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AUDITING IN GOVERNMENT--
HOW IT SERVES MANAGEMENT TODAY AND
WHAT THE FUTURE HOLDS

INTRODUCTION

I am very pleased to be here today to speak to this joint meeting of the Federal Executive Board and the Association of Government Accountants. It gives me a unique opportunity to share some of my thoughts on government auditing with both top level agency operating officials, regional audit directors for the same organizations and other government accountants and auditors.

What the term auditing encompasses and how that function is performed has changed very significantly in the past 10 years and it is almost certain to continue to change in years ahead. Consequently, today I want to give you my views on where government auditing is today and where it is going. At the same time, I want to tell you something about the benefits effective auditing can bring to an organization and how operating officials can use audit as a tool for improving their efficiency and effectiveness and thus do their own jobs better.

WHERE GOVERNMENT AUDITING IS TODAY

Auditing, as an important management function in Federal agencies, has developed gradually over the years. Today, in addition to the General Accounting Office which has statutory responsibility for auditing

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executive agencies, most Federal agencies have internal auditors engaged in audits of internal operations. Many of them also have auditors engaged in audits of their contractors and grantees.

Also, every State has a State auditor--some elected, and some appointed by the legislature or the Governor--who has broad audit responsibilities. Many State departments also have internal auditors.

Finally, there is an increasing trend toward audit staffs in city and county governments. We know of a number of audit staffs at this level who are doing comprehensive and sophisticated audit work.

The real story about government auditing is not its growth, however, but the expansion of its scope. As a result of this expansion, the government auditor serves a much larger role in government operations than he did in earlier years.

In the early days of governmental auditing, the work of the auditor was largely confined to verifying correctness and legality of financial transactions, checking the accuracy of accounting and other fiscal records, and determining whether agency personnel were complying with management's instructions in performing their work. These are still important functions and government auditors still perform them, but today they do many other jobs as well.

Today, a great deal of the auditor's time is spent in assessing whether the organization he is auditing performs its job efficiently and economically and with the broader question of whether the organization is accomplishing its goals effectively.

With the addition of reviews of (1) economy and efficiency and (2) effectiveness in attaining desired results for agency programs and activities, the work of the government auditor has become both more important and challenging.

BENEFITS OF AUDITING

Before proceeding further, I think I should give you some of my views on the benefits of auditing.

- In the financial area, government auditors perform important work in keeping managers advised of the reliability of the financial reports they receive. No manager who has relied on financial reports in making an important decision and then found the data in the report was wrong will question the desirability of having such statements audited. Such audits are a function with proven worth over a long period of time. The very existence of an internal audit department and the possibility that records may be audited, tends to keep agency personnel on their toes and trying to do a better job.
- In large organizations, legislators and officials usually try to get operating people to perform their jobs in accordance with prescribed rules and regulations. These rules and regulations may be part of laws which authorize programs or may be administratively determined to provide effective management control over resources. In either case, our long experience has shown that it takes continuous effort to see that such regulations are complied with.

In fact, a very common audit finding is that management has worked out a sound plan for performing one of the functions the agency is responsible for, but its instructions have not been followed. As a result, the program is not achieving its objectives or is more costly than necessary. This aspect of auditing, which is an important part of compliance auditing, is very important to management. It is one of the best ways for management to find out whether people are really following the guidance given to them.

--Auditing to identify ways to improve economy and efficiency is one of the most exciting and constructive types of work auditors do and it is one in which their accomplishments are most readily measurable. We in GAO do a great deal of this type of auditing. Let me cite a couple examples of the kinds of savings that result from such work.

--Several years ago, the Department of Agriculture adopted a plan for overhauling its management system which included procuring a departmentwide computer network. GAO's review of the plans and proposals brought to light so many unanswered questions about sites, configurations, interfaces with communications equipment, and privacy and security considerations that we concluded more and better planning was needed and recommended canceling the proposed procurement. The Congress cut the Department's budget, based on our report, forcing the cancellation. Estimated savings will run about \$400 million.

--Our review of Navy and Air Force methods of charging foreign countries for training pilots showed inconsistencies between the services and failures to obtain reimbursement for all costs. Based on our analysis, the Congress directed more complete recovery of such costs and reduced the applicable appropriations. As a result, future costs are expected to be reduced by about \$68 million a year.

--Auditing program results is the newest and perhaps most challenging type of work of the government auditor. The objective here is to find out whether the program or activity is achieving the objectives set for it and to analyze the reasons for shortfalls. Here are some examples from recent GAO work:

Environmental Impact of Projects

--We have reported to the Congress that environmental assessment efforts for proposed projects have been ineffective. Our report pointed out that in the 5 years since passage of the National Environmental Policy Act, the Department of Housing and Urban Development has not put into effect an adequate program for assessing the environmental impact of projects proposed for its approval. We pointed out that HUD will need to place a higher priority on meeting the law's requirements. We recommended--as one way of making the law effective--that responsibility for implementing it be raised to a higher level within HUD.

Radiation Hazards

--We have reported to the Congress on the ineffectiveness of existing methods to control radium hazards from uranium mill tailings. We stressed the importance of continuing regulatory authority and establishing periodic inspection to insure continuing integrity of tailing control and stabilization programs. Our report pointed out that long-term exposure to low level radiation from uranium tailings can produce an adverse health effect.

Training

--We have reported on the need to improve efficiency of reserve training. We estimated that in FY 1974, reservists' time devoted to other than official jobs or spent idle cost the Federal Government about \$1.2 billion. Our report pointed out that some members in all reserve units can maintain proficiency under a reduced training schedule. We recommended that Congress amend existing laws to permit varying Army and Air National Guard training by categories according to the kinds and degrees of training.

Agricultural Forecasts

--In one report, we discussed the Department of Agriculture's forecasts of wheat and corn acres harvested, yield, domestic demands, exports, carryovers, and prices. We found that they have not been sufficiently accurate in recent years. Our report showed how the off-target forecasts and misjudgments of farmers' responses to cropland set-aside programs

contributed to higher price-support payments and too much land being held out of production.

Federal Housing Inspections

--We have reviewed how the Departments of Housing and Urban Development and Agriculture and the Veterans Administration administer programs which assist consumers to purchase houses. However, inspections made by the Federal agencies and the warranty they require are not adequately protecting consumers. Many families are purchasing houses which contain defects or are confronted with uncorrected defects covered by the warranty for which they have no effective recourse. As a result, the agencies are not fully achieving the objective of assisting in the purchase of decent, safe, and sanitary housing. Also as a result, families face unexpected financial hardships, and costs may be incurred by the Federal Government to repair defects. One or more of the Federal agencies need to strengthen their inspection procedures and test the effectiveness of alternatives to the warranty currently required to better protect buyers of homes.

Auditing program results has a long way to go before it becomes as commonplace in all government circles as audits of economy and efficiency and an even longer way to go before it attains the maturity of financial auditing work. It is, however, an area in which there is great interest by legislators, the public, and increasingly by agency officials.

To proceed further with benefits, auditing is one of those rare functions about which it can be said, "it doesn't cost it pays." We in the General Accounting Office are constantly trying to identify opportunities to improve the economy and effectiveness of Federal programs and operations. Where possible, we make estimates of savings which are directly attributable to GAO recommendations. Such measurable savings amounted to \$503 million in FY 1975. Of this, \$147 million will continue to be saved annually in future years. Over the past 2 fiscal years, measurable savings resulting from our work totaled nearly \$1.1 billion.

In addition, numerous actions resulted in financial savings which could not be fully or readily measured. Examples include reducing the investment in modernization and expansion of ammunition plants (which could save approximately a billion dollars in future years), reducing grant aid for the Korean Security Assistance Program, substantial savings possible through increased agency purchases through the General Services Administration, and eliminating duplication between the Department of Defense and the Energy Research and Development Administration in the development of nuclear weapons.

Even more important is the large number of recommendations we make which, while not resulting in immediate dollar savings, point to ways to improve program effectiveness. For example, our work has helped to expedite disability compensation payments, change the military body armor program to further emphasize reduction in casualties, increase control and consumer awareness of salmonella in raw meat and poultry, improve control over suspected fraud and abuse in Medicaid, strengthen energy conservation

standards for new homes, and provide better job placement assistance to displaced Federal civilian employees.

NEED FOR EFFICIENCY AND
EFFECTIVENESS IN AUDITING

Within the Federal establishment, there are about 50 audit organizations that employ 9,800 professionals plus their supporting staffs. The annual budget of all these auditors runs well over \$260 million, and this does not include the cost of the independent public accountants who are often engaged to perform audit work, particularly in grant programs.

At the State level, we find at least 75 centralized State audit agencies. Considering auditors attached to the various State operating departments, I am sure there are more, but these are the ones that we are aware of right now. We recently surveyed this area and found that 60 of the 75 agencies, who submitted data to us, have in excess of 4,000 professional staff members, and 58 of these 75 agencies have an annual budget of over \$76 million.

With this much effort and cost going into the auditing function, it follows that auditors should try to do their work as efficiently and effectively as possible. This means working efficiently and avoiding duplication of effort.

Auditing efficiently and effectively really has two aspects to it-- first, what the auditors must do and, second, what management must do. Let's consider these separately.

What the auditors must do

The auditors must, of course, be knowledgeable of auditing procedures. They must be trained, educated in their profession, and knowledgeable of

the programs and activities that they audit. They must know the intricacies of the operations, the rules and regulations under which the program is operating, and the goals which have been established for it.

Auditors must plan their work carefully to provide maximum coverage in a minimum length of time. Auditors must try to prevent areas from going unaudited over the required audit cycle. Consequently, they must be aware of the work of other audit groups and avoid overlaps and duplications in effort. This is most important when one considers the cost of auditing in the first place. This awareness should not only relate to Federal, State, and local government audit organizations, but also the various audit organizations within each level.

With the limited auditing resources available, it becomes very important to use the work of other audit groups in the review of an agency's federally assisted programs whenever that work is adequately performed.

The need to rely on each others' work was a major stimulant to our publishing in 1972 our comprehensive statement of "Standards for Audit of Governmental Organizations, Programs, Activities & Functions," better known as the "yellow book." An important concept underlying these standards was that an audit made in accordance with them should be acceptable to all interested levels of government and that each would not think a separate audit necessary. These standards provided for the broad audit scope I have already mentioned. These same concepts have been incorporated into our guidance to internal auditors entitled "Internal Auditing in Federal Agencies."

Finally, government auditors must do a better job of cooperating. There is still a need to (1) coordinate their plans with those of other

auditors having overlapping responsibility, and (2) develop procedures and cooperative work relations that will permit auditors of all types and at all levels of government to rely on each other's work.

What the manager must do

If audit is to be fully productive, the manager's contribution to the effort is an important one. The auditor's job is to point out problems and bring them to management's attention. However, the auditor does not have the line authority needed to act upon his recommendations. Thus nothing happens, unless line management acts to correct the problems the auditors find. Here are some of the things I think management needs to do.

--First, management's role with respect to internal auditing. The internal auditors' placement as part of an agency puts them in a unique position to help management. Given the opportunity, internal auditors can serve as the "eyes and ears" of management. In large organizations like most government units, management needs information on how things are working out. Internal auditors can provide much of this type of information. What it takes is for management to view the internal auditor in this light and use the results of his work accordingly.

--Managers should also consider auditors' findings and recommendations carefully. Here I refer to both internal auditors' findings and those of external audit groups like GAO. They may not always agree with the auditors' findings nor will they always accept their recommendations but managers can usually get a lot of useful information from the auditors' reports. Managers who do not react

defensively but consider the auditors' findings and recommendations objectively and move to correct the problems described get much more out of audit work and spend much less of their own time on the matters than those who are defensive.

--Managers need to support auditors in reducing the avoidable restrictions on grantees' use of funds. One of the most bedeviling problems in auditing work today is the vast number of "strings" put on grant moneys. Some of these "strings" are required by law but many are administrative. Such requirements present administrative problems for grantees and they also complicate the auditor's work since he must check into them and make time-consuming analyses to see whether the requirements were complied with. Much effort is underway to simplify such requirements including the development of standard audit guides which will try to limit such requirements to those most essential. Auditors will need your cooperation to make this effort work.

--Finally, funding problems have to be worked out. Present requirements in Federal Management Circular 74-4 require that any audits done by State or local government for the Federal Government be considered part of grant costs and recovered through overhead charges. For many State and local auditors, this does not work well. Often they are in the legislative branch of their government and have difficulty getting funds from the executive side for auditing work. In some cases, they are not allowed to keep the money even if they get it,

so it does little to help them make the audits the Federal Government wants performed. This is a complicated problem which needs the best efforts of all of us to solve.

Real progress in improving auditing and its usefulness to management and legislators will require cooperation among all of us.

WHERE IS AUDITING GOING

In discussing where auditing is going, I would like to first share with you some predictions I made at the joint meeting of the national and the 10 regional audit forums in New Orleans on last January. These predictions were that by 1986:

- Larger programs will be audited cooperatively by Federal, State and local auditors.
- Governmental audit staffs almost universally will be able to do all three types of audit work; i.e., financial and compliance, economy and efficiency, and program results.
- While all grants will be subject regularly to financial audits, specific grants to be audited for compliance with laws and regulations, economy and efficiency, and program results will be selected using statistical sampling methods on a national basis by Federal, State and local auditors working together.
- Audit staffs will be multidisciplinary staffs which include accountants, mathematicians, economists, data processing specialists, and others in accordance with the demands of particular jobs.
- Grant requirements will be greatly simplified and procedures for auditing them standardized.

--Information on how well programs work will be regularly considered by legislators before reauthorizations are voted on.

As you can see I visualize 1986 as bringing, not a radical change in approach, but more the achievement of what we are now working toward.

If managers and auditors work together productively, I believe these goals are practical and achievable. The results will be better information, better managed programs and more effective programs.

INTERGOVERNMENTAL AUDIT FORUMS

Before concluding, I would like to say a little more about the intergovernmental audit forums. I think the forum is important to you meeting here today. To the Federal Executive Board, it is a sister organization which can help to work out some of the vexing problems involved in auditing grants. The forums also have a close kinship with the Association of Government Accountants. The forums and AGA share many members and have many of the same aspirations, such as improving auditor training and promoting better financial management. I think both organizations have a stake in supporting the forum movement. With your support, I think the forums will be a major force in moving toward the kind of a future I see for auditing in 1986.

The forum movement started about 4 years ago when six State auditors came to my office to discuss some of their problems in dealing with Federal departments and agencies on auditing matters. They said they often had problems with the Federal audit work that required discussion with one or more Federal agencies. They had great difficulty finding the right people to talk to or the right office or offices to visit to solve their problems. At that meeting the State auditors urged us to take the lead in creating

an organization where such problems could be discussed by the appropriate people and resolved.

The National Audit Forum was officially chartered on November 5, 1973. Originally the membership consisted of the representatives of 16 Federal agencies with grantmaking or Federal Government-wide responsibilities, 6 State auditors elected by the State auditors from their respective regions, and 6 local government auditors selected by the Municipal Finance Officers Association.

The number of State auditors in the National Forum has since been increased to 10. One is elected by the State auditors of each region. With the signing of the charter by the members of the Pacific Northwest Forum in October 1974, all 10 regional forums became operational. We in GAO are pleased that we have been active in helping to get the forum movement started.

CONCLUSION

The General Accounting Office has long supported the development of strong auditing systems in government. We also believe strongly that government auditors need to cooperate in avoiding uneconomical duplication of effort and to effectively cover the immense responsibilities assigned to them. With the positive support of management and a cooperative attitude and hard work by auditors at all levels of government, we will have effective auditing of government programs without duplication and some of the other problems we face today.

I urge you to work together to simplify audit requirements and help auditors obtain the training they need to develop the skills required to

perform their work more effectively. By improving their work we will improve the quality of the information flow to management and thereby contribute to improving the operations of our respective governments.

Dean's Forum, UCLA
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Paragraph furnished Bob Nero, Director of Communications, UCLA Graduate School of Management, for media use. Mr. Staats will speak from notes.

Congressional Oversight and Evaluation of Federal Programs: The Changing Role of the United States General Accounting Office

A number of recent developments bearing upon improved congressional budget procedures and the review and analysis of the effectiveness of Federal programs are of major importance to all who are concerned about the effectiveness of Government and the growth of Federal expenditures. The Commission on Government Procurement has had a noteworthy impact on Federal policies affecting nearly \$60 billion in Federal purchases. The current Commission on Federal Paperwork is charged with reviewing the paperwork and the reporting burden on industry, labor, educational institutions, and others who must file reports with the Federal Government, including the Internal Revenue Service. The Commission is making good progress and is scheduled to report the end of the next calendar year. Hearings have recently been held in the Senate on a variety of bills which provide for periodic reassessment of the value of programs; notably, the Government Economy and Spending Reform Act of 1976, sponsored by Senator Muskie with the support of nearly 30 other senators. Senator Chiles of Florida has proposed the establishment of a Commission on Federal Aid Reform with a similar objective aimed at "a complete review and overhaul of \$60 billion a year in aid, assistance and grant outlays now flowing to states, counties, colleges, nonprofit groups, and others, from the Federal Government." The Congressional Budget Impoundment Act, effective for the first time this year, provides for a radically new method for determining the size of the Budget and Federal spending priorities. In all of this, the General Accounting Office is playing an increasing role not only in supporting efforts of this type but also in expanding its own efforts to improve the economy, efficiency, and effectiveness in Federal programs.