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Remarks by the Comptroller General of the United States, Elmer B. Staats, before the Joint Meeting of the Gamma Epsilon Chapter of the Pennsylvania State University, Beta Alpha Psi, and the Central Pennsylvania and Williamsport Chapters, National Association of Accountants, University Park, Pennsylvania, May 12, 1969

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THE GROWING IMPORTANCE OF MANAGEMENT AUDITORS IN GOVERNMENT

This is one of those moments when it is difficult to express one's sense of debt and appreciation to others in the precise symbols of the balance sheet. Perhaps my feelings at being made an honorary member of your national accounting fraternity may appropriately be delineated on three levels.

First. To one who has not been formally trained in the accounting profession to be admitted into its professional society is a rather unique event in one's life. Some might even accuse me of parading under false colors!

Second. To the more than 2,300 professional accountants of the U.S. General Accounting Office it is a signal honor that the one who heads them should be so recognized.

Third. To the Office of Comptroller General, which carries with it major responsibilities for improved financial management of the departments and agencies of the Federal Government, it is an expression of professional support that will be lasting and invaluable.

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If there is one profession that government at any level as well as business at any level cannot do without it is the accounting profession. A hundred years or so ago anyone who worked in a civil capacity in the government was usually known as a government clerk even if the term really did not convey his professional standing or contribution. A clerk is defined by a dictionary as

a person who keeps the records and performs the routine business.

Keeping the records of government in the early days of this republic must have been a comparatively simple matter. Government itself was simple. In the General Accounting Office we have a payroll voucher of the year 1800 for the men who guarded the new Capitol building and the President's house, as the White House was first known. This voucher was prepared on a plain piece of paper--obviously additional copies were unheard of--and the men who stood the guard duty acknowledged payment by making an "x" after their names. They could not write.

The simplicity of recordkeeping in those early days did not last long. The necessity for keeping copies of everything became commonplace long before the Civil War even if the copies had to be made in longhand, as was the case. Undoubtedly, the duty of the government clerk in Washington for many decades was, as the dictionary says, "routine." And to a considerable extent of course it still is. It could hardly be said that this holds true for the college-trained accountant working for the U. S. Government today.

For one thing, professional government accountants by the essential nature of government services today have to become well-informed in highly specialized fields such as space technology, atomic reactor processes, medical research, poverty program management, farm and forestry problems, or economic assistance overseas.

Lastly, the college-trained accountant is too valuable a person to be wasted on routine matters. His expertise in preparing budgets, in tax matters, in organizing the financial requirements of long range construction, social or military programs, in assisting contracting officers in the purchase of every conceivable item imaginable--there are no less than 4 million separately identified items in military supply systems--makes him a most valuable individual. If the accountant finds himself in a situation that seems routine I doubt that his situation will remain routine for long if he is a man of salt.

These observations are particularly applicable to the college-trained accountant who comes to the General Accounting Office. When GAO was created in 1921, it was responsible for auditing the vouchers of the Government. This was an immensely detailed and voluminous job as you may imagine. Vouchers were delivered by departments and agencies to GAO by the truckload. In those days the staff came closer to resembling the old-time Government clerk that I alluded to and his traditional symbol, the green eyeshade. Changes in legislation after World War II

shifted the responsibility for voucher-auditing for the most part back to the agencies and departments.

Two fundamental acts authorized the shift in General Accounting Office focus and activity away from voucher auditing to broader areas of audit responsibility. One was the Government Corporation Control Act--1945. The other was the Accounting and Auditing Act--1950. Of course there are many laws governing aspects of General Accounting Office work. New legislation is passed in every session of the Congress. But these two, plus the 1921 law creating the GAO, usually are considered the basic legal foundations for our work today.

I realize that to many of you--particularly the more senior ones here this evening--the term "auditing" usually has reference to accounting matters and financial statements. But the need for GAO auditing--management and performance or program auditing--is, as I have indicated, much broader.

The reduction in the formerly enormous volume of voucher auditing was accompanied by a reduction in staff, a change in the direction of our audit work--which I will discuss in some detail--and a gradual but steady improvement in the concept of audit work by the staff, an improvement that continued to the present and will go on. Now the business of government is largely one of management--organization of programs and procedures, supervision of the execution of these activities.

This is true in nearly all aspects of government activity--civil, military, scientific. In all these areas of management, the General Accounting Office became much more active beginning in the early 1950's. Today management audits account for the largest volume of GAO work.

Each year we send about 150 public audit reports to the Congress. We make many more than that--upwards of a thousand--but many are to the committees or Members of the Congress and seldom are made public and some are to the heads of departments and agencies and never are made public. During any 12-month period we make public audit reports on management activities in virtually every field of endeavor. Let me cite examples of the range of audits made during the past twelve months:

--an examination of the development and procurement by the Army of the Sheridan tank/weapons system. This showed a lack of effectiveness and control by the Army. GAO recommended changes in the Army's procedures for development of a weapons system.

--a study of Project Mohole, the National Science Foundation project to extend man's knowledge of the planet by drilling through about 25 miles through the earth's outermost crust. The program was terminated because its costs ran out of control. GAO found out why and so advised Congress.

--an audit of procurement of anthracite coal by the Army--mostly here in Pennsylvania--for use in Europe leading to a GAO conclusion that competition was lacking to ensure sale of the coal to the Government at

the lowest price and a revision of Army procedures to bring about greater price competition.

--another review of the commodity assistance or commercial import program for the Republic of Vietnam provided by the Agency for International Development. This review, one of several by GAO in this area, was made for the Senate Foreign Relations Committee.

--an evaluation of the many logistics problems involved in the movement of United States military forces out of France two years ago to other NATO countries.

--a report showing a need to strengthen controls by the Agricultural Research Service over the public sales of pesticides resulting in strong corrective action by the Department of Agriculture.

--an examination of costs accruing to the government when companies with defense contracts lease rather than purchase land and buildings needed for the completion of their work. GAO found it would be cheaper to purchase land and buildings rather than leasing and so advised Congress.

--disclosure by a GAO audit that the Government of Vietnam denied certain U.S. contractors permission to operate airlift services required by the contractor to fulfill the assignments which he had contracted to carry out for that country.

--a recommendation that the Department of Interior improve its procedures for acquiring wetlands--marshes, bogs, swamps--for purposes of conservation of waterfowl.

--a study to determine whether or not the Department of Defense could achieve economies through consolidation of its maintenance of property operations. DoD maintains 29.5 million acres of land, buildings, streets, etc. GAO concluded that in areas of large military concentrations, such as Norfolk, Va., and Hawaii, consolidations could mean savings to the Government.

--a review showing that wives and dependent husbands of former railroad employees had not been paid annuities to which they were entitled. As a result, the Railroad Retirement Board established that 358 wives and dependent husbands of former railroad employees were entitled to annuity payments which could total over \$1 million annually.

--an assessment of the Army's management of its supply system in support of its combat needs in Vietnam. We found that while a high level of support was achieved, this was not accomplished without costly and inefficient procedures, a basic cause being a lack of a logistics organization capable of rapid and large scale expansion at the time needed.

--a recommendation based upon a broad and careful review that a thorough Presidential study be made of the role of nonprofit organizations having research and development contracts with the Government.

--a report showing that with the cost of maintaining automatic data processing equipment used by the Government now amounting to \$50 million annually, departments and agencies could achieve economies and also operating advantages by maintaining the computers themselves instead of having maintenance performed by outside contractors.

That may seem like quite a long list. It only suggests the breadth and the scope of our management audit work. I could have mentioned the work we did in Thailand uncovering thefts there of large amounts of POL--petroleum, oil, and lubricants--through collusion and forgery; or our review of the actual costs to the Government of Atomic Energy Commission research activities. But by now I am sure I have mentioned enough subjects.

At GAO we audit a government organization's activities quite as much with concern as to its policies and procedures as to its operations. As a result GAO audits become an important tool for government managers. They help the management of any agency scrutinized to see itself and its problems as viewed by a competent outsider. They also help the Congress particularly with respect to appropriations, in making special investigations, and in providing a basis for new legislation.

In other words, GAO is often the eyes and ears of the Congress with respect to assisting the Congress to carry out its mandate of legislative oversight on the Executive branch of the Government.

I doubt that there is anywhere in the United States a greater need for a large team of competent auditors than at the GAO. In any case we at GAO believe this because the United States Government is the largest and most diverse operation in the world and its operations are conducted throughout much of the world.

Efficient, economical control of these programs is frequently difficult because of their size, complexity and diversification.

I am sure the members of the National Association of Accountants present will understand me when I say that management responsibility for government programs lacks the built-in forces of control available to management in commerce and industry through the necessity of profit. In private enterprise responsibility can be readily placed at every level of management through the profit and loss yardstick.

How does an audit agency such as the GAO make a useful audit of an activity when there is no profit and loss to measure by? We do so by measures to which I have referred: economy, efficiency, and effectiveness. In other words, we review and examine how public funds appropriated to the departments and agencies have been used, or applied. We check on the systems of management of each Federal unit, large or small.

When waste or inefficiency has been identified GAO

--makes suitable inquiry into the circumstances or reasons

for its occurrence:

--finds out whether it is an isolated or a recurring problem; and

--recommends actions necessary to correct the basic problem.

To our traditional reviews of economy and efficiency--in which we have had a great deal of experience--we are increasingly adding a third what I might call "E" factor, or the factor of effectiveness. I am sure you have heard about cost effectiveness as it is applied to Federal Government and particularly defense programs. GAO has been stressing the importance of the "effectiveness" factor for sometime but it remains a new and not fully tested area for us.

We try to evaluate what has been accomplished by an agency in a given period of time measured by what it set out to accomplish and by what it cost. **As you all may imagine, this is not easy. It is, in fact,** an art or a science in which GAO continually is striving to become more proficient.

Let me give you an example of effectiveness evaluation in detail.

In December 1967, the law establishing the Office of Economic Opportunity and its programs, called the Economic Opportunity Act, was amended. As Comptroller General, I was directed by this amendment to make, through the General Accounting Office, two findings about OEO's war on poverty programs.

First, to determine the efficiency of the administration of the programs conducted by the OEO.

Second, to evaluate the extent to which these programs achieved the objectives of the act.

We made a nationwide review of all the major OEO programs such as Community Action, manpower, health services, education programs, legal services, VISTA, and so on. This was one of the largest audits that GAO has ever been called upon to make. It strained the resources of our audit staff not only in Washington but in our 16 regional offices throughout the country. At times we had as many as 250 auditors at work on this assignment. We are still completing audit reports on individual activities that we examined in depth.

Our summary report went to the Congress about the middle of March where, with the individual reports, some 50 in all, it will be undoubtedly useful to the committees and members as they consider legislative proposals for changes in the program.

As auditors we were faced with many imponderables difficult to resolve.

--Criteria was--and still is--lacking by which to determine at what level of accomplishment a program may be considered successful.

--Methods for determining program accomplishments have not yet been developed to a point of assured reliability.

--The large volume, and variety, of data pertinent to ascertain program results have been, and still are, either not available or not reliable.

--Program results may not be fully perceptible within the relatively short time that the war-on-poverty has been underway.

I will mention one more. How do you define poverty? What definition will serve adequately a nation whose northern states, such as Maine, are bordered substantially by Canada and whose southern states are bordered by Mexico or semi-tropical regions? What is poverty in the country and what is poverty in the city?

As might be expected, our audit of the policies, procedures and programs of OEO showed accomplishments in some areas and deficiencies or, as they say in government, shortfalls in others. Our report included

several volumes of statistical analysis provided at our direction by outside consulting firms under contract to us. When all our reports are completed I suppose it is safe to say that this will be one of the largest and most complete studies ever made of one of the broadest attempts any nation has ever undertaken to eradicate poverty.

Let me now turn closer to home--to Pennsylvania--and tell you about a very different type of audit report that was also nationwide, directed not from Washington, but from the GAO Regional Office in Philadelphia by Mr. James Rogers, the manager, and his staff. I am sure Jim Rogers is familiar to many of you both in the accounting profession and here on the Penn State campus where he comes every year seeking qualified accounting majors to join GAO upon graduation.

In a report to the Congress in 1966, GAO pointed out a case in which a contractor doing work for the Defense Department had leased facilities with which to fulfill his contract instead of purchasing the facilities outright. It cost more to lease the facilities than if the contractor had purchased them. The cost was chargeable, under the terms of the contract, to the government and this was done.

Here is one of the things GAO is continuously on the watch for and illustrates why we are sometimes called the Government "watch dog"--we are seeking ways by which to hold down the costs of government projects and programs. Accordingly, our headquarters in Washington asked

Mr. Rogers in Philadelphia to prepare a program and to direct an expanded audit to determine how extensively this practice was being followed by other DoD contractors. The cost of lands and buildings of 17 large contractors at 20 locations where Government work was being carried out were reviewed. The field work was performed in Boston, Detroit, Kansas City, New York and San Francisco as well as Philadelphia.

Mr. Rogers' report found that the leasing of these lands and buildings resulted in greater costs to the Government than would have been the case if the facilities had been purchased by the contractors.

Had the facilities been purchased, acquisition costs recoverable by the contractors under Government contracts would have been limited to amounts charged as depreciation.

By **the end of the initial leases at the locations reviewed, the additional** costs to the Government could amount to about \$55.8 million. Furthermore, if all renewal options are exercised, additional costs could amount to as much as \$99.3 million.

As a result, the Department of Defense now has under consideration a study which could lead to a change in the guidelines for the negotiation of profits and fees that would take into consideration the contractor's investment in facilities.

GAO plans to follow the progress of the DoD study and of the effect of any resulting changes which may be made in its guidelines.

This case is a fair illustration of problems that arise through charges levied by contractors for work performed. For years our audits

have shown many variations in contractor charges. The Department of Defense, through its Armed Services Procurement Regulation, has sought to establish uniformity in these matters but results have been inconclusive. Over the years, GAO also has not been unmindful of the need for firm and well developed guidelines for contractors to follow in determining costs under Government contracts. We have worked closely with the Department of Defense toward that end. Congress also has shown interest in obtaining more uniformity in all accounting for negotiated contracts and of late this interest has approached a conviction that improvements are needed.

As a result legislation was enacted in the spring of 1968 directing the General Accounting Office to

Undertake a study to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contract and subcontract defense procurements of \$100,000 or more; and

To carry out such study the Comptroller General is directed to consult with representatives of the accounting profession and with representatives of that segment of American industry which is actively engaged in defense contracting.

This is GAO's charter for the feasibility study we have now undertaken. We must make our report to the Congress in eight months, by December 31.

The problem of attaining comparability of accounting results has been one which accountants have been attempting to solve for many years. The conclusion they have usually reached is that diversity in accounting among independent business entities is a basic fact and that makes the ideal of uniformity unobtainable.

However, the concept of uniformity, particularly as it relates to the costs under Government contracts, has continued to attract attention. There are potential benefits and advantages to be attained. These have to be weighed however against possible increased costs, loss of supply sources, and burdensome duties of assuring compliance and reviewing results.

We at GAO long have believed that before any requirement is established by law that uniform cost accounting standards be developed for imposition on Government contractors, considerable research and study would be necessary. The practicability of developing uniform cost accounting standards, the variations and methodology involved in the various production processes and managerial techniques, and possibly the detail in which such standards should or could be prescribed--all these would have to be determined.

Defense contracts cover an almost unimaginable variety of products and services. These range from very large single items such as one-of-a-kind warships and space launch vehicles to small items such as hand weapons and special tools produced by the tens of thousands. The electronics, food, aerospace, steel, aluminum, machinery and scientific instrument industries, among many others, are involved. The contracts represent a diversity of products such as services, scientific research, development of new products, production of hardware, chemicals, and some not even recognizable by laymen.

Almost as great a diversity is found in the manufacturing processes used by the contractors and in management techniques used in controlling their production.

Contractors' accounting systems are developed primarily to satisfy their own requirements with respect to production methods, managerial techniques, and other needs imposed by the type of industry, their board of directors, and their stockholders. Each accounting system serves several purposes not all of which are defined with the same degree of importance or degree of need even in the same industry. We are therefore faced with many difficult questions on which we need all the help we can get.

The National Association of Accountants is making available to us the results of a research project now under way. This involves identification of cost accounting practices applied to Government contracts and is being performed by Dr. James Bullock of the University of Michigan. NAA agreed to formulate a statement of its recommended approach to cost accounting standards. The statement would point out the appropriate role of economic and engineering as well as accounting considerations in support of management's decision-making requirements.

Dr. William J. Vatter of the University of California has undertaken for us a study of cost accounting theory. He is searching for those basic ideas which together may provide a coherent and logical structure for cost analysis under varying conditions.

The American Institute of Certified Public Accountants has undertaken a project to determine the relationship of cost accounting principles to "generally accepted accounting principles." The American Institute also is studying depreciation accounting and inventory accounting.

In all we are consulting with representatives of 9 national accounting and industrial associations.

In February GAO sent comprehensive questionnaires to about 2,175 companies, or their divisions, plants and affiliates (two thirds of them defense contractors) and institutions seeking information concerning current cost accounting practices and information as to types of uniform standards which might be feasible to adopt.

The information GAO is seeking will be compiled from analyses of responses to the questionnaire. To assure maximum response and reliability, we made provision for full control--receipt, tabulation, and summarization--of the completed questionnaires by Professor Robert K. Mautz of the University of Illinois. He is receiving them from the companies and institutions and will act as an independent consultant to evaluate and summarize the data for GAO. Each company's or institution's answers, therefore, are being treated confidentially and will be returned by Dr. Mautz to the respondent, or destroyed, as desired by the respondent.

A draft report, based in part on the questionnaire returns, will be submitted to interested industrial and accounting organizations and government agencies for review and comment prior to the GAO final report to the Congress.

The legislative history of the act creating the GAO study (Public Law 90-370) indicates the intent of Congress that we explore the possibility

that the Armed Services Procurement Regulation, Section XV, could be used as a starting point for the development of "uniform cost accounting standards."

A technical explanation is needed here:

Section 15 contains general cost principles and procedures for use in establishing the validity of contractors' claims for reimbursement under cost-type contracts. It is also intended to be used as a guide, where appropriate, in evaluating cost data in connection with certain negotiated fixed price contracts and contracts terminated for the convenience of the government.

As I have indicated, we have asked various professional accounting and trade organizations to study Section XV to identify its strong points or its weak points; to express opinions as to its suitability as a starting point; and to suggest what would be needed if it were used as a basis for developing uniform cost accounting standards.

Dr. Robert N. Anthony of Harvard University and former Assistant Secretary of Defense, Comptroller, also will make a special study of Section XV for us.

While I may not have made the point as directly as I might, or perhaps forcefully enough, let me say that this study is an undertaking of unknown possibilities for Government and, I believe, for industry and the accounting profession. This year's step--as the law requires of us--is to see what we can find out.

It is an appropriate undertaking. After all, the 20th century is a time when men do things that have not been done before. This dictum applies to the accounting profession, or any other, to do things better in the future than in the past. It applies also to those of you who are about to enter the profession.