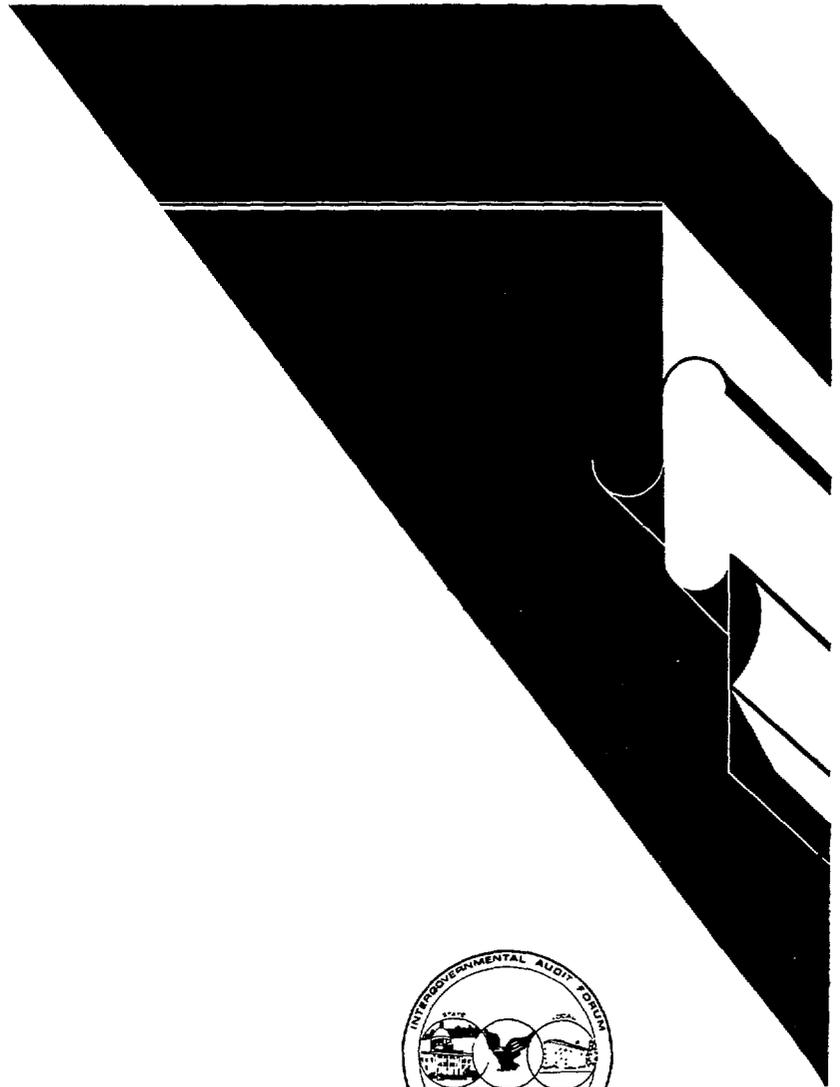


Intergovernmental Audit Forums—Joint Conference Report
More Efficient And Effective Governmental Auditing



“The forums are***a
real intergovernmen-
tal relations success
story***of what can
be accomplished
through intergovern-
mental cooperation.”

 COMPTROLLER GENERAL
OF THE UNITED STATES

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INTRODUCTION

Since 1974, 11 intergovernmental audit forums have served as a meeting ground for audit officials from the 3 levels of government—Federal, State, and local. Objectives of the forums, which consist of the National Forum and 10 regional forums, are to exchange views, resolve issues before they become problems, promote the acceptance and use of "Standards for Audit of Governmental Organizations, Programs, Activities & Functions," and generally promote coordination and cooperation between the members and their audit organizations.

Early in the formation of the forums, Elmer B. Staats, Comptroller General of the United States, recognized the value of exchanging ideas not only within the individual forums but also between the members of all the forums. He suggested that periodic joint meetings be held to discuss important timely matters affecting the audit community.

This meeting was the third biennial joint meeting of the forums.

The first was held in January 1976 to discuss major audit issues. "Initiatives for Improving Governmental Audits" was published to cover the conference's proceedings. In addition, many projects were initiated to improve government auditing and a system of status reporting on forum projects was begun.

In April 1978, the second joint conference was held to discuss issues such as the development of audit guides, quality reviews of audit organizations, the relationship of audit to the prevention and detection of fraud and abuse, and the progress and future role of the forums.

In each previous joint conference all attendees were scheduled to participate in discussions of each of several selected topics. But at its meeting in November 1979, the planning committee for the 1980 conference decided that more topics (17 in all) should be discussed and that participants should choose the workshops they wished to attend.

For the 1980 joint conference, discussion leaders for the several sessions included not only Federal, State, and local auditors, but also representatives from the public accounting profession, two Inspectors General, and program officials. We were indeed fortunate to have so many well-qualified individuals devote their time and expertise to leading discussions.

To encourage the exchange of ideas by scheduling two or more sessions on several of the topics, the number of participants in the individual workshops was limited to 30 to 35.

The keynote speaker, Kathryn Whitmire, City Controller of Houston, Texas, opened the conference by skillfully touching on the timely issues which were subsequently discussed in the workshops.

Comptroller General Staats closed the conference by stating his views on the important issues and challenging forum members to solve those remaining to be addressed.

This report summarizes the proceedings of the 1980 conference and will serve as a guide for future actions and projects for the forums.

As Mr. Staats said in his address, the increased emphasis on federally assisted programs means that auditors at all levels of government must work more closely together. The forum movement has played and will continue to play an important role in promoting such cooperation.

AUDITING FOR RESULTS

It is a privilege to address this Joint Conference of the Intergovernmental Audit Forums and to share some ideas with auditors who are interested in developing cooperation among audit groups in various levels of government. We in Houston have already benefited from this cooperative spirit between Federal and local government auditors when our internal audit staff conducted an audit with the General Accounting Office of Houston's public transportation system.

Houston initiated a new approach to public transportation in 1978 by creating an areawide transit authority—the Metropolitan Transit Authority. Public transit in Houston has been extremely controversial. The level of service did not meet the needs of our citizens, and no one really seemed to know why. The purpose of the audit was to identify reasons for the inadequate service and to make recommendations for improvement.

Based on this joint audit, GAO has produced a case study illustrating the benefits of expanded scope auditing in local government, thereby promoting the extension of audit services beyond financial and compliance matters into the operational areas of government.

During the course of the audit we were pleased to see actions taken by the Metropolitan Transit Authority to address operating problems pointed out by the auditors in the areas of bus maintenance and personnel management. We were also able to make elected officials and the public aware of the reasons why public transit has been inadequate.

Another benefit Houston received from the joint audit was an educational experience for our auditing staff. Experienced

auditors from the GAO assisted us in learning to perform broadscope audits in order to offer sound recommendations for solving operational problems in our city. We were very pleased with the results of this cooperative auditing effort, which was initiated through the Southwest Intergovernmental Audit Forum.

AUDITING TO MEET POLITICAL GOALS

From my perspective as an elected official and as an auditor, I would like to discuss with you the role of auditors in meeting what I would call "political goals," i.e., goals pertaining to public policy. Often I find that career government employees don't want to talk much about politics and have been convinced that politicians are people they really don't want to deal with. But my experiences both inside and outside of government lead me to a different conclusion.

Through the years that I worked as an auditor with a national CPA firm my energies were primarily directed toward assuring a fair presentation of the financial position and results of operations of my corporate clients. During those same years I also directed a great deal of energy to an endeavor I considered to be primarily a hobby. My hobby was politics—and through my political activity I was working to make government more responsive to the public—or more particularly, to see that the best possible government service was provided for the minimum number of taxpayer dollars.

I suppose it was some years later that I recognized the degree of overlap between dual goals I had been pursuing—that the same analytical ability and inves-



Address by Kathryn J. Whitmire, City Controller of Houston, Texas, Before the 1980 Joint Conference of the Intergovernmental Audit Forums, Dallas, Texas, April 23, 1980.

tigative techniques used by CPAs in audits of clients in the private sector might be put to work by government auditing teams in order to achieve the government efficiency so many of us are pursuing through the political process.

Today the major issue facing every level of government is how to provide an adequate level of service to the public at the minimum possible cost to the taxpayer. I believe that this is the public policy goal to which we as auditors can make a significant contribution. We must learn how to turn the work of the government auditor into real government action which will address this issue. We cannot be satisfied with the production of impressive audit reports. Instead we must focus on preparing audit reports which will communicate sound recommendations in a way that is going to cause changes to be made. If we don't do this, we might as well not do anything. If we can't change public policy through the auditing process, it is my

opinion that we don't need to be engaged in the auditing process.

There are three areas to examine in addressing this issue. First, we need to set standards for the quality of audit work. Second, we must establish the appropriate scope and subject matter of our audits. Third, we must learn how to communicate the results of the audit.

STANDARDS FOR QUALITY OF AUDIT WORK

Quality of audit work can be judged by the relevance and significance of the findings an audit produces and the workability of the audit recommendations. In examining the quality of an audit report, you should first determine whether the findings noted by the auditors are relevant to the governmental entity being audited. Relevance can be measured in terms of the significance of the issues raised and the amount of potential savings involved. A relevant audit finding must provide an opportunity to improve the quality of government services or to reduce the cost of services being provided. A relevant finding must also be accompanied by a workable recommendation. Merely pointing out an operating problem will usually accomplish nothing unless the auditor can also recommend a solution which will be considered feasible by the management of the governmental entity being audited. Therefore, auditors must work cooperatively with government managers. To accomplish the goal of improving management of government, an auditor must be willing to listen to the problems of managers, suggest possible improvements, listen to the reasons why the auditor's recommendations won't work, and make appropriate modifications to those recommendations. Auditors and managers have to work together to come up with audit recommendations which are workable and which will be put into effect.

SCOPE AND SUBJECT MATTER OF AUDITS

Much attention has been focused re-

cently on determining the appropriate scope and subject matter for audits undertaken at the local government level. I believe that auditors in the public sector are obligated to extend the scope of audit work beyond the financial arena. In the private sector, auditors can often focus on the integrity of financial data produced by the accounting system and the fair presentation of financial statements, because the measurement of performance in the private sector is profit, and all the auditor needs to determine is the reliability of the data used in determining profit. In government, however, the measures of performance are efficiency, economy, effectiveness, and results. The government auditor must answer the following questions: How efficiently and economically were the resources of government used? How effectively did we meet the goals established for our governmental programs? Were the established goals appropriate, and are the programs worthwhile? Are we spending the public's money wisely and are we getting our money's worth?

Since auditing resources are always limited, careful selection of subject matter for our audits will be important if we are to answer the questions enumerated above. Selection of an area of governmental operation for audit should be based on the potential for audit results. This potential may be indicated by the size and significance of the operating unit or by operating problems which have already become apparent. The first step in the audit should be a survey to identify the specific aspects of the operation which warrant a detailed audit because of potential cost savings to be identified or operating inefficiencies to be resolved. The materiality of potential savings must be evaluated against the cost of performing a detailed audit. If the audit team cannot identify during the survey phase a potential for the audit to produce savings in the cost of government or improvements in the quality of services, then no further audit effort should be invested.

COMMUNICATING AUDIT RESULTS

Communication of audit results is probably the most important issue for auditors to address today. An auditor cannot be content merely to say he has produced a quality product—he must be able to deliver that product to the person who can put it to use.

As auditors you may be able to find out where the dollars are being wasted, where governmental operations are inefficient, where resources are not being used economically, and which programs did not reach their goals. You may even have some good recommendations on how to streamline the operation, how to improve its cost effectiveness, and how to see that future goals are met. But unless you can communicate your audit findings and recommendations in terms that are meaningful and useful to those in authority, you won't be able to get anything done.

The job of the auditor will only benefit the taxpayers if you are able to spur on the bureaucracy to take the necessary steps which will reduce the cost of government and will produce better services at lower cost. All of the value of an audit can be lost if we fail in our efforts to communicate.

Not only must audit reports be meaningful and concise, but they must be directed to the right place within the power structure. In order to identify the right authority who can and will take action on audit recommendations, the auditor must analyze the politics of the entity being audited. You must find out who is really making the decisions and then determine how you can best motivate these decisionmakers to take the necessary steps to put your audit results to work. To motivate these authorities, you will need an audit report which is concise and to the point, which identifies the problem, provides adequate facts to support its conclusions, and points out solutions which will be considered workable by administrators and policymakers.

In communicating audit results, every auditor must have an understanding of the goals and objectives that his superiors have set for the audit effort. The results of each audit should contribute toward the accomplishment of these goals. In Houston, we have identified as our goal the streamlining of the bureaucracy to provide better city services at minimum cost. The results of each audit are then judged against this standard.

Regardless of the specific goals established, auditors must not be in the business of producing *reports*—we must be in the business of producing *results*. We can only make our efforts worthwhile if we identify those results and aim at producing reports which will bring results that are of real benefit to the taxpayers we serve.

THE SINGLE AUDIT CONCEPT

INTRODUCTION

Every year, billions of Federal assistance dollars flow to State and local governments, universities, and nonprofit organizations. These funds come from various Federal agencies and are administered by State and local agencies.

These funds may be audited by Federal, State or local government auditors or by public accounting firms. However, in many instances required audits have not been made. Also, through lack of coordination, individual grantees have received duplicate, overlapping audits by Federal, State, or local auditors.

Several recent letters and reports have pointed out the problems in auditing Federal assistance money. In a September 1977 letter, President Jimmy Carter stated that audit coordination must be improved to eliminate duplication and wasteful efforts. The Joint Financial Management Improvement Program's "Report on Audit of Federally Assisted Programs: A New Emphasis" and a June 1979 report by GAO, "Grant Auditing: A Maze of Inconsistency, Gaps, and Duplication That Needs Overhauling," highlighted many audit problems and suggested improvements. These reports recommended that a single audit be performed on all grant funds rather than grant-by-grant audits. Earlier reports dating back to 1969 made similar recommendations, but not much was done. As a result of the June 1979 GAO report, Congressman Jack Brooks' Committee on Government Operations conducted hearings and issued its report, "Failure to Provide Effective Audits of Federal Grants." The Committee agreed that the single audit concept should be imple-

mented and that the Office of Management and Budget (OMB), through its policy circulars, should provide the leadership and direction needed.

WORKSHOP DISCUSSIONS

Each of the three workshops started with a discussion of policies, procedures, and actions taken to implement the concept. Then other speakers and the audience discussed their concerns about implementing it.

Implementation of the concept

OMB issued attachment P, a revision to Circular A-102 on October 22, 1979, which directed Federal agencies to improve audit coordination and to increase their reliance on audits by State or local governments. The revision set forth the audit requirements for grantees receiving Federal assistance funds. It provided for independent audits of financial operations, including compliance with Federal laws and regulations. The requirements were established to ensure that audits are made on an organizationwide basis rather than a grant-by-grant basis. Further requirements in attachment P follow:

- Audits must be made at least every 2 years.
- Federal agencies should rely on recipient audits, but there is no limit on Federal authority to make audits.
- Federal agencies may use their own procedures to arrange for audits.
- Audits must be made in accordance with GAO standards, a standard financial audit guide, OMB compliance supplements, and generally accepted auditing standards.

- Audit tests must be made from the universe of all grants and must include all material cost categories.
- Irregularities found during audits must be reported to the cognizant audit agency and the recipient management agency.
- Audit reports must state various things, such as the audit period, programs funded, an opinion on financial statements, comments on compliance, system irregularities found, and corrective action taken or planned.
- OMB will designate cognizant audit agencies.
- Cognizant audit agencies will assure audits are timely and reports are disseminated properly, as well as provide technical assistance.

After issuing attachment P, OMB proceeded to implement the single audit concept. Four major documents were considered necessary to do this:

- A financial audit guide for all the Federal assistance programs.
- A list of cognizant Federal agencies for State governments.
- A list of cognizant Federal agencies for local governments.
- A compliance audit supplement for the standard financial audit guide.

The first two documents have been issued. OMB and GAO jointly issued the audit guide, the "red book," in February 1980. OMB listed the cognizant Federal agencies for State governments in the April 17, 1980, "Federal Register." The last two documents will require more time. Since an organization for local governments similar to the Council of State Governments does not exist, it will be harder to complete cognizant agency as-

signments for local governments. Similarly, the compliance factors will take time to develop for the 497 Federal assistance programs. OMB has decided to first develop features for the 56 major programs which represent about 90 percent of the Federal assistance funds to State and local governments. An exposure draft was published in the "Federal Register" on August 18, 1980.

Concerns about the concept

There was overwhelming support for the concept. Major benefits can be realized, including fewer but more efficient audits and less disruption of grantee operations. Although many participants expressed concern about the concept, it was agreed that some very practical problems existed, but that Federal, State, and local auditors will be able to solve them. The unanimous consensus was that the single audit's time had come. The following questions were answered by the participants:

1. *Q. What is an entity?*

A. This is being established on a case-by-case basis. In some cases, a State may be the entity when it has a centralized accounting system. In most States the individual State agencies will be the entities.

2. *Q. What are the major compliance factors?*

A. These are being worked on. Compliance factors will be established for 56 programs which represent 90 percent of the Federal assistance funds to State and local governments. They are essentially the major factors that affect the dollars, such as eligibility of beneficiaries and matching funds.

3. *Q. What is the audit period?*

A. Annually, but at least once each 2 years. If the audit is made every 2 years, both years must be covered.

4. *Q. Can a grantor agency have a single grant audited?*

A. Yes, but not as the audit required by A-102. It would have to be a sepa-

rate audit and would have to be paid for by the grantor agency.

5. *Q. Who receives Federal grant funds?*

A. Much of the information is unknown. There is no central location where the information can be obtained at this time.

6. *Q. Who arranges for audits—recipients or Federal agencies?*

A. The recipients arrange for the audits or follow the laws which dictate who arranges for audits. Attachment P states that the recipients may use their own procedures to obtain audit coverage.

7. *Q. Can an audit agency do additional audit work at a recipient organization?*

A. Yes. After a single financial and compliance audit is finished, followup may be necessary. But the additional work should take advantage of the work already done. Additionally, other types of audits may be made, such as economy and efficiency or program results audits.

8. *Q. We are on a 3- to 4-year audit cycle depending on the parts of government we are assigned to. We do not report in anywhere near the level of detail that the "red book" calls for. What's the level of reporting required?*

A. We assume you are now on a 2-year cycle in accordance with attachment P. Concerning the level of reporting required, the statements in the audit guide show how a comprehensive set of financial statements can be constructed. However, they serve as a guide only, and the audit report should contain such financial statements as the grantee prepared, a schedule of the various programs and amounts of Federal funds received, and a schedule of questioned costs.

9. *Q. Who is going to revise the OMB/ GAO audit guide?*

A. After there has been sufficient time to evaluate the guide, any revision should be a joint GAO/OMB effort.

10. *Q. Is the Federal Government going to pay for the level of auditing required in the single audit concept?*

A. The cost allocation method outlined in Federal Management Circular (FMC) 74-4 states audit is an allowable cost and the cost should be included in the overhead rate.

11. *Q. Why are we fully implementing the single audit concept before a complete plan is ready?*

A. It is not clear what is meant by a "complete policy plan." In the opinion of OMB, the single audit concept is the most logical one to audit federally assisted programs, and the administration's policy is to implement the concept as fast as possible. OMB recognizes that agencies might encounter problems, but such problems should be addressed as they arise.

12. *Q. How can auditors perform single audits when not all cognizant agencies have been selected and the compliance factors of the many assistance programs have not been published?*

A. The concept will take a long time to implement and won't be implemented perfectly. OMB will not say any audit organization did the single audit wrong for a particular grantee. But OMB will work with any organization wanting to do a single audit. This includes furnishing compliance factors which have been established and helping to select the cognizant agency. To make the single audit work, auditors need to get on with the process.

13. *Q. How does the single audit concept affect the audit work of minority certified public accounting (CPA) firms?*

A. The Federal Government supports minority firms. There is no intent that minority firms will lose out in doing single audits. There are many levels of audit, i.e., major agencies and subgrantee levels. The single audit impact is unknown with regard to minority CPA firms. OMB will monitor implementation to assure there is no adverse effect.

14. *Q. Does the grant closeout requirement remain under the single audit concept?*

A. Grants can be closed out by a single audit and single report unless an agency has arranged for a special audit of a grant. However, the agency should have a good reason for arranging a special audit. One reason may be that a grantee has management problems.

15. *Q. What if audits are not done?*

A. Sanctions may have to be considered. These could include revoking letters of credit, imposing interest penalties, reducing grant funds, or granting no funds.

16. *Q. How does the single audit concept affect small CPA firms when audit work increases and firms are too small to make timely audits?*

A. Small firms may need to hire more people, search for smaller grant recipients, or form consortia to do audit work. There should be plenty of work for every firm.

17. *Q. Small Federal agencies are leery of the single audit concept and do not fully understand it. Small agencies may not be cognizant for any program. Is there any concern that small agencies may divert their efforts to other types of audits, such as performance audits?*

A. OMB is aware of agency concerns but, as yet, not all cognizant agencies have been assigned. The fear may be in the area of monitoring. Agency program officials will have to monitor programs to obtain information that used to be in audit reports. Some information on compliance factors, e.g., the use of lead-based paint, would not be considered a financial item and would need monitoring by program personnel.

18. *Q. When is A-102, attachment P, effective considering that each Federal agency has to write agency regulations to implement the audit requirements?*

A. October 22, 1979.

19. *Q. Is a sole-source contract made when a cognizant agency has a State auditor perform an audit? Or should there be competition? What happens when a State law requires the State auditor to perform a specific audit?*

A. The circular calls for independent audits of Federal funds. For States, these audits will usually be part of normally scheduled State audits and the States will decide whether the audits will be made by State auditors or public accounting firms in accordance with State law or regulations.

20. *Q. Must contingent liabilities be reported?*

A. Yes. If a grantee spends money for unauthorized purposes, such as for services to ineligible recipients, that has to be reported.

21. *Q. What is the role of the National and regional audit forums in implementing the single audit concept?*

A. This has yet to be determined. However, the forums are currently providing information and holding seminars on the concept.

22. *Q. Has OMB approved a financial statement format for the single audit since CPAs prefer three reports—finance, compliance, and internal control reports?*

A. It is too soon to approve one. OMB prefers one report with three elements in it. Much work needs to be done.

23. *Q. Should all questioned costs be reported in single audit reports, even though they may not be material to financial statements?*

A. Yes.

Areas needing attention

While opinions varied on how to do single audits and no consensus was reached on solutions to specific problems, the spirited level of participation by most audit directors suggested the need for solutions to be developed. Several key opinions and key problem areas were stated.

Key opinions

- Federal support must remain strong and extend into all phases of Federal audit agencies.
- Program regulations governing audits must be modified and must be consistent with OMB circulars.
- All audit forums must reach out to all practitioners in their regions.
- The pace of implementation must be monitored.
- OMB must be prepared to allocate more of its own personnel when necessary.

Key problem areas

- Overall OMB planning needs to be improved. The single audit concept was developed without enough coordination between Federal, State, and local auditors. Questions such as the effective date to implement A-102 remain open when the concept is not yet fully implemented.
- Reimbursement is a major problem because the majority of States cannot cause a flow of funds to support the single audit concept through the indirect cost allocation plan.
- The role of the cognizant audit agency is not clearly defined. The major questions are: How can the State or local auditor correlate statutory responsibilities with those of the Federal cognizant agency if there are conflicts and how can the conflicts be mediated?
- A role for minority and small CPA firms needs to be developed. Both types of firms believe they will be struggling to stay in business. They hope OMB and Federal program emphasis will help maintain their roles in the professional auditing area.
- As we gain experience with the "red book," it will obviously need some revision. Participants expressed a desire, as they had before, to provide input to future revisions of the book.
- Compliance factors have been developed for 56 programs representing about 90 percent of the grant funds to State and local governments. However, such requirements have not

been promulgated. Participants believe input should be made by all levels of government as to what the compliance requirements will be and how procedures will be developed to test for compliance. A further concern is how the other 10 percent of grant funds (about 441 programs) are to be tested for compliance.

- Identification of grants by the Federal agencies seems poor. It is awkward for an auditor to have a grantee identify the funds without being able to confirm whether all the funds are included in the audit. A grant information system is needed.

There seemed to be full agreement that the problems should be resolved through the combined efforts of OMB, GAO, State and local officials, and the audit forums.

FRAUD, WASTE, AND ABUSE

INTRODUCTION

"We are concerned with more than saving dollars, crucial as it is today. We must continue to restore trust that must exist in a democracy between free people and their Government."

President, Jimmy Carter

Two essential and ultimate responsibilities of government are stewardship of public resources and providing economical and efficient educational and social services. In an era of public resistance to government spending and public skepticism about government's ability to carry out these responsibilities effectively, efficiently, and honestly, officials at all levels of government must diligently try to ensure that the taxpayers' dollars are not misused through fraud, waste, and abuse and are used for their authorized purposes.

WHAT IS THE PROBLEM?

The early practice of examining every single transaction from beginning to end quickly became impractical with the growth of public services and the volume of business. The focus changed to examining systems and testing controls. This necessary change, however, considerably diminished the chances of detecting fraud, except in its most blatant forms.

Detection of fraud, although highly desirable, was therefore no longer the primary purpose of audit; rather, its purpose became to (1) verify compliance, (2) determine fairness of financial statements, and (3) establish whether internal controls were adequate to safeguard the funds involved.

The erosion of fraud detection as a primary audit goal is not generally realized by the nonauditor. By and large, the public still thinks that the completion of an audit without major adverse findings is a guarantee that everything is in good order.

RECENT DEVELOPMENTS

The escalating costs of Federal assistance programs and their vulnerability to mismanagement, abuse, and outright fraud came to public consciousness in a rash of unfavorable news media releases, GAO reports, and congressional hearings. In response to demands for more effective controls, the Congress enacted Public Law 95-452, the Inspector General Act of 1978.

The developments of the last 2 years in particular brought about a need for an exacting reappraisal and for changes in audit policies, procedures, and practices. Compliance with GAO standards is no longer voluntary; it is now mandated by the act. Efforts to prevent and detect fraud are also no longer a voluntary mission.

The Securities and Exchange Commission (SEC), the American Institute of Certified Public Accountants (AICPA), and the Institute of Internal Auditors have similarly responded to public concern for the fairness and accurate representation of the financial picture of companies. The Foreign Corrupt Practices Act requires adequate internal controls which are interpreted and enforced by SEC and has prompted audit organizations to publish a host of guidelines, standards, techniques, approaches, and training

programs for preventing and detecting fraud and abuse.

WORKSHOP DISCUSSIONS

Participants generally agreed that prevention of fraud and abuse was the appropriate long-term goal. However, there were different viewpoints on how to allocate staff resources and on what to emphasize.

Key areas to examine are whether management internal accounting controls can do the job and whether they are actually being adhered to. Both were considered critical to management's ability to develop meaningful financial information and fulfill its responsibilities.

- Essentially, risk gets at the heart of any review because it identifies how assets can be lost or abused or transactions improperly processed. Obviously, the larger the risk, the more important the controls that protect against it and the larger the need to assess their effectiveness.
- "Materiality" is no longer defined only in terms of dollars. The standard test of materiality deals with quantity. However, today's definition includes a growing number of management decisionmaking prerogatives which may include the possible override of controls. These override decisions must be looked at more closely, regardless of dollar amount, because of their potential for (1) allowing transactions to go unrecorded, (2) subverting record-keeping integrity, and (3) violation of law.
- Front-end system planning is getting increased attention as a valid role of the auditor. The prime concern in this

area is to construct systems of management control that will prevent fraud and abuse, make it more difficult, and decrease the likelihood of error and waste.

Ideas for attacking the problems

Participants offered some recommendations for overcoming some of the problems. Much has been done in the area of fraud prevention and detection in the past couple of years, and the sharing of techniques, skills, and ideas was seen as the most productive.

Resources

To deal with the limited resources available for the audit, participants recommended meeting with agency heads to discuss potential fraud areas, i.e., weak program points, problems of internal control, etc.

Training programs

A partial list of available training in detecting and preventing fraud and abuse discussed by the participants follows:

San Diego County Fraud Prevention Seminar:

- Description of problems.
- Roles and responsibilities.
- Fraud indications.
- Profile of perpetrator.
- Case studies.

Council on Municipal Performance Workshop Series:

- Introduction to fraud auditing.
- Audit management.
- Audit problems and resolutions.

OMB and Executive Group To Combat Fraud and Abuse:

- Emerging training program for Federal IGs.
- Vocabulary.
- Flags or indicators of fraud and abuse.
- Techniques for investigating.

Vulnerability assessments

To focus on areas where fraud and abuse may exist, several IGs, GAO, and other organizations have looked to the survey approach before conducting in-depth reviews. These assessments include

- inventory systems for identifying/measuring the extent of fraud and abuse;
- collecting and analyzing data and management responses;
- identifying administrative issues; and
- using questionnaires and profile sheets.

Priorities to be set

Participants developed five important priorities which auditors at all levels of government can follow in preventing and detecting fraud and abuse.

- Strengthen commitment, cooperation, and coordination between all levels of government and public accounting firms.
- Initiate public education (consciousness raising).
- Develop and test program models and model programs on prevention and detection for use by State and local governments.
- Develop models for uniform legislation and regulation.
- Improve and increase training.

INSPECTOR GENERAL CONCEPT: FIRST YEAR OF OPERATIONS

It could be said that the Inspector General concept was fathered by the Department of Agriculture. The detection of a huge fraud operation led the Department to create an Office of Inspector General. The pitfall of a nonstatutory IG was its susceptibility to abolishment. That, in fact, was the case with Agriculture's IG; the Secretary abolished the Office in 1974.

The first statutory IG was enacted for HEW in October 1976. The establishment of this Office followed extensive congressional investigation of fraud, abuse, and program mismanagement in HEW. The Congress found a lack of evidence that the Secretary would know about problem areas, much less take corrective action. Moreover, the investigative and audit groups lacked independence to perform the necessary work to uncover fraud and abuse.

With the creation of the Department of Energy in 1977, a second Office of Inspector General was established by the Congress. Soon thereafter, 12 other IGs were established, and finally in 1979 a statutory IG was included in the Department of Education.

Statutory IGs were established as independent and objective units to conduct and supervise audits and investigations. Furthermore, IGs are expected to provide leadership and coordination in promoting economy, efficiency, and effectiveness and in detecting and preventing fraud and abuse. IGs are responsible for informing the Secretary and the Congress about problems and deficiencies and proposing corrective actions.

Inspectors General are appointed by the President with the advice and consent of the Senate. The appointments are made without regard to political affiliation and are based on integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigation. IGs report to and are under the general supervision of the Secretaries. Each IG is responsible for appointing two assistants, one for audit and one for investigation.

Some of the key provisions of the Inspector General legislation are:

- IGs have subpoena power.
- They have direct access to the Secretaries.
- They must submit semiannual reports to the Secretaries for transmittal to the Congress.
- They must submit reports to the Congress on serious or flagrant situations.
- Audit and investigative functions were consolidated.

Even though these provisions allow significant authority and resources to the IGs, several problems remain. For example, audit and investigative functions require different skills; yet, some cases could be more effectively resolved through a combination of audit and investigative skills. Some IGs are considering the possibility of a new job series to officially combine these skills in a single job description. In addition, IGs are faced with an apparently uneven allocation of staff. Some agencies have had large staff increases, and staffing levels at others have remained the same. In light of the broadened scope of the IGs' responsibilities, the level of staffing can be crucial. A final concern, yet to be fully tested, is the relationship between the IG and the Secretary. Organizational and reporting mechanisms for assuring independence and surfacing audit and investigative findings are in place but have not been evaluated.

PERFORMANCE AUDITING

BACKGROUND

During the past 10 years the scope of auditing has been expanded to include what is today commonly referred to as performance auditing. Performance auditing includes economy and efficiency and program results audits and is a logical extension of the traditional financial and compliance audit. Performance auditing is now widely accepted by all levels of government—Federal, State, and local—and its future looks promising. However, during this period of growth and acceptance, the performance audit has been misunderstood in many ways and, as a result, maligned.

This misunderstanding and malignment has occurred because the concept was not adequately explained to many legislators. They viewed performance auditing as the answer to many of their problems and became disillusioned when it became apparent that their high expectations could not be met. Only limited audit coverage could be provided with the available resources because performance auditing is considerably more complex, time consuming, and expensive than the traditional financial audit. Nevertheless, there is much value to be derived from performance audits.

WORKSHOP DISCUSSIONS

Selecting areas to audit

Two panelists pointed out that they performed only those performance audits directed by their legislative body. The panelists focused their attention on (1) how they adjusted their performance audit schedule to accommodate changing priorities, and (2) indicators such as

financial risk, rapid program growth, reorganization, and legislature interest during budget hearings used to identify potential audit areas.

The panelists cautioned that the following factors should be recognized when programming performance audits:

- Audits must lead to sufficient savings to justify an audit organization's continued existence. Thus a sufficient number of audits must be made in areas known to be financially fruitful.
- If auditors are told that the auditee must save money as a result of each audit in order to justify their continued existence, they will tear up some organizations. This is an unacceptable approach.
- Audit reports frequently serve as a catalyst for change rather than the sole reason for it. The need for change is usually already recognized.

One panelist commented that it is often as important to verify that a program is performing well as it is to continually point out problems. He felt auditors could provide better program coverage and have better rapport with management if performance auditing was conducted along the lines of the traditional financial audit. However, panelists recognized that, until management (1) establishes clear program goals and objectives, (2) develops management information systems, and (3) maintains reliable data, such an approach will be impossible and the choice will become either don't do performance audits or do a consulting job.

It was suggested that since program performance cannot be expressed in purely financial terms, auditors' long-

range goal should be to have management issue statements of performance that include nonfinancial information. Independent auditors could then verify and attest to the accuracy of these statements. This would give auditors the opportunity to motivate management to make a proper accounting and establish the proper auditor-management relationship.

Before moving in this direction, several issues need to be resolved. These were discussed at length and are listed below.

- Realistic and valid performance goals are needed. The problem is that it will be hard to persuade managers that it is in their best interest to establish goals, particularly when legislative intent is frequently unclear or non-existent. A possible solution being explored by some governments is to require that legislation specify goals and objectives. In the meantime, auditors may have to measure program performance against accepted industry or profession standards; auditors should not independently establish program goals.
- The management-auditor relationship is subject to the same strains that exist in the traditional financial audits. Maintenance of the auditors' independence is a sensitive area, and auditors must remember whom they work for and must not get too close to management.
- With only limited resources, it will be hard not to focus only on problem areas.
- It would be very expensive to sample an entire entity in order to be able to issue an overall opinion concerning its performance.

- Since audit reports would address management performance statements, audit finding and recommendations would have to be conveyed in a separate management letter. Normal followup procedures would be used to verify implementation of recommendations.

Staffing and cost of performance audits

The panel discussed the staff necessary to conduct performance audits and their total cost.

Regarding staffing, the point was made that, while it is fairly clear what qualifications are required to perform financial audits, such is not the case regarding performance audits. The question was also raised as to whether each performance audit team should include an expert in the area being audited. After much discussion, there was general agreement that, when technical judgments are required, expert consultants should be used, but in most cases an auditor using the proper analytical approach can do just fine. It was the consensus that staffers having master's degrees in business administration possess the required analytical tools necessary to perform most performance audits without outside expertise.

The panel emphasized that performance auditing is expensive because (1) each audit requires different analytical approaches, and (2) the workpapers and draft report are subject to a more intensive and thus time-consuming review. This intensive review is necessary to insure a quality, objective product and the organization's reputation in a political environment. However, the benefits expected to be derived from the audit, rather than the cost, should be an organization's primary concern.

Audit followup

The panel next discussed procedures used to follow up on the implementation status of performance auditing recommendations. The trend is to pass legislation addressing followup. The procedures discussed ranged from followups during subsequent audits to use of questionnaire responses verified by auditors. The question was raised concerning what auditors should do when legislative bodies do not accept recommendations. One panelist mentioned that auditors should push for implementation of their recommendations only to a certain point because auditors are not politicians. To continue pushing could be suicidal in that the auditors' objectivity could be questioned. The panel recognized, however, that the legislative environment could change and thereby warrant reconsideration of previously rejected recommendations. On the other hand, the auditors must be careful to make sure that recommendations are still valid. The panel also pointed out that auditors should insist on implementation of recommendations to correct deficiencies noted in a financial audit.

Audit standards

There was considerable discussion about the extent that generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and GAO applied to performance audits. The panelists and audience agreed that available standards applied to performance audits and were very good. The following additional points were made.

- The GAO standards were designed to apply to all types of audits.
- Legislation and policy statements and regulations now frequently require audits of government operations to conform to GAO standards.
- Auditing standards are not intended to be precise guidelines and methods for conducting a performance audit but are broad principles that auditors must adhere to.

SUMMARY

In his closing remarks, the panel moderator stated that, in his opinion, performance auditing was going through an evolutionary process and was not at the same level as governmental financial auditing. However, performance auditing could be a lot closer to becoming equal with financial auditing than many people think.

PERFORMANCE APPRAISAL

INTRODUCTION

Performance appraisal is perhaps the most problematic personnel issue confronting management. First, evaluating others always entails some subjectivity and is never easy. Second, the outcomes of an appraisal system can have significant immediate, as well as far-reaching, effects on a person's pay, work assignment, and career. In addition, appraisal systems are difficult to design and implement because the nature of professional jobs, such as those of auditors, are largely unprogrammed; incumbents perform a wide variety of tasks, often with neither close supervision nor immediate, definable outputs.

The ultimate success of any performance appraisal system depends upon the active involvement and support of those who will operate and be subject to it. To be effective, the system must be integrated into the daily responsibilities of managers. It cannot be seen merely as a form to be completed annually. It must be used continually to help in the supervisory tasks of job planning, performance coaching and monitoring, periodic feedback to subordinates, and rating.

Finally, an effective appraisal system not only provides timely and accurate performance data, it also exists in a context of organizational commitment and policies which facilitate the rewarding of supervisors for staff assessment and development.

WORKSHOP DISCUSSIONS

The presentation covered performance appraisal, including establishment of performance standards, informal and formal appraisal processes, and uses of apprais-

als. Particular emphasis was given to uses of appraisals to develop career development plans for staff.

Participants agreed that there was no single appraisal system and that setting performance standards was the most important thing.

- Initially participants defined
- "performance standard,"
 - "performance appraisal," and
 - "career development."

"Performance appraisal" was defined as a comparison of performance of responsibilities with established and (hopefully) understood standards.

"Performance standard" was defined as the level of achievement, including quantity, quality, and timeliness expected of an employee. A performance standard must

- be within limits of authority of the job,
- be objectively arrived at,
- be quantitatively expressed wherever possible,
- be free of ambiguous, vague language, and
- be exceedable by the employees.

The group agreed that performance standards must not be stated in terms of traits. But they also agreed that some job traits were important. The group agreed that

- performance standards must not be prepared in isolation,
- performance standards must also tie directly into organizations' operating procedures, and
- performance standards and appraisals must be integrated into organizations' management systems.

The discussion leader pointed out that in the Department of Labor, perform-

ance standards for senior managers directly related to organizational outputs. The danger is that this system can become overly structured and become a paper exercise.

The following important points were brought out during the discussions:

- Managers must be involved in designing and implementing an appraisal system so they will support it.
- The system must address how standards for a given person will be determined.
- The system must be understood by employees and be supported by them and by higher management levels.

It is important that senior management groups implement a system so that it is correctly communicated to individual employees.

The system is a major investment in terms of both time and equipment, such as the use of the computer to record data. One agency is developing a system which will be a multipurpose system. It will enable appraisal for all personnel management needs in that agency. That agency feels this is the best approach.

The last part of the session dealt with career development. A career development system should increase the effectiveness of an employee and meet the needs of the organization. Effective career development requires

- integrating training and work assignments,
- establishing performance standards,
- using performance appraisals,
- workforce planning, and
- developing unit work plans.

Career development plans must be developed for individual employees and must be tailored to their specific occupations.

STAFF DEVELOPMENT

INTRODUCTION

A qualified staff is the main asset of any organization. The continuing professional development of the staff is a co-responsibility of the individual and the organization. Changes and improvements in knowledge and work environment make continuous training and education a basic need of any profession. Auditing is no exception. Therefore, it is incumbent upon the audit organization to provide additional training in those skills required to perform the modern audit function.

Although college and university curriculums provide an entry level of knowledge, auditors must continue developing skills needed to stay abreast of the state of the art. The audit forums have provided training to members that otherwise might not have been available or affordable. As training funds become even more scarce and as requirements for additional skills increase, the forums will be called on even more to provide training.

WORKSHOP DISCUSSIONS

The objective of this workshop session was to allow participants to identify training problems experienced and solutions found in their audit offices. In addition, they were advised of recent training studies performed by the Office of Personnel Management, GAO, and the Federal Audit Executive Council, which could be of use in their operations.

Participants identified specific problems as follows:

- **Problem**—Lack of time.
 - **Solutions**—Agencies can provide on-the-job training. Also training can be provided in a self-study program. In some cases, time off should be given for those taking CPA examinations, etc.
 - **Problem**—Cost of training programs.
 - **Solutions**—Agencies can establish in-house programs and provide instructors when possible. Cooperative training programs can be set up among audit organizations. In addition, the forums offer training programs at no cost.
 - **Problem**—Quality of training programs.
 - **Solutions**—Agencies can set up systems to properly evaluate training programs. Participants in a particular course must exchange information. Recommendations to improve the course can be solicited from participants. The most important thing is to make sure that the instructors are the most knowledgeable people that can be found.
- **Problem**—Lack of internal resources.
 - **Solutions**—Agencies should have training officers to help with their particular problems. Most agencies do not have qualified instructors in house. There is also a lack of training material for specific courses.
 - **Problem**—Availability of training, by levels.
 - **Solutions**—Agencies should provide training to employees. Particular staff must be trained as trainers. Circulars and brochures on training programs offered must be circulated.
 - **Problem**—Continuing education requirements.
 - **Solutions**—Agencies should help pay for staff training. In some cases, they should provide time for study and examinations. They should identify training programs that will benefit them.
 - **Problem**—Courses which are often too generalized.
 - **Solutions**—Agencies should develop their own courses, tailored to the needs of the office as well as to the individuals, and set aside time each year for them.

GETTING ALONG WITH OTHERS: AN AUDITOR'S MUST

This workshop featured a general discussion and viewing of the lecture video tapes prepared by Professor Morris Massey of the University of Colorado, "What You Are Is Where You Were When...".

There are three levels of getting along with others: love, understanding, and tolerance. The more people get along with others, the more likely they are to succeed. But they all should be able to at

least understand why people act and think the way they do. For auditors, this is important from many aspects—dealing with associates in professional organizations, such as the audit forums, and with their families, friends, fellow staff members, and those being audited (who sometimes seem actually to work at not getting along).

Auditors tend to think that their values are right and that people holding different values are wrong. But, since values are largely due to the various factors which shape values, none are right or wrong—they are just different. Only when auditors can accept this basic fact can they begin to work toward more meaningful personal relationships and greater productivity at work.

At least five major forces shape people's values: family, friends, religion, school, and the media. One's experiences during life, but particularly in the earlier years, greatly influence values.

COMMUNICATING AUDIT RESULTS

INTRODUCTION

The methods used to communicate audit results may differ with each audience—the auditee, legislators, the public, etc. Success in communicating results to the various audiences can be a big factor in determining the amount of support the results will receive.

WHAT IS THE PROBLEM?

One problem in communicating results is that each audience may require a different level of detail to understand the results and accept the recommendations. When communicating results to the auditee, the results should be stated in sufficient detail so that the auditee understands the deficiencies, is convinced of the validity of the recommendations, and is motivated to take corrective action. In contrast, legislators do not require as much detail, but they must be convinced of the benefits of adopting the recommendations and their validity. If the legislators understand and support the results, they may help get corrective action taken. Communicating results may become more difficult where, because of a sunshine law, the results must be discussed in public meetings. Information discussed during public meetings may be misinterpreted by those in attendance or reported out of context, resulting in publicity that may be detrimental to the auditee. This may result in the deterioration of the auditors' working relationship with the auditee and could become an obstacle in accomplishing the objectives of future audits.

WORKSHOP DISCUSSIONS

The workshops consisted of presentations on how to communicate audit re-

sults. Participants then discussed the problems encountered in communicating results and suggested solutions to some of them.

To effectively communicate results, the auditors must be certain that the audience gets and understands the message. Results may be communicated in writing—formal reports, management reports, etc.—or may be communicated orally—testimony, exit conferences, informal briefings, etc. The type of communication used will depend on the audience and may consist of a combination of oral and written reports. One suggestion for improving written communications was for the audit organization to have a report editor review audit reports to insure that they tell the story intended.

Better communication with the auditee can be accomplished by keeping the auditee informed during the audit. In the initial meeting with the auditee, the auditors should explain the audit objectives and try to obtain the auditee's confidence and acceptance of what the audit is trying to accomplish. The auditors should work closely with the auditee during the audit and through meetings and informal briefings explain the findings as they are developed so that there will be no surprises for the auditee during the exit conference. Discussion of the findings as they are developed also gives the auditee an opportunity to respond to the findings and initiate corrective action before the findings are released.

The auditors should explain to auditee why certain actions they took were necessary. For example, if the auditors had to issue a qualified opinion, they should explain to the auditee why this was necessary and how to correct the situation. If

the auditee understands the audit report and the basis for the auditors' decisions, the auditee is more likely to accept the audit results and try to correct the deficiencies. In addition, an auditee that is kept fully informed is in a better position to respond to any inquiries from the press or special interest groups regarding the audit results.

The participants generally agreed that an audit report should be issued regardless of whether management accepts the audit results or not. However, the successful communication of results should convince managers of the benefits to be gained by adopting the recommendations and thus motivate them to take corrective action. When findings and potential recommendations are discussed with managers as they are developed, auditors do not have to try to convince them of the benefits of adopting the recommendations after the audit has been completed. The audit report should include both favorable and unfavorable findings, when applicable, so that the report will have balance. Such reporting also overcomes the often-heard complaint that audit reports are always negative.

Auditors also must communicate audit results to their governing body (legislature, audit committee, council, etc.). The governing body generally is not interested in all the details that the auditee may require; however, the auditors must convince the governing body of the benefits of adopting the recommendations. Since the governing body generally discusses the results with both the auditors and management, the governing body can help convince management to ac-

cept the recommendations if the auditors have successfully communicated the results to the body.

Sometimes politics may influence the reaction of the governing body, depending on the subject of the report and the interest shown by lobbying groups. Under a sunshine law, when the media and interest groups may be present at the meeting, communicating audit results becomes more difficult. It was suggested that when audit results must be communicated in open meetings, the minor problems should not be discussed or they may be reported out of proportion and result in unwarranted detrimental publicity for the auditee. Such experiences could disrupt the good working relationship that had been established with the auditee.

One method of trying to prevent exaggerated press releases is to print a digest on the report cover and hope that reporters will use it. Some participants prepare and give to reporters a press release on the audit results with the hope they will use it rather than prepare their own.

For better communication and acceptance of results, auditors should try to establish and maintain an attitude of mutual respect and cooperation with the auditee. To do this, auditors should establish policies and procedures for dealing with auditees. For example:

- Auditors should be knowledgeable about all aspects of the job and, to the extent practicable, about the auditee's organization before starting work at the audit site.
- Auditors should be familiar with any prior or current audits of the organization, including work done by internal auditors.
- Auditors should provide advance notice as to when the audit will start.
- At the entrance conference, the auditors should discuss the scope, objectives, and reporting plan for the audit assignment.
- During the audit, the auditors should discuss the scope, objectives, and reporting plan for the assignment.
- During the audit, the auditors should discuss tentative findings and possible solutions with responsible officials.

- Corrective action taken during the audit should be recognized in the report.
- When the audit is completed, the auditor should make certain that the official at the audit site receives a copy of the report.

One method of following up on the actions taken on recommendations is to prepare an annual report to the governing body summarizing the recommendations and the actions taken. The governing body can then discuss with management its response to the recommendations and its planned actions.

FOLLOWUP ON AUDIT RESULTS

INTRODUCTION

Audits are governments' principal means of preventing unauthorized expenditures. Audits also determine whether operations are conducted economically, efficiently, and effectively and often identify policy or procedural changes that can reduce expenditures without reducing the quality of government services.

Federal, State, and local government agencies too often delay or take no action to resolve audit findings. The difficulty of resolving findings varies widely. Although some delays are unavoidable, in most agencies this process takes too long. The inadequate or lack of followup on findings has been a longstanding problem. Few agencies have adequate systems for tracking and resolving findings and have often failed to establish formal followup systems.

Agency managers and auditors both have important roles in resolving findings. Managers should promptly decide what should be done and complete corrective action. They should also periodically evaluate their followup systems. Auditors should also participate in the followup to see if findings have received management consideration and whether satisfactory corrective action has been taken.

In October 1978, the Comptroller General issued a report to the Congress entitled "More Effective Action Is Needed on Auditors' Findings—Millions Can Be Collected or Saved." This report said:

"The lack of a good system for resolving auditors' findings could be costing the Government hundreds of millions annually—most of which grantees and

contractors are keeping although they are not entitled to the funds under applicable laws and regulations. Also, sizable savings in operating costs are sometimes being foregone by failure to act promptly on findings involving internal agency operations."

WORKSHOP DISCUSSIONS

The panelists discussed some reasons agencies did not adequately follow up on findings. The systems being used by one Federal agency and by a State to follow up on and resolve findings were also discussed.

Agencies do not adequately follow up on findings because:

- Personnel who administer grants give top priority to disbursing grant funds and the lowest priority to following up on audit findings.
- Auditees sometimes reject the findings.
- Agencies' tracking systems are deficient.
- Agencies do not aggressively seek collections or savings.

The following recommendations to overcome these deficiencies were discussed.

- Auditors should be required to keep accurate records of all findings until a final disposition has been made. Where recovery of funds is involved, this means until the funds are recovered, the debt is forgiven, or the findings are determined to be in error.
- Program administrators should be given 6 months to decide what amount, if any, is due from grantees or contractors as the result of audit findings. Written decisions signed by

the program administrators should be required to justify not seeking collection of any amounts shown to be due by the audit reports. Such decisions should also be reviewed for legality and endorsed by the legal officials performing the reviews.

- Officials independent of the program administrators and the auditors should be responsible for deciding whether to make recoveries on findings not decided on within the 6-month time frame specified above. Any decisions not to recover should be justified by the officials and reviewed for legality as previously mentioned. These officials, who should be at a high level in the organizations, could also handle resolution of findings not involving grantees or contractors that are not resolved within 6 months.
- Such officials should be required to issue quarterly reports to the agency heads on the status of all findings which they are responsible for resolving, including the age and amounts of unresolved findings and results of findings resolved during the period.
- To ensure aggressive recovery efforts, accounting and collection controls should be established for any amounts due the government as a result of audit findings.
- Even though agencies decide against collection for any reason, they should still resolve the causes which resulted in the debts. They can provide technical assistance to help grantees improve program operations or change ambiguous or conflicting regulations which impede accomplishing program objectives.

A Federal agency also had problems with inadequate followup of audit findings due to

- low priority given to the area by management,
- apathy on the part of auditees,
- problems with management, and
- lack of incentive to implement the recommendations.

A system had been established which required followup action, but none was taken because the system did not tie in to the management system and the management goals.

Late in 1977 the system was revised.

The revised system was designed to:

- Identify major problems for top management.
- Assure that audit recommendations were speedily implemented.
- Establish followup on implementation of recommendations.

The revised system also assigned responsibility to clear findings with the area manager, the regional administrator, and the primary organization head at headquarters. Audit liaison officers were assigned the responsibility of establishing a control register and following through to assure that timely action was taken on findings. The system provides a time schedule with specific milestones and a goal of 165 calendar days to clear the findings if the area office and the regional office agree with them. When the area office and regional office disagree with them, the goal is 180 days.

During the first 90 days under the revised system, 90 percent of the findings had been resolved and \$7,000,000 recovered. During the first year, 93 percent of the findings were resolved within the prescribed time frame.

The overall results of the revised system are better management, better cash collections, and better acceptance of the findings.

A State auditor had similar problems in the followup of findings; many of the findings repeated earlier ones. Therefore, the State auditor decided to review prior findings in planning audits. In 1979, the State legislature passed legislation re-

quiring the administrative head of the department of audit to follow up on findings. However, individual agencies must resolve findings. The power of the legislature, especially the appropriations committee, influences the resolution of findings. The exit conference is used to acquaint operating officials with these requirements and their responsibilities.

Attendees generally agreed that some improvements had been made in the followup of audit results at both the Federal and State levels. However, this very important area needs continuing attention at the highest levels of management.

AUDITORS' RELATIONSHIPS WITH THE NEWS MEDIA

Why do we need to talk to reporters in the first place? The answer is simple. Reporters who call on us seek information about how well government is working or the problems of government. They call to learn what's being done with tax funds. They pass that information along to the people who "own" government, the taxpayers. As servants of the public, we have an obligation to inform our "employers."

Government auditors should expect more and more questions from reporters. The trend to greater press interest in audit work is documented by the figures put together by GAO. In 1972, 31 GAO reports received nationwide press coverage. This increased interest can be tied to several events. Watergate and the war in Vietnam both led to government being perceived as being not always totally truthful, while at the same time it developed what is commonly known as "investigative" reporting.

Government auditors are sometimes fearful about dealing with reporters. They are not used to that and have watched the press rip into interview subjects. But those fears are unfounded. Auditors should always be able to answer truthfully and thus should have good press relations.

Auditors should have good press relations because auditors deal with documented facts. Auditors at times cannot comment on their work, especially work in progress, but that should not be a major drawback to good relations if reporters are informed in advance what policies govern an audit organization's release of information.

OVERCOMING PROBLEMS

Auditors do face problems dealing with reporters. One can be audit reports themselves, if they are not written in simple English. Reporters must write in simple English, in a manner which can be understood by their readers. Reporters working for radio and TV stations have an even harder job, given the short time allotted in a newscast for any given story. Audit reports which use government jargon, gobbledegook or "highfalutin" Latin-based words are hard to digest. GAO's 1974 publication "From Auditing to Editing" is an excellent reference on how to improve report writing.

The auditors who'll be talking with reporters can be a problem too, if they can't converse in a language the reporters understand. Audit organizations should insure that whoever speaks for them understands reporters and their needs and should make sure they speak simple English too, not government accountantese.

UNDERSTANDING REPORTERS

How in the world can you relate to a person who calls at 4:50 p.m. on a Friday wanting to be told in 5 minutes what a 50-page report says and the report isn't even public information to begin with?

These are reporters that you will not be able to relate to. There are reporters who just won't ever understand why you can't tell them everything they want to know. But most are understanding and reasonable, just like most accountants. To understand reporters, begin by understanding the reporters you're likely to deal with. Direct observation is a good

first step. You already are doing that if you're reading your local newspaper and following local radio and television news coverage. You should be able to get a feel for how various reporters approach news stories from reading or viewing their work. You should be able to get a feel for the kind of story that appeals to a given newspaper or broadcast news organization and then anticipate questions when you deal with a subject they're interested in. If your office doesn't have a full-time public affairs person on board, find an office which does. The agency down the hall may have one, and public affairs people like to talk. A 15-minute visit over coffee should give you a feel for that person's experiences with the local press corps.

THE PRESS CORPS?

Some reporters on the broadcast side don't like that word "press." Others don't mind. In some larger cities and around some State capitals, reporters don't mind being called members of the press corps. It is almost a prestige term. Meetings with reporters can be called news conferences rather than press conferences. Refer to a group of reporters as "a group of reporters." That can keep everyone happy and avoid the terms that are offensive to reporters that crop up all the time in references to the news "media."

GETTING TO KNOW THEM

If you're in a job where you know you'll be dealing with reporters even just occasionally, and you know they are not familiar with your office and its duties, how about having an open house? De-

pending on your situation, you might want to hold one on your own or in conjunction with other parts of your agency or unit of government. Make sure you schedule the event on a day which is not a "busy" news day.

ANTICIPATE, THEN ANTICIPATE AGAIN

"Be prepared." The Boy Scout motto is more than just a great example of how to totally express an idea in just two words and three syllables. It is also a motto which every person who works with reporters should follow.

If an agency like GAO issues a report which says there are problems in a program which you have been auditing and mentions an example from the geographical or governmental area you cover, expect press questions. Get your information together. Pull out the file. Be prepared.

If a reporter for one news organization calls you, expect calls from others. News organizations follow up on what their competitors do. When they do that, they look for something new and different. Be prepared for the reporter looking for "a new angle."

BEING PREPARED

When reporters call your office or walk through your door, you need to know who they are and whom they represent, a phone number you can reach them at, what they need to know, whom you can talk to later in their organization if you can't reach them, and the deadline they're working under.

You should consider devising a form to give you a record of who asked what and what you told them. This will also help you make sure you serve the reporters' needs (and thus the public's right to know).

Let the reporters know who you are, what your title is, and how they can reach you later.

HANDLING QUESTIONS

Be objective. Be honest. Never state personal opinions and be on guard if a

reporter phrases a question along the lines of "Well, that's fine, but just between you and me, what's your personal opinion?" You are not paid to express personal opinions.

Think before your speak. Ask for time if a complicated question is posed. If reporters are interviewing you about a complicated subject or report and they aren't pressed for time, get that audit report into their hands if possible. Ask them to read it and get back to you with questions.

If you know you're going to be a regular interviewee, go directly to the nearest library with a collection of journalism textbooks and check out one which deals with interview techniques. Learn what to expect. Be prepared.

LIVE—FROM YOUR OFFICE

It probably won't be Dan Rather and a crew from "60 Minutes," but the reporters calling on you might have cameras following right behind or tape recorders in hand. Handling radio or TV reporters' inquiries poses some special considerations. The deadline which broadcast reporters operate under is often tighter than that faced by print reporters. Radio reporters, especially, are under a minute-by-minute deadline. And their business is normally more competitive than the print business. While few media markets have more than two daily newspapers, every major city in the Nation has several radio stations and usually at least three TV stations. The reporters for those radio and TV stations are competing to get ahead in their business, while the stations they work for are competing for the listening and viewing audience. Broadcast reporters want stories first and fast and must get them in a form they can use on the air.

Don't expect a radio reporter to want to tape an interview with you if your office window is open and you're right above a sidewalk being torn out by air hammers. Don't expect your local TV cameraman to be happy if you are wearing a plaid suit and are sitting in front of loud print wallpaper. Remember that ra-

dio and TV news stories compete with each other for the limited amount of time TV and radio devote to news. So phrase your responses to meet that reality. If you take 2 minutes to answer a question, you've talked longer than the amount of time devoted to all but the most major news stories.

DOG AND PONY SHOWS???

Television presents unique challenges to the people in front of the lens. A 30-minute network newscast is really only 22 minutes of news material. The rest is commercials and introduction. The local news which follows has even fewer "news" minutes, because sports and weather must fit in.

Auditors who find local TV stations at their doorsteps have to think in the television time frame if they want TV reporters to leave with usable material.

Be brief and to the point. If you are dealing with a complex report or an audit and know TV reporters will be calling, consider preparing graphs or other visual aids which the camera can focus on. Is that "showbusiness," something for auditors to avoid? Not if you use the same straightforward approach to presenting the material as you would with a printed report. Auditors are finding more and more that graphs and photographs enhance written reports and simplify the presentation of complex information. They should have no fear of using the same aids when dealing with reporters.

WHEN YOU CAN'T TALK

There will be times when a reporter wants information you cannot release. This will always be a hard situation to deal with. You can ease the situation if you try to make sure that reporters covering your office regularly understand what your policy is, why it exists, and whom they can complain to above you if they don't like it. Have something in writing, and be prepared to cite chapter and verse.

If a reporter comes to you and wants information on an audit which you can't provide because it is not complete, you

should consider that your first inquiry on that audit and that reporter should be the first to learn when the report is public. If you generally make reports public at a set time, make sure the reporter knows when it will be available.

CAN YOU TALK OFF THE RECORD??

Sure you can. The question is, will your conversation be off the record? Your office should set a policy on this touchy question, formal or informal, and everyone who deals with reporters should understand it. No matter what, if a reporter asks you to talk off the record and you plan to, make sure you know what the reporter means. Generally, "off the record" means not for publication. "Not for attribution" means giving information which may be used but not linked to you or your office. When you hear a White House reporter talk about what a "senior White House official" said, it means the reporter got the information on a "not for attribution" or a "background" basis.

What should your policy be? It is the opinion of many that government auditors have no business talking off the record.

SUMMARY

Reporters are people, with all the same personal problems, pressures, hopes, and desires you share. They are workers in a highly competitive profession. Their job is to report news, and their organizations want stories before anyone else on the block. Remember that. Let them know you understand. Deal with them honestly and professionally. And good luck!

STATE AND LOCAL GOVERNMENT ACCOUNTING STANDARDS: WHO SHOULD SET THEM?

INTRODUCTION

Setting standards for governmental accounting is probably the most important issue facing fiscal executives, particularly Federal, State and local auditors who must in the future determine whether statements are presented in conformity with generally accepted accounting principles. Major legislation which is beginning to move through the Congress, particularly in the areas of revenue sharing and grant reform, will require that those governments receiving revenue sharing or other Federal funds keep their records and report on their operations following generally accepted accounting principles. Also, in the area of grant reform, even in certain legislation, State fiscal officials are recommending that there be mention of accounting standards and principles, as well as audit standards.

WHAT ARE GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR STATE AND LOCAL GOVERNMENTS?

These principles are set forth in "Governmental Accounting, Auditing and Financial Reporting" (GAAFR), published by the National Committee on Governmental Accounting through the Municipal Finance Officers Association (MFOA) in 1969. GAAFR has been updated recently with the publications of statements 1 and 2 of the National Council of Governmental Accounting (NCGA). Also, the American Institute of Certified Public Accountants issued the "Industry Audit Guide for State and Local Governmental Units." Recently, AICPA issued a position statement supporting statements 1 and 2 and is revising the audit guide.

HISTORY OF GOVERNMENTAL ACCOUNTING STANDARD-SETTING ORGANIZATIONS

Originally, nonbusiness and government standards were set by an AICPA committee called the Committee on Accounting Procedures, which began in the early 1930s. In 1959, that committee was succeeded by the Accounting Principles Board, which existed until 1973 and was followed by AICPA's audit guide. The guide was used in conjunction with GAAFR as accounting and reporting standards for governments by CPAs until 1979.

The other prominent standard-setting organization is the Financial Accounting Standards Board (FASB). FASB replaced the AICPA Accounting Principles Board beginning in about 1973. Today, it has taken over all the accounting standard setting for business enterprises and, recently, for nonbusiness organizations.

All that is left to AICPA currently is standard setting for State and local governments. However, government fiscal officials consider that NCGA has the responsibility for those governments.

Let us look at a brief history of governmental accounting standard-setting organizations. Authoritative literature on governmental accounting began back in 1933 during the Great Depression, when many local governments were in default on their bonds. The Securities and Exchange Commission became interested in and proposed legislation concerning governmental accounting but was unsuccessful because of constitutional questions raised by State and local governments. Then MFOA began to take an interest in governmental accounting and

to promulgate accounting principles to be followed by State and local governments. These principles were followed by responsible State and local governments and by CPAs until the early 1960s, when the National Committee on Governmental Accounting was formed. The committee worked over a period of 6 or 7 years, and as a result of its deliberation, published GAAFR, known as the "blue book."

About 1974 or 1975, because of the financial crisis in New York City and the resulting interest by SEC and others, MFOA reconvened the committee and changed it to the present National Council on Governmental Accounting. The council then began to revise the old GAAFR in an effort to update accounting principles for State and local governments. In 1979, statements 1 and 2 were published.

Currently, who establishes accounting standards and principles for government?

For the Federal Government, all accounting standards and principles are established through GAO's Comptroller General's office. For State government, accounting standards and principles are established through State officials or perhaps State statutes. For local governments, accounting principles may be established either by a State official or by statute.

WHAT ORGANIZATION SHOULD SET ACCOUNTING STANDARDS FOR GOVERNMENTS?

The question remains—to what organization does the auditor look for generally accepted accounting principles for government? Several organizations have

been involved in setting standards. They are:

1. AICPA.
2. SEC.
3. GAO.
4. FASB.
5. MFOA.
6. The National Association of State Auditors, Comptrollers, and Treasurers.
7. The Department of the Treasury.
8. OMB.

As a result of the New York financial crisis, several organizations became more interested in accounting principles for government and many studies followed. A Senator proposed to the Congress legislation that would establish a new body for setting standards for State and local governments. In an effort to offset the Senator's legislation, the Financial Accounting Foundation called for a study similar to the Wheat Commission Study that had established FASB. Meetings were held between various organizations to see whether they could work out something, but no agreement resulted. In the meantime, research continues by different organizations (i.e., NCGA and FASB) desiring to establish a conceptual framework of accounting for governments. In addition, GAO is researching accounting standards and concepts for the Federal Government.

Meetings have continued to be held by various organizations concerning how a governmental accounting standards board should be structured. AICPA fears that if the Financial Accounting Foundation and FASB take on governmental accounting standards, eventually FASB will be included in a governmental accounting standards board and accounting standards for the private sector will be established by some governmental organization.

State government fiscal officials feel that they have the same problems regardless of whether there is a separate governmental financial accounting standards board under the Financial Accounting Foundation Board of Trustees or a foundation funded in part by the Federal Government with a full-time standards board. They want either structure to safeguard the sovereign rights of State governments and in turn local governments. They want to build into the structure safeguards which will preclude either the Federal Government or the private sector from forcing unacceptable regulations upon State and local governments.

GAO has an interest in State and local government accounting standards because of the large sum (some \$90 billion) of Federal money that goes to the States. GAO would like to be able to use State and local expertise in auditing those funds.

GAO feels that government accounting standards should differ from commercial standards. It points out that the objectives of commercial standards are to measure profits and liquidity but that government objectives concern social or defense matters. Also governments set limits on the use of funds, but the commercial area does not have such a legally binding requirement.

GAO does not believe that FASB should be the standard setter for government because in part FASB's funds come from the private sector and government's interests and needs would likely have a low priority. Moreover, GAO believes that FASB would try to force standards for government into a commercial "mold," and many feel that this is the wrong way to go. In addition, GAO does not believe that the Federal Government will participate in funding standard-setting activities without having some input into the activity.

GAO is supporting a government accounting standards-setting organization that would be composed of five members. This organization might be established within a year and be funded. Some think that such an organization should start like FASB started—it first concentrated on fundamentals and then established standards.

THE FREEDOM OF INFORMATION ACT AND THE GOVERNMENT AUDITOR

THE ISSUE

The Freedom of Information Act (5 U.S.C. 552) is a complex and confusing issue as it applies to government auditors. Unless care is taken in applying it to auditors' work, many severe problems could arise.

WORKSHOP PRESENTATIONS

For many years, there has been a desire for openness in government. This desire has become manifest in the act and related legislation. The desire has been fed by traditional values of democratic, scientific, and academic discourse and by alienation of increasingly educated populations from increasingly bureaucratic institutions.

The act applies to all records owned by any Federal agency. Any person, U.S. citizen or not, may request to see Government records under the act. In most cases, ownership is determined largely by possession. There are, however, nine exemptions from the act which are designed to deal with five broad protectable interests:

1. Classified defense and foreign relations matters.
 2. Certain purely internal matters.
 3. Matters exempted by another statute.
 4. Trade secrets and certain commercial or financial information.
 5. Internal governmental deliberative communications.
 6. Individual privacy matters.
 7. Investigatory law enforcement records if one of six specified types of harm would result from release.
 8. Bank examiners' records.
 9. Oil well and similar information.
- Application of these exemptions is not

clear and definitive; there have been over 1,000 court decisions dealing with them.

The nine exemptions are permissive; in most cases the agency could still release the records unless prohibited by other laws. Sometimes it is necessary to split records, giving some and keeping some.

Federal agencies implement the act by writing regulations and naming cognizant officials.

If a request is denied, the agency must advise the requestor of appeal procedures. If these fail, the requestor may go to court.

When requests for information are received, the first step is to clearly understand just what is wanted. This is not always easy. Then, a determination is made as to whether an exemption applies. If a release is made and it is "clearly unwarranted," the injured person may bring charges. Release of documents can be very difficult to handle. It may be best to obtain legal advice. Agencies may, and many times do, refer to the Office of Information Law and Policy. In dealing with business confidentiality, persons named in the documents may be asked if they object to the release; if they do, they are asked why. In dealing with individuals this usually is not done because the individuals may not understand the situation or its implications.

Internal audit reports present a particularly difficult situation. Draft reports, which stay within a single Government agency, probably could be considered exempt from release. This is to encourage candid communication within the Government in order to help arrive at better decisionmaking than would occur

if Government personnel were inhibited in expressing their honest opinions and recommendations for fear of outside criticism or pressures. A Federal agency auditing a State or local organization is not considered to be doing internal auditing, and release may have to be made. This is not clear.

The thrust of the act is toward disclosure, and compliance with the act is monitored by the courts, congressional committees, the Department of Justice, the press, various public interest groups, and others. Requests under the act must be processed promptly. The approval of the auditee need not be obtained before a report is released, although it is sometimes wise to consult informally with the auditee to assist in determining the applicability of an exemption or the current desirability of voluntarily releasing despite the exemption. Where certain parts of a report contain exempt material that is to be withheld, the balance of the report should normally be released.

The Western Intergovernmental Audit Forum has underway a project to determine the extent to which the Freedom of Information Act and similar State and local legislation hinder the efficient and effective operation of audit agencies.

The forum's ad hoc committee has researched the matter and has mailed questionnaires to 22 forum members. To date, 15 replies have been received. Five of those responding report that they are having problems in dealing with the act; several others believe that the potential for problems is there and that they need guidance. In addition, not all Federal agency regulations are consistent. Most State and local governments have legislation similar to Federal legislation.

The committee will analyze these and other responses and conduct additional work as deemed necessary. If, as it currently appears, the area is one that suggests further attention is needed, the Western Forum probably will refer the

project to the National Forum; the matter crosses agency and governmental level lines, ties directly to the audit organizations' actions, and could be definitely affecting their operations. Before any submission, the Western Forum will reach tentative conclusions as to the course of action the committee believes appropriate. The recommendations to the National Forum would be for (1) further study and/or (2) proposed corrective legislation or more definitive, consistent agency regulations.

WHERE DO WE GO FROM HERE?

The Western Forum will proceed on its project dealing with how the act affects government auditors. Input from all interested parties will be welcome at any time during this project. The findings will be reported, probably to the National Forum.

KEEPING THE GOVERNMENT AUDITOR SEPARATED FROM POLITICS

BACKGROUND

As governmental activities strive toward implementing OMB Circular 102, attachment P, the "Single Audit Concept," the acceptance by one audit agency of the work of other audit agencies becomes critical. Each must be able to assess the credibility of the reports put out by others.

A key question aimed at the credibility of all audit reports is "How independent was the auditor of the auditee's influence or the influence of third parties?" This

question is particularly appropriate in assessing the reliability of the reports of governmental auditors. Because of the various methods of "hiring" the auditors and their positions in the hierarchy of government, their ability to be independent of the influence of those who hire them and/or of those to whom they report is difficult to assess without a good understanding of where auditors' allegiance realistically lies.

Some ways in which government auditors view their independence and the

"ideal" and the "practical" limits of it are discussed below.

INTRODUCTION

Neither of the panel members represented "elected" auditors. Therefore, little was said about independence or lack of it as it relates to the elected auditor. The panelists represented audit activities which had been established by legislative mandate; their reports go to individual legislators or legislative bodies, i.e., a State legislature and the city council in a city having a city manager system.

Comparison of Information Needed To Understand the Two Audit Organizations

<i>Branch of Government</i>	<i>State</i>	<i>City</i>
Legislative	House of Representatives and Senate elected by citizens in political (e.g., Democratic and Republican) elections.	Mayor-Council elected by citizens in non-partisan elections.
Executive	Elected Governor. Appointed policymakers. Civil service employees.	Council-appointed city manager (serves at pleasure of the council). Civil service employees.
Audit staffs ("Legislative"):		
Method of hiring	State legislative auditor appointed by majority vote of each house.	City auditor appointed by independent citizens' group (from financial community). Approved by majority vote of city council.
Term	Life (dismissal by two-thirds majority vote of each house).	Two years. May be reappointed in same manner as hired.
Scope of audit	Financial (almost exclusively).	Financial, management, performance.

Continued

Areas of audit

All State agencies, universities, localities, and municipalities (principally review of CPA audits).

Federal grant programs, systems designs, assistance to external (CPA) auditors on annual financial audits, and executive agency management.

Reporting

Reports released simultaneously to presiding officers of both houses and to executive agency concerned (released to media after 3 working days).

Reports released simultaneously to city council and city manager (release to media not delayed). Interim reporting to executive agencies (no surprises).

Corrective action

Statute requires implementing corrective action within 30 days. Noncompliance or auditee critical comments are handled through combined houses' audit advisory committee.

Executive agency has 90 days to respond (usually corrective action taken before report issuance).

ISSUES

How independent can government auditors be? What circumstances can affect their ability to remain above the "politics" of their positions? How can the government auditor maintain both the "appearance" and the "reality" of independence?

sified staff, and his classified employees are barred by law, from personally engaging in any partisan political activity. However, the law does not bar any member of their families, including spouses. In the city government, no partisan politics is involved, so there is no problem in that area.

tive the self-serving interest of the requestor(s).

- Set and use professionally acceptable standards of conduct, auditing, and reporting to assure that all audit reports released are based only on facts and that they are accurately, completely, and objectively reported.

WORKSHOP DISCUSSIONS

The parallel between the placement of the State and local audit organizations of the panelists is evident, and there was little, if any, difference in their approach to the subject. Both panelists agreed that the appearance of independence was more difficult to achieve than the reality of it. The reality is in the mind and integrity of the auditor, and sometimes the effect a report has on the reader's position can significantly affect the reader's perception of the writer's independence.

To maintain the appearance of independence, the auditor must be objective in reviewing and reporting. The auditor must have strong character and resist all efforts of "the special interests" to influence the areas of audits, the extent of audits, and the reporting of results. Great diligence must be exercised to avoid apparent conflicts of interest where there may be any connection (friends or relatives) between any of the parties concerned, e.g., the auditor, the auditor's staff, the auditee or its employees, the members of the legislative body, and the legislative staffs. The audit agency and the head's supervisory staff are responsible for being aware of any possible conflict of interest between the staff and those other interests which might influence the outcome of an audit or which might give the appearance of influencing it. The agency head must:

The city auditor pointed out that one method used to improve the independence of his agency was to jointly develop, with the city council, a long-range (5 year) plan of audit coverage based on predetermined objectives and budget considerations. The State auditor has no specific annual plan, although his staff is required by statute to audit all parish tax collectors, annually and, by legislative direction, all State universities, annually. Occasionally, the legislature makes special requests for specific audits. The State auditor's operations are subject to recurring reviews by independent public accountants.

Both panelists stressed the fact that the governmental auditor must have complete authority in hiring staff. The auditor must resist hiring personnel, particularly professional staff, who come "highly recommended" by members of the legislative bodies, the executive branch, or other persons who may have any connection with any audit to be made by the auditor's office. Here again, the threat of "appearance" of lack of independence, more than the "reality" of it, may greatly damage the overall integrity of the office's performance.

A key factor in judging the apparent independence of an auditor is the level to which the auditor reports. As previously noted, both panelists report to their respective legislative bodies, the highest levels in the governmental entities. However, the panelists and participants agreed, great care is needed to see that their audit reports are in no way improperly influenced by the auditees, the intended recipients, other interested parties, personal prejudices, or other external forces affecting the auditors and their staffs.

- Have full authority to control audit findings.
- Evaluate all special requests for audits by legislative members, elected officials, and all special interest groups or individuals before engaging in an audit which may have as its only objec-

CONTRACTING FOR AND OVERSIGHT OF AUDITS

INTRODUCTION

Governments are increasingly engaging public accountants to perform financial and compliance audits and express opinions on the fairness of government financial statements. In selecting accountants to perform auditing services, governments have traditionally issued requests for proposals (RFPs). Public accountants interested in doing the work must respond to the RFPs with detailed audit proposals outlining their qualifications, proposed audit work plans, and fees.

Because RFPs and audit proposals unfortunately differ widely in style and scope, confusion, delays in the audits, and additional costs to the parties involved have often resulted.

In June 1979 the Western Intergovernmental Audit Forum issued an exposure draft entitled "Guidelines for Preparation of Requests for Audit Proposals." These guidelines were prepared to foster a reasonable degree of consistency in the requests and responses. The forum hoped a closer matching of the auditing services requested with those being offered would result. The guidelines are intended primarily for local government use in connection with financial and compliance audits; however, they undoubtedly have wider application. Similar guidelines for use in requesting performance audits dealing with economy, efficiency, and effectiveness of operations are being considered.

WORKSHOP DISCUSSIONS

The advent of revenue sharing, which requires an independent examination of a government's financial statements

once every 3 years, has increased the demand for public accounting services required by local governments. Many local governments have had very little experience in preparing RFPs for auditing services and in evaluating proposals. Governments should be able to tailor their RFPs so that they clearly reflect their specific needs. This would facilitate evaluation of the accountants' proposals.

To obtain proposals that will meet their needs, governments must insure that RFPs contain the information that public accountants need to make responsive proposals and require the necessary information to make an intelligent and equitable selection of auditors. Public accounting firms spend significant time and effort preparing proposals. Complete and clearly defined RFPs that provide and request adequate and appropriate information will reduce the cost of preparing proposals and will enable more effective matching of the auditor's qualifications with requested services.

The Western Forum's guidelines can be used effectively as a checklist to insure that RFPs include all matters relating to the services requested.

In looking at RFPs from the public accountant's point of view, the following factors should be adequately considered or public accountants may decide not to submit proposals.

- A reasonable time, usually 3 weeks to a month, should be permitted to prepare proposals. Shorter periods raise questions as to the credibility of the requests and the seriousness with which the government is entering into the proposal process.
- If at all possible, the requestors should permit the prospective auditors to re-

view the governments' accounting records before making proposals. In most circumstances, the public accountants need to evaluate the condition and quality of the records and the people they will be dealing with if they are expected to propose estimated fees. Permitting access to the records and personnel will also give the government representatives an opportunity to observe and evaluate the prospective auditors. This also gives the requestors the option of using these meetings as preliminary screenings in order to limit the number of public accountants invited to submit proposals.

- Individuals who will evaluate the proposals must have the technical knowledge and background to fairly evaluate auditor's qualifications.
- One-year contracts are not very practical. The first year of an auditor's involvement can be very costly for both (the auditor and the auditee). The auditor spends additional time learning about the auditee, and the auditee has to spend time informing the auditor about its operations, etc. At least a 3- to 5-year contract or "hand shake" relationship should be considered, assuming satisfactory performance.
- The methods of evaluating proposals may vary considerably, e.g., low bid or established formulas. Whatever method is used (often described in the RFP), it should be stuck with and the contract should not be awarded based on another method, nor out of frustration should low bid be resorted to when technical qualifications were to be a significant factor. In addition, the influence that cost can have on

the evaluations can be reduced by requiring that the technical qualifications and the cost of the audit be submitted in separate documents. This way, the technical qualifications can be evaluated independently of cost considerations. Some recipients of proposals evaluate the technical qualifications first and then review cost proposals for only those proposers considered technically qualified. The requestor may also want to request the number of hours estimated to do the work in addition to a proposed cost. Low cost and an inadequate effort is no bargain.

Public accounting firms are very anxious to serve governments, but in many cases they do not have wide experience in dealing with the variety of separate reporting requirements usually required in connection with a governmental audit. Care should be exercised to assure that the prospective auditors clearly understand their additional reporting requirements which often go beyond an opinion on the financial statements.

WHERE DO WE GO FROM HERE?

Contracting for audits is a joint government and public accounting firm problem, and they must work together to assure quality procurements of services and performance.

In addition to using the Western Forum's guidelines, governments that do not have the expertise in procuring auditing services can ask the forums to help them prepare and evaluate proposals.

The use of internal audit staff to assist in the contract audit will reduce its cost.

OPERATING A NATIONAL PEER QUALITY REVIEW PROGRAM FOR GOVERNMENT AUDIT AGENCIES

BACKGROUND

Several events highlight the importance of efforts by the National Intergovernmental Audit Forum and the State Auditor Coordinating Committee to develop a peer quality review system for government audit agencies. Federal policy directives have recognized the need for enhanced intergovernmental audit cooperation, extending back to the 1968 Intergovernmental Cooperation Act and including:

- Presidential directives which stress sharing Federal audit plans with State and local auditors and placing greater reliance upon State and local audits to satisfy Federal requirements.
- Office of Management and Budget circulars, such as A-102, attachment P, which identifies quality assessment of audit work as an integral part of the single audit concept.
- Senate bill 904, which proposes that the OMB Director, with the Comptroller General's approval, establish a quality review process to insure that single independent financial and compliance audits of federally assisted programs are properly performed.

When complete, the system set up by the National Intergovernmental Audit Forum and the State Auditor Coordinating Committee will satisfy the Congress, OMB, and the President and will save government millions of dollars. It will enable (1) government audit agencies to assess and improve the quality of their organizations and audits, (2) the audit community to share audit results, thereby reducing the time devoted to audits of federally assisted programs, and (3) the public to accept the work of gov-

ernment audit agencies with greater confidence.

The joint project has two major phases. The objective of the first is to develop quality review guides and procedures. Regional guides and procedures have been developed and tested by the Midwestern, Mountain and Plains, and New England Forums and are being evaluated by the New York/New Jersey, Southwest, Western, and Pacific Northwest Forums. Upon completion, representatives from these seven organizations will meet to develop a single set of review guidelines and procedures.

WORKSHOP DISCUSSIONS

The intent of this workshop was to solicit input for achieving phase II objectives—developing sponsorship, organization, staffing, and funding modes for the peer review system—assuming that it is flexible enough to convert to a certification/accreditation program. Although most participants believed accreditation/certification would result in greater public exposure and credibility, the process has been limited to peer review to elicit greater initial acceptance. Therefore, the system will not be a mechanism which decides who can perform single audits under attachment P. Rather, the report user will decide, based on the facts presented, whether the auditee meets quality review standards.

The Mid-Atlantic and Southeastern Forums' quality review committees surveyed 10 organizations engaged in peer review accreditation. Their work formed the basis for the discussion on alternatives for achieving phase II objectives.

Participants discussed sponsorship by (1) governmental or quasi-governmental

agencies, (2) professional or intergovernmental associations, and (3) independent nonprofit boards or foundations organized solely to administer quality reviews. Following are the results of the workshop.

Sponsorship by a governmental or a quasi-governmental agency

Participants felt that the quasi-governmental structure of the National/Regional Intergovernmental Audit Forums should be adopted over other alternatives, because it would be

- representative of and accepted by all levels of government;
- conducive to either a centralized or a decentralized structure;
- easier and quicker to fund, staff, and implement; and
- more acceptable to the public because it would have at least the appearance of greater independence.

The forum structure would also assure some uniformity and consistency in applying standards and would have more stature than a new organization—the latter might be self serving. The only disadvantage identified was that not all government audit organizations are currently eligible for forum membership.

Professional or intergovernmental association

Potential sponsors include organizations such as the Association of Government Accountants, the National State Auditors Association, the American Institute of CPAs, the Municipal Finance Officers Association, the Institute of Internal Auditors, and the National Council on Governmental Accounting. The greatest advantage of this group is its greater in-

dependence and public credibility. Individual organizations do not, however, have broad-based support. They usually represent one level of government or individuals rather than government organizations.

Some participants recommended sponsorship by a group of representatives of these or similar associations. The Association of Government Accountants might also be a possible sponsor because of its multilevel government membership, which includes both national and local chapters. However, this and other associations have staffing problems which might preclude effective program management.

Independent nonprofit organization

Such sponsors would include the Financial Accounting Standards Board, the Financial Accounting Foundation, the proposed Government Accounting Standards Board, or a similar body created specifically to administer the quality review function. The advantages and disadvantages are similar to those of the professional or intergovernmental association. Other disadvantages include the inevitable conflicts which arise when the same organization both sets and oversees standards and practices, lower voluntary acceptance, and difficulty and delays in implementation.

Organization

A national office should establish and coordinate policies and provide quality controls. Regional organizations should execute the peer review function using national standards, but should have only loose ties to the national office. This allows greater flexibility in satisfying unique regional requirements, closer identification and therefore increased acceptance of the review function, and less costly travel requirements than other options. For a slight variation, regional teams could review State and local agencies and national teams could review Federal agencies. The centralized policies and guidance of Federal agencies make regional reviews more difficult.

Staffing

The quality review function—if sponsored by an existing organization—should be totally independent of its other activities and should be under the direction of a separate commission, board, council, or similar body representative of the entities subject to review. There should exist:

- A full-time skeleton administrative staff at the national and each regional office to schedule and coordinate reviews.
- Part-time or volunteer clerical personnel to supplement, as necessary, the full-time administrative staff.
- A rotating pool of staff, donated from the organizations subject to review, from which individuals would be selected to serve on specific quality reviews.

The permanent administrative staff would provide continuity and leadership and would identify responsibility and authority in the organization. The rotating pool of professional staff would be less expensive than a permanent staff. Individuals would receive training and career development, and their interaction with

auditors from different government agencies would lead to greater understanding and cooperation within the audit community. Participation by staff of organizations subject to review would provide a greater sense of involvement and control and consequently more voluntary acceptance of the program.

Problems related to availability, timing, and qualifications of contributed personnel and the interruption of internal training, development, and career progression could present drawbacks to this option. Qualified permanent staff, however, might be more difficult to hire and keep. Still, they would require less training, would be viewed as more independent, and would present fewer scheduling programs.

Funding

Grants, appropriations, and contracts are not reliable as primary or continuing funding sources, but could be used for startup and supplemental activities. A combination of dues and review fees would be structured to recognize organization size and would cover administrative and support costs of quality reviews. The salaries and travel expenses of review team members would generally be paid by the organizations donating their services. The review fee and/or dues would be used to pay the travel expenses of review team members when their organizations could not legally pay them.

INDIRECT COST AND RELATED AREAS OF CONCERN FOR GOVERNMENT AUDITORS

For over a century, the Federal Government has provided financial assistance to State and local governments to accomplish national priorities. Federal assistance now accounts for an estimated 25 percent of State and local resources. Since 1968, costs charged to Federal programs have had to comply with OMB Circular A-87, "Cost Principles Applicable to Grants and Contracts With State and Local Governments" (now FMC 74-4).

The total allowable costs of any grant or contract are those directly related to its performance plus an allocated share of indirect, or overhead, costs. No universal rule exists for classifying costs as direct or indirect. Generally speaking, however, a direct cost is one which usually can be readily identified with and assigned to a cost objective (a grant, a contract, an organizational unit, etc.). Indirect costs for such things as administration, purchasing, accounting, auditing, budgeting, and space often benefit more than one cost objective and generally are not readily assignable directly to a grant or contract. In these cases, the indirect, or joint, costs should be assigned to cost objectives in reasonable and equitable proportions relative to benefits received, a cause-and-effect relationship, or some other reasonable or logical basis.

State and local governments' costs to carry out Federal programs often exceed the amount of Federal assistance received. When the amount of assistance was comparatively small, State and local governments did not identify and allocate indirect costs to federally assisted programs. As the number and significance of Federal programs increased, State and local governments' involve-

ment and their costs to administer the programs also increased and several States and localities began to identify and allocate indirect costs. As a result, some Federal agencies allowed State and local governments to use Federal funds to pay part or all identified costs while other Federal agencies did not.

Circular A-87 was implemented to provide a uniform approach to determining total allowable costs of Federal programs at the State and local government levels and to promote financial accountability and better relationships between grantees and their Federal counterparts. The circular established principles and standards to be applied by all Federal agencies for determining costs applicable to grants, including subgrants, to State and local governments.

OMB anticipated that application of the circular's principles would reduce audit exceptions. The circular required that allocated or joint costs charged to Federal programs be supported by a plan of allocation. The circular was to simplify intergovernmental relations by requiring a State or local government to justify allowability and allocability of its costs once a year to one Federal agency.

The circular did not supersede cost limitations imposed by law, provide new funds to Federal agencies for costs not previously allowed by them, or dictate the extent of Federal funding for a particular program.

Even though the circular has been in effect for 12 years, various operational problems still exist. In addition, the circular is constantly subject to revision and reinterpretation. This workshop highlighted some of these problems, alterations, and interpretations. In fact, the ses-

sion opened with a briefing on two recent revisions dealing with allowability of travel and rental costs.

Cost allocation has been described as an art rather than a science of strict codes. Numerous methods exist for allocating costs and classifying them as direct or indirect. On the one hand, the flexibility complements the variances among governmental structures; yet, for small local governments, the task of developing a plan can be overwhelming. Likewise, subgrantees are prone to influence from their grantors in how they should allocate cost. Ostensibly subgrantees have the same right and responsibility as prime sponsors to develop a cost allocation plan.

One increasingly critical element of indirect cost is audit service. Audit costs could become particularly meaningful with the implementation of the single audit concept as required in Circular A-102. Payment for those audits has not been defined, so States and locals might need to develop plans to allocate the audit costs among Federal grantors.

Compounding the problem of allocating indirect costs is the absence of an enforcement authority to insure Federal payment of those costs. Most Federal contracts state that indirect costs will be paid according to the availability of funds. To program managers, the funds are better applied to meet program needs than indirect costs like administrative services. Because of these conflicting principles, the adherence to indirect cost guidelines remains piecemeal, particularly among local governments.

GOVERNMENT AUDIT STANDARDS: REVISIONS PLANNED

INTRODUCTION

The "Standards for Audit of Governmental Organizations, Programs, Activities & Functions," as issued in 1972, have proved to be sound and durable and have been generally accepted by all levels of government as well as the accounting profession. OMB has included the standards in OMB circulars as basic audit criteria for Federal executive agencies to follow. Also, the Inspector General Act of 1978 (Public Law 95-452), dated October 12, 1978, requires that the Inspectors General follow the standards.

The standards are being revised, not because they contain weaknesses, but to clarify their meaning and to add information about the auditor's responsibility for detection of fraud and abuse. Also, standards are being incorporated for audits of systems using automatic data processing equipment.

APPROACH TO REVISION

In deciding who should revise the standards, a number of alternatives were considered. But GAO decided to make the revisions within GAO based on comments and suggestions received since the standards were issued. Once the revisions have been drafted, GAO plans to send the draft to all interested parties for comment. Comments will be evaluated and incorporated as appropriate in the final standards. A goal of December 31, 1980, has been established for issuing the revised standards.

SUMMARY OF MAJOR REVISIONS

Some of the planned major revisions to the standards follow.

1. Expanded scope auditing.

● Clarified that an audit may include all three elements of expanded scope auditing or may include only one or two elements.

2. Compliance aspects of auditing.

● Expanded on the meaning of "compliance." Compliance is not a separate audit in itself, but part of each of the three elements of auditing.

3. Financial audits leading to an opinion.

● Incorporated into the general standard on qualifications what qualifications are recommended when engaging public accountants to make these audits. They are as follows:

"When public accountants are engaged to perform these audits, only certified public accountants or public accountants licensed before December 31, 1970, should be engaged."

4. "Independence" defined.

"In all matters relating to the audit work, the audit organization and the individual auditors must be organizationally independent and shall maintain an independent attitude and appearance." (Underlines show changes.)

5. Independence—personal impairments.

Examples of preaudit work which would impair the auditor's independence:

"For example the auditor examines and approves invoices, payrolls, claims and other proposed payments and subsequently performs a post audit of these transactions."

Additional personal impairments:

● The auditor maintaining the accounting records and subsequently performing a postaudit.

● The auditor performing certain nonaudit services and subsequently performing a postaudit.

6. Independence—organizational impairments.

● Internal auditors.

a. Government auditors may be subject to policy direction from persons involved in the government management process.

b. The audit function or organization should report to the head of the governmental entity or the next higher level and should be organizationally located outside the line management of the unit under audit.

c. Auditors should also be sufficiently removed from political pressures to insure that they can conduct their audits objectively and can report their conclusions without fear of censure.

d. Whenever feasible, they should be under a personnel system where compensation, training, job tenure, and advancement are based solely on merit.

e. If the above conditions are met, auditors should be organizationally independent to audit internally and free to report objectively what they find.

f. The main objective of an internal audit organization is to serve the entity's top management.

g. They may not be considered to be independent of the entity by third parties.

h. While internal auditors may not be considered independent of the entity, the external auditors, in auditing the entity, should make maximum use of the internal auditors' work after appropriate tests are performed.

● External auditors.

a. Government auditors who are elected and legislative auditors auditing executive entities usually are free of organizational impairments when auditing outside the governmental entities they are assigned to, assuming there are no personal or external impairments.

b. Governmental auditors may be presumed to be independent of the entities they are auditing if they are:

- Levels of government other than the ones they are assigned to, e.g., Federal, State, or local.
- Different branches of government within the levels of government they are assigned to, e.g., legislative, executive, or judicial.
- Different agencies of the same branches of government they are assigned to.

c. Governmental auditors may also be presumed to be independent if they are:

- Elected by the citizens of their jurisdiction.
- Elected or appointed by and report to the legislative bodies of the levels of government they are assigned to.
- Appointed by the chief executives and confirmed by and report to the legislative bodies of the levels of government they are assigned to.

7. Auditing computer-based systems (added as the fifth examination and evaluation standard):

- Auditors shall actively participate in reviewing the design and development of new data processing systems or applications and significant modification to them.
- Auditors shall review general controls in data processing systems.
- Auditors shall review application controls of installed data processing systems.

8. Evidence.

- Auditors shall accumulate evidence in workpapers.

9. Fraud, abuse, and illegal acts (added as a seventh examination and evaluation standard for governmental auditing):

"Auditors shall be alert to situations or transactions that could be indicative of fraud, abuse, and improper or illegal expenditures and acts; and shall develop audit steps and procedures to search for these type expenditures and acts."

- An audit made in accordance with the standards in this document will not insure or guarantee that improper or illegal acts have not occurred.
- If the audit has been made in accordance with these standards, the auditors have fulfilled their professional responsibilities.
- When the auditors discover improper or illegal acts during the audit, they shall report them in accordance with the reporting standards in chapter VI of this document.

10. Reporting standards:

- The following was added as a separate reporting standard:

"A written audit report is to be prepared of the results of each governmental audit."

- The following was added as generally accepted accounting principles:

"The National Committee on Governmental Accounting's publication entitled, 'Governmental Accounting, Auditing and Financial Reporting' (GAAFR) has generally been acknowledged as an authoritative publication in the area of accounting for State and local governmental units. The U.S. General Accounting Office's publication entitled, 'Accounting Principles and Standards for Federal Agencies' contains generally accepted accounting principles for Federal agencies.

- The following was added as generally accepted auditing standards:

"The U.S. General Accounting Office 'Standards for Audit of Governmental Organizations, Programs, Activities & Functions' also include the generally accepted auditing standards established by

the American Institute of Certified Public Accountants."

- Explanatory information—added the following:

Comments on material deficiencies identified during the financial audit should be included in the audit report.

- Statement on compliance—added the following:

The audit report should state whether the tests made disclosed instances of significant noncompliance.

- Reporting irregularities—added the following:

a. If auditors become aware of irregularities affecting the government entity, they should promptly notify the top entity official.

b. If irregularities involve funds received from other government entities, the auditors should also promptly notify officials of those entities.

c. All improper or illegal acts, whether material or not, that auditors become aware of should be included in a written report and be submitted to the appropriate officials of the organization audited and to the organizations requiring or arranging for the audits.

d. Copies should also be sent to other officials authorized to receive such reports. However, auditors should not release to the public reports containing information on improper or illegal acts, since this could interfere with legal processes.

- Recommendations—added the following:

Management is primarily responsible for directing action and followup on audit recommendations. However, the auditor, in subsequent audits, should disclose the status of recommendations included in prior audit reports.

COMMENTS ON AUDIT STANDARDS

The following questions were asked and comments and suggestions made regarding the proposed revisions to the audit standards.

1. Independence.

- Should the standards prohibit an audit firm from designing a system and then auditing against the system? There appears to be a difference of opinion regarding whether auditors should provide management advisory services. Some feel that auditors should not be involved in any type of management advisory services because this would tend to compromise their independence. Others feel that independence is an attitude of the mind and that there should not be any problem with auditors providing such services. They point out that the auditors are the most qualified to provide some of the needed management advisory services, such as designing an accounting system, and it is only practical that they do so. Also, they say that personnel and organizational structure are continually changing and the fact that an audit firm designed an accounting system for an organization at one time should not discourage the auditors from suggesting improvements in the changed system at another time.

- If someone has the auditors' "purse strings," it is hard for them to be independent. Therefore, the Inspectors General may have to have their own budgets. If they do not, this may give an appearance of conflict of interest.

2. Auditing computer-based systems.

- The auditors should not be part of the team that designs the systems. The key word is that the auditors participate in *reviewing* the design. Also, an "escape clause" provides that auditors have discharged their responsibilities if they have informed management of the need to review the systems design and management refuses. Moreover, sometimes controls exist but management removes them.

3. Fraud, abuse, and illegal acts.

- This suggests the need for investigative training. However, it is of prime importance to remedy the deficiencies in internal control that allow fraud and abuse to occur.
- There may be a problem with the standard that says ***auditors should not release to the public reports containing information on improper or illegal acts*** because the State charter may say that it must be publicized. The standard may have to be revised to say that in such cases auditors should seek legal advice about how to report such matters.
- A question was raised as to why auditors should be required to include improper or illegal acts in audit reports if they cannot be released to the public. (Such reports are released to appropriate auditee officials and to the organization requiring or arranging for the audit.)

- Concern was expressed about whether ***all improper or illegal acts, whether material or not, that auditors become aware of should be included in a written report, and submitted to the appropriate officials.*** Some believe that the word "all" is too inclusive.

4. Financial audits leading to an opinion.

- A question was raised as to why the standards state that the only public accountants that should be engaged to perform the subject financial audits are those licensed before December 31, 1970.

WRITTEN COMMENTS REQUESTED

A draft of the proposed revisions to the standards will be sent to all interested parties for comment. It is hoped that many will submit written comments about the proposed revisions which can be considered before the standards are issued in final form.

A REAL INTERGOVERNMENTAL RELATIONS SUCCESS STORY

I am especially pleased to be with you today at this third Joint Conference of the Intergovernmental Audit Forums. I thank you for the opportunity to speak to you and share with you some thoughts about a real intergovernmental relations success story.

One of the highlights during my time as Comptroller General is the General Accounting Office's involvement in the audit forum movement. Our efforts started about 7 years ago when I met with a group of State auditors who envisioned representatives of Federal, State, and local audit organizations meeting together to discuss and solve some of the issues that existed among them. One of these gentlemen is Bill Snodgrass, whom I had hoped to see here today. As a result of that meeting, 11 intergovernmental audit forums exist today, and while not all the problems have been solved, the relationship among auditors from all levels of government is much closer. In time, most of the major auditing problems will be solved and those here today will be the ones to make this happen.

I would like to take this opportunity to say thanks personally to you for the help and support that the forums have given me and the entire government audit community. Everywhere I go, people tell me what a great contribution the forums have made to improve the overall financial accountability at all levels of government.

The forums are an excellent example of what can be accomplished through intergovernmental cooperation. They have improved working relationships among government auditors by increas-

ing coordination and cooperation and opening lines of communication between member audit organizations.

I have been pleased to notice the many meaningful projects being initiated or participated in by the forums. Your agenda for this conference testifies to this point. Several projects have already resulted in substantial improvements in financial accountability and will have far-reaching effects on government auditing. Among these are the following:

- The development of a standard financial and compliance audit guide.
- The study of the feasibility and desirability of a quality review system for organizations that perform audits at all levels of government.
- The development of guidelines for preparation of requests for audit services.
- The development of audit guidelines for reviews of economy and efficiency and for program results.
- The JFMIP study on the audit of federally assisted programs.

The forums have also performed a needed service to members by providing training that otherwise might not have been available or affordable. However, perhaps even more important, the forums have brought together groups of government auditors in an environment where they can discuss items of common interest.

This conference has again brought together the most responsible and diversified group of audit directors ever assembled in the Nation, if not the world. This gathering exemplifies the commitment and interest among all government auditors to work together to meet the vast



Address by Elmer B. Staats, Comptroller General of the United States, Before the 1980 Joint Conference of the Intergovernmental Audit Forums, Dallas, Texas, April 25, 1980.

and growing audit requirements of all those who are concerned with governmental accountability.

In the past few years, we have seen an increased interest in governmental auditing as never witnessed before. Public officials, legislators, and citizens are asking whether funds are being spent properly, in compliance with laws and regulations, and free of fraud and abuse. They also want to know whether government programs are being managed efficiently and effectively.

Many have called the 1970s the decade of auditing. This may well be true. A number of events have occurred that have had definite impacts on government auditing. As we enter a new decade it is appropriate to assess the past and to look to the challenges of the future.

Since the 1976 joint conference of the forums several significant events have occurred. I would like to comment on four of them: the Inspector General Act,

grant reform, fraud and abuse, and government accounting principles and standards.

INSPECTOR GENERAL ACT

On October 12, 1978, the President signed into law the Inspector General Act, which established Offices of Inspectors General in 12 additional Federal departments and agencies. Such offices had already been provided for in HEW and the Department of Energy.

These offices were established to:

1. Conduct and supervise audits and investigations relating to programs and operations of the respective departments and agencies.
2. Promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, programs and operations.
3. Provide a means for keeping the department and agency heads and the Congress fully and currently informed about problems and deficiencies relating to the administration of programs and operations and the progress of corrective actions.

This law raised the level to which Federal internal audit organizations report. This should improve their organizational independence and should result in better followup on audit findings.

There is great significance in the Inspector General legislation for all levels of government. While the need to combat fraud, waste, and abuse was evident during the hearings, the final act recognized that, although detection is important, systematic and effective efforts in prevention are even more important.

Senator Chiles, during confirmation hearings for several nominees for Inspector General, indicated that the Congress would look to the Inspectors General to help restore a sense of good order and discipline within the Federal establishment.

We in GAO continue to be concerned with whether the title "Inspector General" may give undue emphasis to the investigative, as contrasted with the audit, responsibilities of the Inspector General. We have proposed a different title—namely, "Auditor and Inspector General."

The Congress apparently thought they met our concern by retaining the shorter title but providing for an Assistant Inspector General for Auditing and an Assistant Inspector General for Investigations. This is a matter in which we will continue to be concerned and will, in our future evaluations of the work of Inspectors General give particular attention to the balance between investigations and audits.

GRANT REFORM

I need not remind this group of the proliferation of federally assisted programs since the mid-1960s and the related problems that it has created, especially for government auditors and administrators. Neither do I need to recite the details that have led to the "single audit" approach now being implemented. This has certainly been adequately covered in your conference.

The single audit approach is a constructive step and the proper way to proceed. I fully support this approach. A great deal of progress has been made to date. GAO, in cooperation with the audit forums, has taken the lead in developing an audit guide for comprehensive financial and compliance audits of multi-funded grant recipients.

OMB has issued attachment P to Circular A-102 requiring the single audit of State and local governments to satisfy Federal audit requirements, rather than continuing the grant-by-grant audit process.

Other progress has been made in improving audits of grants. For example, a number of the forums have projects underway to improve such areas as audit planning and coordination among audit groups.

I also believe the Inspectors General will play an important role in seeing that appropriate audit coverage is provided for grants.

Although progress has been made, much remains to be done before the single audit can be fully implemented. Full acceptance and implementation will not come easily and certainly will not be accomplished overnight. The time is ripe

for this new emphasis, which should promote more efficient use of limited audit resources at all levels of government. The single audit approach deserves the attention and support from all of us to make it work.

In my testimony before the House Subcommittee on Intergovernmental Relations and Human Resources, which is considering the extension of revenue sharing, I placed particular emphasis upon the need to provide for a single audit of Federal grants, including revenue sharing. It is my hope that the Subcommittee, in its report, will take note of this and support the idea which the intergovernmental audit forums have so strongly endorsed.

FRAUD AND ABUSE

As many of you know, GAO's increased emphasis on fraud prevention and detection began in 1976. We wanted to ascertain whether Federal agencies had adopted effective policies and procedures for combating fraud. In 1978, we issued a report to the Congress which pointed out that no one really knows the magnitude of fraud and abuse in government. However, all indications are that it is a problem of critical proportions.

Shortly after our report was issued, I established a Task Force for the Prevention of Fraud to perform a three-fold mission:

- Assess the scope of the overall problem of fraud and illegal activities against the Federal Government.
- Operate a nationwide toll-free hotline which could be used by citizens anywhere in the country to report instances of fraud in Federal programs.
- Conduct "vulnerability assessments" within selected agencies.

The first of these three efforts deals with known instances of fraud, its causes, and actions taken by management to prevent its recurrence. We are asking the question, "Why did fraud occur?" We are identifying the kinds of illegal activities that are occurring, and at what cost, and determining what means are available for prevention and detec-

tion. We want to know whether the fraud has occurred because agency control systems have failed. We also want to know what legal and administrative remedies were taken, and conversely, if none were taken, why they were not.

Based on information obtained by us to date, it is clear that a wide variety of Federal programs and activities are affected. Cases of fraud involve many areas, including

- payroll,
- loan guarantees,
- theft of equipment, and
- educational benefits programs.

The second area undertaken by the task force is the operation of a nationwide hotline. We announced the hotline telephone number in January 1979, and after the first 14 months of operation had received more than 16,000 calls and had written up over 8,000 allegations; that is, we determined that there appeared to be sufficient evidence to warrant followup.

Computer analysis of trends of the calls is currently in process and the followup on these hotline leads has begun. Additional calls are being received daily and will be handled by the same process.

Substantive calls have been received from all 50 States, the District of Columbia, and a few overseas locations. Almost all Federal Government entities are affected, including GAO.

Allegations being reported cover a wide range of abuses—theft, private use of Government property, working hour abuses, improper financial transactions, improper expenditure of grant funds, cheating on benefit eligibility, and payment of bribes or kickbacks. The amount of money involved in these allegations varies, but the dollars involved, as we see it, are less important than what all this does in terms of destroying people's confidence in government.

I want to emphasize that, to determine whether the Government's fraud prevention efforts are adequate, GAO's interest is in the financial and management systems used to account for funds. We prefer to work with agency inspectors

General to get individual cases investigated. As of March 15, 1980, we had referred over 4,000 cases to the Inspectors General and other investigative officials for review.

We are monitoring the results of the Inspectors General's work in order to develop profiles of fraudulent activity and agency actions to prevent them from recurring. This information will aid our evaluation of internal and management controls necessary to prevent fraud.

Our third effort, vulnerability assessments, is what we call our effort to estimate the susceptibility of agencies and their programs to fraud and abuse.

In making our vulnerability assessments, we evaluate the adequacy of internal controls over major administrative and program-related tasks to determine whether someone could have, or has, abused or misused Federal assets. To protect Federal funds and other assets adequately, departments and agencies must have preventive controls over tasks being performed as well as after-the-fact controls, such as internal auditors who test the systems of internal control, to provide assurance to top management that programs and funds are being administered and performed correctly.

Based on our work, we believe that all of the agencies visited are vulnerable to fraud and abuse. This is because Federal headquarters, regional offices, and other field locations and grantees have inadequate internal controls over their operations.

Detection of fraud and abuse is important. However, detection should not be our primary concern as auditors and managers. Our major efforts should be devoted to constructing systems of internal control that will help prevent fraud and abuse and decrease the likelihood of error or waste. I urge each of you to join me in this effort.

GOVERNMENT ACCOUNTING PRINCIPLES AND STANDARDS

The setting of government accounting principles and standards is receiving a lot of attention these days. Some believe that the accounting for governmental

entities should use the same basic standards as those used for profitmaking entities. We in GAO do not agree with this view. We believe there are basic differences between governmental and commercial accounting information needs.

One difference is in their goals. The basic goal of a commercial entity is to make a profit. On the other hand, government's goal is to protect and serve its citizens and to promote their general welfare.

Another difference is that governmental entities are accountable to citizens, not to stockholders.

These two basic differences, in my opinion, result in different information needs. Therefore, I believe that governmental accounting principles and standards must be considered separately from those established for profitmaking entities, even though some of the principles and standards may turn out to be the same.

The question of who should set the standards for State and local governments has received a great deal of attention in recent months. Many people in government believe that the FASB should not be the standard-setting body for government. They are busy setting standards for the private sector and in all likelihood would try to fit government accounting into a commercial framework.

I believe the solution to setting government accounting principles and standards is to have the various interested organizations work together.

I am pleased to announce that the American Institute of CPAs, the Financial Accounting Foundation, GAO, and the Municipal Finance Officers Association are joining to charter a new foundation to support a State and Local Government Accounting Standards Board.

This is indeed an encouraging development. We continue, of course, to have the problem of adequate financing for such a board. However, with the kind of support which I believe we now look forward to, this should be an insurmountable problem. It would be my hope that language can be included in the House

Subcommittee on Intergovernmental Relations and Human Resources' report, if not indeed in the actual wording of the legislation extending revenue sharing, to provide some Federal assistance through the revenue sharing route. I doubt whether it would be desirable or feasible to have the entire cost borne by the Federal Government, but certainly the Federal Government has a strong interest in this area, so I believe it would be appropriate for some financial assistance to come from it.

CHALLENGES TO THE FORUMS

In my opening remarks, I referred to the forum movement as a real intergovernmental relations success story. I see an even greater role for the forums in the future. You, in the audience today, have proven that members from the various levels of government can join forces to help solve problems common to all of us.

I urge and challenge you to not only maintain but to expand on your current efforts to:

- Improve communication, cooperation, and coordination among auditors at all levels of government.
- Provide training and assistance to those auditors who review government programs and activities.
- Promote the acceptance and implementation of the single audit concept.
- Promote and assist in the development and use of government accounting standards and principles.
- Continue to serve as a medium for generating new ideas and ways to improve governmental accountability.

COMMUNICATION, COOPERATION, AND COORDINATION

While you have been successful in improving the relationship among governmental audit organizations, you must not cease to continue this effort. Due to the diversified nature of government audits and the ever-increasing complexities of our work, we must constantly work toward improved communication, cooperation, and coordination of our efforts.

TRAINING

As funds for such activities as training and staff development become even more scarce and as the requirements for added skills of our audit staffs increase, we must seek other sources for staff development. The forums have helped fill this gap in the past. You will probably be called on to an even greater extent in the future to provide training for your members and their staffs. I would encourage you to meet this challenge, and I am confident that you will do so.

SINGLE AUDIT APPROACH

There have been those who have stated that the single audit approach is a matter whose time has come.

It goes without saying that the forums are a key factor in implementing this approach. Each member of the forums is a key player. Back in 1976, in a letter to Bill Simon, Secretary of the Treasury, I suggested that the JFMIP was the appropriate organization to help find solutions to problems involving the audit of federally assisted programs. At that time I recommended that the JFMIP staff work closely with and through the intergovernmental audit forums since they were already working to solve related problems.

Upon completion of the JFMIP study, in which many of the forums assisted, the other JFMIP Principals and I agreed that the forums should be asked to assist OMB in the implementation of the single audit concept.

I encourage and ask your support in carrying out this worthwhile cause.

ACCOUNTING PRINCIPLES AND STANDARDS

I encourage you, especially State and local members, to support the various efforts underway by organizations such as the NCGA and the AICPA in their studies of governmental accounting principles and standards.

You can play a key role in encouraging officials at all levels of government to establish sound financial accounting systems in accordance with accepted accounting principles and standards.

GENERATING NEW IDEAS AND WAYS TO IMPROVE GOVERNMENTAL ACCOUNTABILITY

Most of your efforts since the inception of the forums have been spent on solving known existing problems. I see the role of the forums changing. I believe that one of the greatest challenges to you and the forums in the future will be to serve as an environment for generating new ideas and ways to improve accountability in government. To do this, you will need to continue such current efforts as the quality review project and the development of expanded scope audit guidelines.

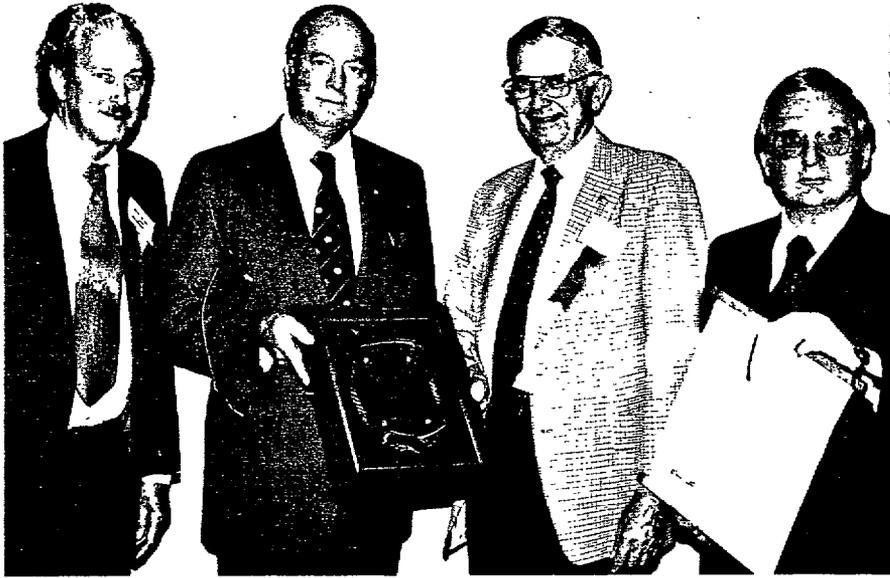
CONCLUDING REMARKS

As most of you know, my term as Comptroller General will end next March. This is one of the main reasons that I wanted to be here for this joint conference, in order to express my personal appreciation for the support which all of you have given to the intergovernmental audit forum movement. You can take great pride in what you have accomplished, and I hope that joint meetings of this type can be held periodically—perhaps every 2 years. Communication, both in formal sessions and in informal sessions, can be of tremendous importance as we learn from each other the changing role that auditors throughout the world are experiencing.

It seems to me that we have seen two major changes in the role that you as auditors have experienced over the past 14 years. One of these is the changing nature of auditors' work. As programs have become more complex and more expensive, legislators and the public have come to expect that auditors should extend their interest beyond strictly financial and compliance auditing to whether funds are spent economically and efficiently and whether these funds are achieving the results intended by the framers of statutes. This has meant that auditors have had to extend their horizons, sharpen their skills, and bring in new talent to deal with highly technical and specialized problems.

The other major development is the changing relationship among levels of government within the United States. Federal grants have grown rapidly over the past 15 years to the point where Federal assistance now represents roughly one-fourth of all State and local government revenues. This has changed the interest and role of the Federal Government in the auditing of Federal assistance programs. It has meant that auditors at all levels of government have had to work more closely together. Here again the forum movement has played and will need to continue to play an important role.

I wish each of you and your forums continued success.



Presentation of Service Award to Henry L. Bridges, State Auditor, North Carolina. L to R: Robert J. Ryan (National Executive Secretary), Elmer B. Staats (Comptroller General), Henry L. Bridges and Marvin Colbs (Southeastern Chairman).



Dallas Mayor Robert S. Folsom welcomes attendees to the Joint Conference of the Intergovernmental Audit Forums, Dallas, Texas, April 23, 1980.



Presentation of Service Award to Orvel M. Johnson, Legislative Auditor Emeritus, Arkansas. L to R: Robert J. Ryan (National Executive Secretary), Elmer B. Staats (Comptroller General), Orvel M. Johnson and Irwin M. D'Addario (Southwest Immediate Past Chairman).

APPENDIX I

Intergovernmental Audit Forums 1980 Joint Conference Dallas, Texas List of Attendees

<i>Name and Affiliation</i>	<i>Forum</i>	<i>Name and Affiliation</i>	<i>Forum</i>
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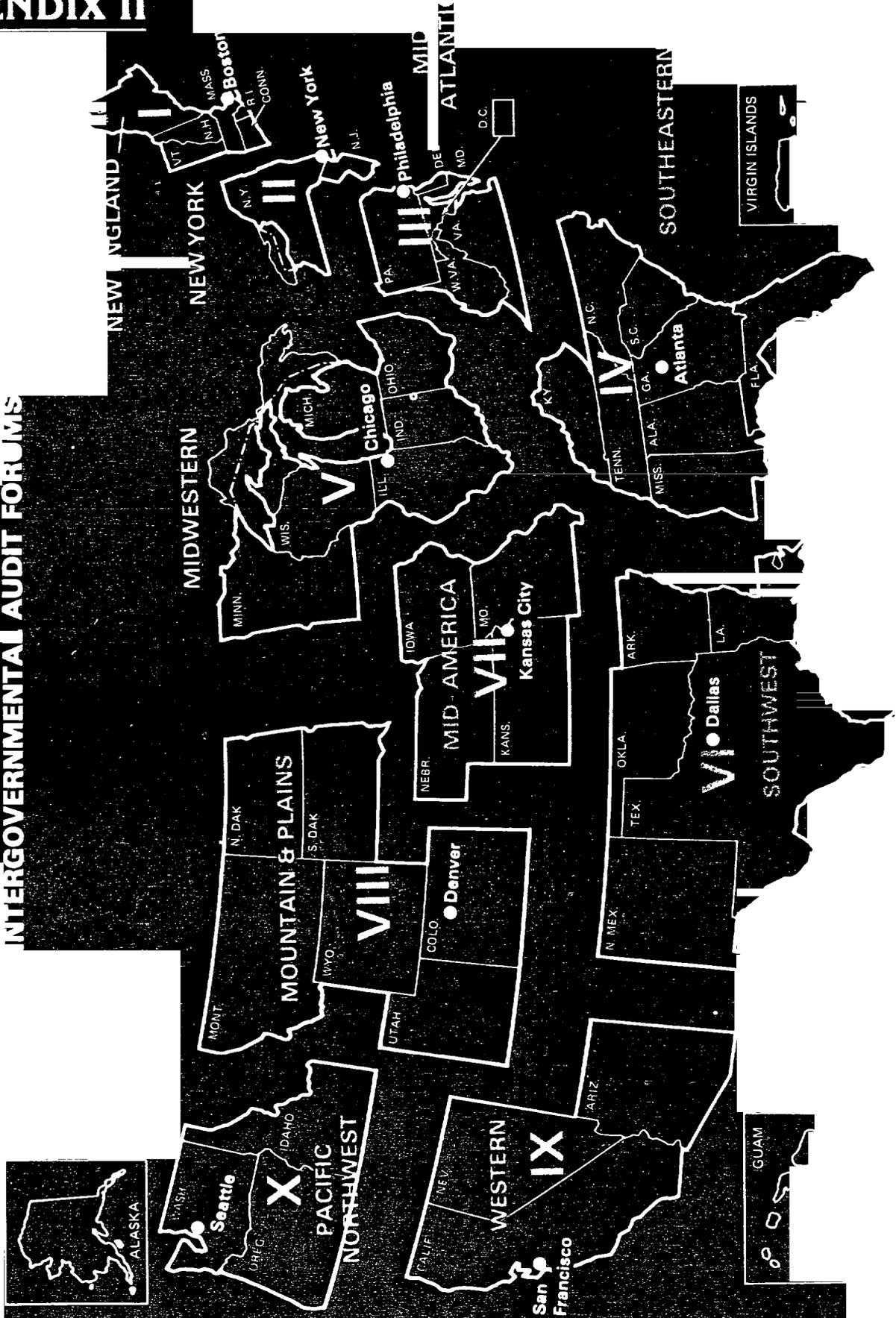
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APPENDIX II

NATIONAL AND REGIONAL INTERGOVERNMENTAL AUDIT FORUMS



APPENDIX III

Summary of Results of Joint Conference of Intergovernmental Audit Forums Held in 1978

On April 19–21, 1978, the eleven Intergovernmental Audit Forums held their second joint meeting. The meeting was attended by Federal, State, and local audit directors from throughout the United States. Seven topics were discussed during rotating discussion periods. Over a two-day period each of the attendees participated in discussions on each of the following seven topics.

1. Single Audits of Multifunded Grantees—Financial and Compliance.
2. Economy and Efficiency Audits and Program Results Audits.
3. How to Improve Audit Coordination and Cooperation.
4. The JFMIP Audit Improvement Project.
5. Quality Review of Audit Organizations.
6. Progress and the Future Role of the Forums.
7. Detection of Fraud and Abuse—What Priority?

A brief summary of each of the seven topics follows.

Single Audits of Multifunded Grantees

This topic focused on the efforts being made to develop and test the concept of a single audit of a multifunded grantee using a standard financial and compliance audit guide. The sessions resulted in a thorough exchange of views and experiences on the progress attained and the crucial barriers that were ahead.

Economy and Efficiency and Program Results Audits

This topic focused on the issues related to performing economy and efficiency and program results audits. During the sessions the participants discussed their experiences in making these audits and the problems they were encountering.

At the time of this conference, two exposure drafts of guidelines were nearing publication. The participants discussed the New England Forum's "Guidelines for Economy and Efficiency Audits of Federally Assisted Programs," and the Western Forum's "Comprehensive Approach for Planning and Conducting A Program Results Review." Both of these exposure drafts were subsequently issued.

How to Improve Audit Coordination and Cooperation

The participants generally agreed that effective coordination and cooperation among Federal, State, and local audit organizations was a necessary and attainable goal and there was a need for continued effort in this area. While no special solutions were recommended by the participants, the message forthcoming was that we should stop talking about the problem and strive to work with each other where there is a common interest.

JFMIP Audit Improvement Project

These discussions centered around the following issues, or problems, addressed by the Joint Financial Management Improvement Project (JFMIP) study group:

- Possible audit duplication and audit overlap.
- Possible lack of audit coverage.
- Coordination of audits.
- Mechanisms for reimbursing State and local auditors for audits of federally assisted programs.
- Varied and differing Federal audit organizational structures, audit guidelines, and reporting requirements.
- Reliance by Federal auditors on other Federal audit organizations for audits.
- Reliance by Federal auditors on State and local organizations for audits.

During these sessions ideas were solicited for solving intergovernmental audit problems by drawing upon the diverse experience and skills of the joint conference attendees. The discussions provided the study group with a broader perspective of the problems and alternative solutions. The attendees concluded that solving these problems would not be easy and would not be accomplished overnight. The intergovernmental audit forums and their members were viewed as a catalyst to initiate and ultimately bring about needed reform.

Quality Review

This topic focuses on the issues related to establishing a quality review program for government audit organizations. The sessions provided a thorough exchange of views and experiences on the benefits of, concerns about, and the progress attained. The discussions provided useful data for the Mountain and Plains, Midwestern, and New England Forums' Committees' on Quality Review to consider.

Progress and the Future Role of the Forums

These discussions focused on the forums' progress and their future role. During the sessions the forums' accomplishments were discussed and the participants' thoughts and ideas on the future role of the forums were solicited.

Detection of Fraud and Abuse— What Priority?

These sessions focused on what priority government audit organizations should give to detecting fraud and abuse in government programs. The participants exchanged views and experiences on what:

- resources should be allocated to detecting fraud and abuse.
- audit activities may need to be curtailed to compensate for this.
- are the ramifications of shifting audit coverage to detecting fraud and abuse.

The 1978 joint conference kindled even greater interest in the forums and established the groundwork for future forum actions. As a result of this conference a number of projects were initiated by the forums

APPENDIX IV

Intergovernmental Audit Forums 1980 Joint Conference Planning Committee

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Aardashes Der Ananian, Jr.	Regional Inspector General for Audit/HUD—Boston	New England
Sidney L. Pollock	Regional Audit Manager/La- bor—New York	New York/New Jersey
Charles K. Tribble	Auditor of Public Accounts Virginia	Mid-Atlantic
Henry L. Bridges	State Auditor North Carolina	Southeastern
Hugh J. Dorrian	City Auditor Columbus, Ohio	Midwestern
Terry R. Milrany	City Auditor Fort Worth, Texas	Southwest
Richard E. Brown	Legislative Post Auditor Kan- sas	Mid-America
Gordon K. Milbrandt	Auditor General South Da- kota	Mountain & Plains
Charles T. Rabb	Assistant Area Director Audit, LEAA/Justice—Sacramento	Western
James Diecker	Olympia Area Supervisor, Office of Child Support En- forcement/HEW—Seattle	Pacific Northwest
Daniel Paul	City Auditor Baltimore, Mary- land	National
Robert J. Ryan*	Assistant Director GAO, Washington, D.C.	National Executive Secre- tary
Robert M. Crowl**	Supervisory Auditor GAO, Atlanta, Georgia	Southeastern Executive Di- rector

*—Committee Chairman

**—Committee Recorder

APPENDIX V

Intergovernmental Audit Forums 1980 Joint Conference Schedule of Workshop Topics and Discussion Leaders

THE SINGLE AUDIT CONCEPT

James F. Antonio—State Auditor, Missouri
W. A. Broadus, Jr.—GAO, Washington, D.C.
Daniel Dennis—Lucas, Tucker & Co., Boston
James S. Dwight, Jr.—Deloitte Haskins & Sells, Washington, D.C.
Don Lambert—Smarrt, Toombs & Higgins, Inc., Grand Prairie, Texas
John J. Lordan—OMB, Washington, D.C.
John R. Miller—Peat, Marwick, Mitchell & Co., New York
Susumu Uyeda—JFMIP, Washington, D.C.

FRAUD, WASTE, AND ABUSE

Thomas R. Hanley—Touche Ross & Co., Washington, D.C.
Gerald J. Loneragan—Auditor & Controller, San Diego County
Theodore R. Lyman—SRI International, Menlo Park, California
Thomas F. McBride—Inspector General of Agriculture, Washington, D.C.
Gerald W. Peterson—Agriculture, Washington, D.C.
E. William Rine—Justice, Washington, D.C.
Edward W. Stepnick—Labor, Washington, D.C.
Glyndol Joe Taylor—HEW, Dallas

INSPECTOR GENERAL CONCEPT: FIRST YEAR OF OPERATIONS

June Gibbs Brown—Inspector General of Interior, Washington, D.C.
Joseph A. Sickon—HUD, Washington, D.C.

PERFORMANCE AUDITING

Richard E. Brown—Legislative Post Auditor, Kansas
Robert L. Lockridge—City Auditor's Office, Dallas
Danny Sprows—HEW, Dallas
Meredith C. Williams—Legislative Post Auditor's Office, Kansas

PERFORMANCE APPRAISAL

Frank Yeager—Labor, Washington, D.C.

STAFF DEVELOPMENT

Frank Quinn—Agriculture, Washington, D.C.
Bill Wills—State Auditor's Office, Colorado

GETTING ALONG WITH OTHERS: AN AUDITOR'S MUST

Jack L. Birkholz—GAO, San Francisco

COMMUNICATING AUDIT RESULTS

Irwin M. D'Addario—GAO, Dallas
Thomas W. Hayes—Auditor General, California

FOLLOWUP ON AUDIT RESULTS

Wayne S. Cordell—HUD, Fort Worth
George L. Egan, Jr.—GAO, Washington, D.C.
W. Jeff Reynolds—Division of State Audit, Tennessee

AUDITORS' RELATIONSHIPS WITH THE NEWS MEDIA

Kenneth MacNevin—State Auditor's Office, Missouri

STATE AND LOCAL GOVERNMENT ACCOUNTING STANDARDS: WHO SHOULD SET THEM?

Frank L. Greathouse—Director, Division of State Audit, Tennessee
Donald L. Scantlebury—GAO, Washington, D.C.

THE FREEDOM OF INFORMATION ACT AND THE GOVERNMENT AUDITOR

Miguel P. Barrios, Jr.—Commerce, San Francisco
Jack L. Birkholz—GAO, San Francisco
Robert Saloschin—Justice, Washington, D.C.

KEEPING THE GOVERNMENT AUDITOR SEPARATED FROM POLITICS

Robert B. Craig—Legislative Auditor's Office, Louisiana
James R. Fountain, Jr.—City Auditor, Dallas

CONTRACTING FOR AND OVERSIGHT OF AUDITS

Edward J. Haller—Price Waterhouse & Co., Washington, D.C.
Bert Schirle—County of Santa Clara, California

OPERATING A NATIONAL PEER QUALITY REVIEW PROGRAM FOR GOVERNMENT AUDIT AGENCIES

Gilbert V. Gott—Department of Auditor General, Pennsylvania
Leonard H. Greess—Council of State Governments, Washington, D.C.

Frederic A. Heim, Jr.—Commerce, Washington, D.C.
Emil A. Trefzger, Jr.—HEW, Atlanta

INDIRECT COST AND RELATED AREAS OF CONCERN FOR GOVERNMENT AUDITORS

Gordon Guy—Labor, Dallas
Terry R. Milrany—City Auditor, Fort Worth

GOVERNMENT AUDIT STANDARDS: REVISIONS PLANNED

W. A. Broadus, Jr.—GAO, Washington, D.C.
Donald L. Scantlebury—GAO, Washington, D.C.

“... auditors must not be in the business of producing reports—we must be in the business of producing results.”

Kathryn J. Whitmire, City Controller of Houston, Texas

