressional concern over this issue over the past three years has had the beneficial effect of strengthening already extensive efforts to avoid duplication, we are anxious to clear the air on this issue in a definite manner. We feel strongly that our efforts have avoided duplication and that this success is largely attributable to the fact that projects are reviewed and results utilized by a staff which is familiar with all Department programs. While the subject matter and titles of some projects in this activity often sound like similar efforts undertaken elsewhere, those cases invariably represent carefully coordinated efforts. One example is a manpower study project designed to obtain data useful to welfare reform and income transfers issues. Analysis in some of our earlier projects suggested that income transfer programs may prolong the duration of unemployment but result in the recipients finding higher paying jobs. The data collected by our portion of this current study will be useful for estimating the effects of unemployment compensation and other income transfer programs in the job search activities of the unemployed. The project has been reviewed and endorsed by two concerned offices within DOL. In short, our coordinative relationships with outside agencies allowed us to "piggy back" an ongoing research effort at minimal cost, for new information bearing on important policy issues. In the process, other agencies have been made aware and participated in our specific efforts in this area.

The above is typical of steps taken to avoid duplication in research efforts conducted simultaneously with our own. Also of concern is the avoidance of duplication with studies conducted sometime in the past. In addition to the steps mentioned in our annual report, efforts to avoid duplication of past research efforts include:

- Wide dissemination throughout the Government of the Policy Research Report to Congress and an annual Digest of Policy Research Projects.

- Joint development with the National Science Foundation of a two volume Policy Analysis Source Book for Social Programs. This unique bibliography constitutes an invaluable aid in improving utilization and dissemination of a vast body of policy and evaluative literature. Several hundred copies of these volumes have been distributed throughout the Federal research community and after additional printing, will be available to the public.

- Wide dissemination of the results of Policy Research projects, through the issuance of working papers and summary reports, both by this office and by its contractors and grantees.

- Formal discussion with other agencies of completed and proposed projects in interagency committees like the Poverty Studies Task Force of the Federal Interagency Committee on Education, Social Research and Development Committee of the Federal Council on Science and Technology, and the Interdepartmental Task Force on Workers' Compensation Reforms.

This statement has dealt specifically with the concerns expressed by the Senate Appropriations Committee in the FY 1976 hearings. Taken in concert with the Report to Congress on the Policy Research Program, Fiscal Year 1975, it should answer those concerns.

Program Purpose and Accomplishments

Activity: Policy Research

1976	1977 Authorization	1977 Budget Estimate
$24,950,000	1/	$24,950,000

Purpose: To obtain information as it relates to the mission of the Department about the causes and methods of preventing and elminating poverty and dependancy, and to obtain information about methods of delivering human resource services.

Explanation: To provide funding for poverty research grants and contracts.

Accomplishments in FY 1976: Policy Research funded projects addressing a variety of poverty problems. The University of Wisconsin Poverty Institute was supported in conducting basic research on poverty; major studies were continued on the impact of alternative health insurance plans on medical services utilization by low and moderate income groups; an update of the 1967 survey of persons institutionalized in long term care facilities was completed; experiments with alternative income maintenance systems were continued, with preliminary results obtained for one of the three experimental sites; and significant progress was made in developmental work for the design of an improved survey of population income and social characteristics.

Objectives for 1977: The 1977 budget request for Policy Research includes $24.9 million, the same as the FY 1976 obligational level. Of this, $10.7 million will continue research -- primarily major experiments -- into effects of income maintenance systems; $5.2 million will continue health insurance studies which provide data useful in understanding the effects of health services systems; $3.6 million will continue studies dealing with other human resources problems; and $5.4 million will provide for continuation of research on the basic causes of poverty, design work for an improved income survey, and the improvement of statistical data on poverty.

1/ Section 232 of the Community Services Act of 1974, as well as Section 1110 of the Social Security Act.

Transition Quarter Analyses

	1976 Estimate	Transition Quarter
Appropriation	$24,950,000	$6,575,000
Total obligations	$24,950,000	$6,575,000

Explanation

The transition guarter amount of $6,575,000 will maintain the fiscal year 1976 level of funding during the interim quarter.

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