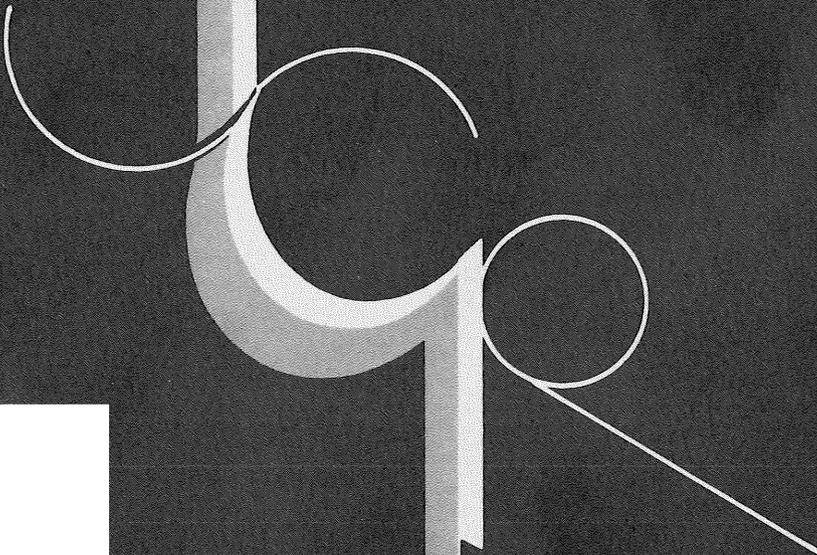
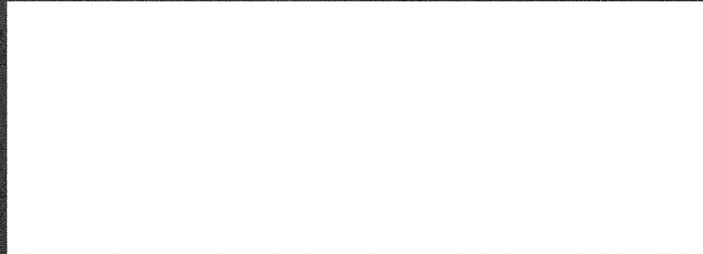
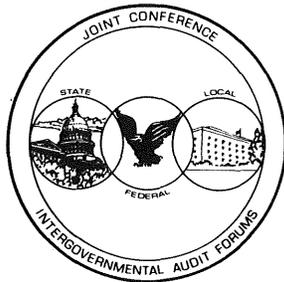


INITIATIVES FOR IMPROVING
GOVERNMENTAL AUDITS

Joint Conference Report
Intergovernmental Audit Forums



INITIATIVES FOR IMPROVING
GOVERNMENTAL AUDITS



JOINT CONFERENCE REPORT

JCF

NEW ORLEANS LOUISIANA
JANUARY 14-16, 1976
INTERGOVERNMENTAL AUDIT FORUMS

“this is probably the most responsible and most diversified gathering of audit directors from federal, state, and local governments ever assembled in one place.”

THE COMPTROLLER GENERAL OF THE UNITED STATES

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INTRODUCTION

Between the Fall of 1972 and October 1974 the National Intergovernmental Audit Forum and 10 regional forums were organized. The main objectives of the forums are to exchange views, resolve issues through discussion before they become problems, promote acceptance and use of the GAO audit standards, and achieve coordinated and cooperative working relationships among Federal, State and local governmental audit organizations. Forum membership includes audit directors from Federal, State and local audit organizations.

On September 10, 1975, a planning committee made up of one member from each forum met at Dallas, Texas, to ascertain whether a combined meeting of the 11 forums would be feasible and beneficial and, if so, to recommend a framework for holding such a meeting. The representatives of the planning committee are listed in Appendix V. Discussions among committee members indicated that much could be gained from such a meeting. The representative from the Southwest Forum extended an invitation to have the Joint Conference in New Orleans.

Each regional forum was assigned a topic for which they were responsible, but each forum had the opportunity for input on all topics. The Pacific Northwest Forum representative suggested the rotating discussion format that worked so well at the Joint Conference. Subsequent meetings of the executive secretaries of the forums were held to address details of the conference, and to further develop plans for the topics and schedule.

During the rotating discussion periods each attendee was encouraged to give his thoughts on each of the topics. Executive secretaries and panel leaders summarized these thoughts and monitored subsequent in-depth discussions.

Presentations by selected forums of projects on which they had worked was another feature of the conference. These projects were related directly to the issue topics.

We were fortunate to have two distinguished luncheon speakers at the Joint Conference—the Comptroller General, Elmer B. Staats, and Governor Ray Shafer, Counselor to the Vice President of the United States.

This report is a summary of the proceedings at the Joint Conference and will form the basis of a plan for future action of the forums over the next several years. As indicated in this report, projects have already been initiated by some forums; other forums have not yet decided which projects to participate in or lead. A more complete plan of action for projects will be established by October 1, 1976. It will be necessary to coordinate the plans of all forums before a complete plan of action is finalized.

There is an ever-increasing need for coordination among auditors at the various levels of government. We feel that the forum movement is a vital catalyst to facilitate such cooperation, and that this Joint Conference has kindled even greater interest in the forums and established the groundwork for future forum actions.



Robert J. Ryan
Executive Secretary
National Intergovernmental
Audit Forum

Government Auditing-Yesterday, Today, And Tomorrow



Address By Elmer B. Staats Comptroller General Of The United States Before The Joint Conference—Intergovernmental Audit Forums New Orleans, Louisiana January 14, 1976

It is a great pleasure to speak to this group—representing the leadership of the 11 intergovernmental audit forums. As you know, the General Accounting Office has been a strong supporter of the forum movement, and we believe this conference should be a great help in increasing the effectiveness of the forums and in charting the future course of their work.

This is probably the most responsible and most diversified gathering of audit directors from Federal, State, and local governments ever assembled in one place. We have here representatives from 16 agencies of the Federal Government, 30 State governments, and 14 local governments. This representation, I think, shows the interest of governmental auditors throughout the country in improving their work and demonstrates their willingness to try to work together in meeting the vast and growing auditing requirements of governmental programs.

As I thought about what I might say to you today, it occurred to me that governmental auditing has been changing at an almost breathtaking pace in the past few years and that it might be useful to consider where we are, where we've been, and where we expect to be in the next few years.

Ten years ago when I was appointed Comptroller General by President Lyndon B. Johnson, government auditors were approaching their work primarily from a financial and compliance viewpoint. Some, GAO included, were doing considerable work in identifying uneconomical operating practices, but this was still considered a new endeavor practiced by few.

In these past 10 years great changes have taken place in governmental auditing:

- Audits aimed at improving economy and efficiency of operations have become commonplace and are practiced extensively at all levels of government.

- Auditing has become more difficult—even financial audits—because the computer has become a common accounting tool, and because of its complexity, auditors have had to acquire considerable specialized knowledge.

- The most dramatic change, however, has been the emergence of the program results audit. With this development the auditor became concerned not only with assessing financial integrity and the economical use of resources, but with the broader questions of whether government programs are accomplishing their goals effectively and whether there are better alternatives.

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

In our work with the Congress, we at GAO find a continually growing interest in work that will tell the Congress how well programs are

Mr. Staats became Comptroller General of the United States March 8, 1966. Before his appointment as Comptroller General, he served as Deputy Director of the Bureau of the Budget under Presidents Johnson, Kennedy, Eisenhower, and Truman. Mr. Staats received the Rockefeller Public Service Award in 1961, and is Past National President of the American Society for Public Administration.

achieving their goals. Over one-third of our work is now in this category. We know that other government audit organizations have not yet had such heavy demands for this type of information, but we believe that, probably in the not too distant future, they will.

Thus, what will government auditing be like in 1986? If one can judge by experience, there will be many changes. However, I believe the thrust will be toward increasing the capability to do audit work of the scope I've just described and toward establishing much closer working relationships among Federal, State, and local audit organizations. Here is what I see for 1986:

- Larger programs will be audited cooperatively by Federal, State, and local auditors.

- Governmental audit staffs almost universally will be able to do all three types of audit work; i.e., financial and compliance, economy and efficiency, and program results.

- While all grants will be subject regularly to financial audits, specific grants to be audited for compliance with laws and regulations, economy and efficiency, and program results will be selected using statistical sampling methods on a National basis by Federal, State, and local auditors working together.

- Audit staffs will be multidisciplinary staffs which will include accountants, mathematicians, economists, data processing specialists, and others in accordance with the demands of particular jobs.

- Grant requirements will be greatly simplified and procedures for auditing them standardized.

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

As you can see I visualize 1986 as bringing, not a radical change in approach, but more the achievement of what we are now working toward. In the last 10 years the full scope of information wanted by legislators and public officials has been clearly identified. In the next 10 years, auditors and other evaluators and analysts must sharpen their skills so they can provide this infor-

mation. Thus, I see the challenge of the next 10 years as being one mainly of working out problems already identified and learning to cooperate with one another.

GAO's Role In Improving The State Of The Art Of Auditing

In 1974 GAO assessed the extent that Federal, State, and local governments were cooperating on audits in which they had mutual interests. Cooperation fell far short of what was attainable. At that time 7 of 10 of the Federal agencies reviewed had not relied on State or local government audits to any significant extent. In the remaining three cases, the Federal auditors were relying only on the State and local government's financial and compliance audits. At the same time, several of the Federal agencies had sizable audit backlogs.

The reasons given for this lack of cooperation included the lack of formal procedures for coordination, dissimilar audit objectives, different reporting requirements, and a host of other problems.

Some progress has been made since our report was issued. The cooperative audit of the Supplemental Security Income Program which the National Forum helped arrange is a notable example, but what has been accomplished is only a small step toward attaining the type of smooth cooperation I see needed for 1986.

The Department of the Treasury has entered into agreements with 43 States to have the statutorily required revenue sharing audits made for the Treasury. While it is too early to be sure these arrangements will work out satisfactorily for all concerned, this type of cooperation is certainly desirable.

Although obtaining effective cooperation and coordination of audits among Federal, State, and local governments will be a complex task, it is essential if the legislators and executives of the various governments are to get the information they need without costly and disruptive duplication of audit work. Moreover, there are going to be great pressures on auditors to work together since the needs for increased coverage and information will doubtlessly exceed the speed with which additional staff are made available.

GAO has been devoting much effort to bring about such cooperation. As a first step, in 1972, we issued "Standards for Audit of Governmental Organizations, Programs, Activities & Functions," better known as the "yellow book." The concept underlying these standards was that an audit made in accordance with them would be usable by all interested levels of government and that each would not think a separate audit necessary. These standards provided for the broad audit scope I have already mentioned.

As you may know, in 1972 the American Institute of Certified Public Accountants organized a Committee on Relations with GAO. This committee was created to represent the public accounting profession's viewpoint on matters of mutual concern and interest and is to advise the senior technical committees and members of the Institute on significant developments relating to our activities. As one of its first activities, this committee was to prepare a report on GAO audit standards to help independent public accountants understand the standards, their effect on auditing practice today, their relationship to AICPA's "generally accepted auditing standards," and their application to the broader scope of auditing required for government programs. The committee's report released in November 1973, stated:

"The members of this Committee agree with the philosophy and objectives advocated by the GAO in its standards and believe that the GAO's broadened definition of auditing is a logical and worthwhile continuation of the evolution and growth of the auditing discipline."

Another important step in this direction in which we have had an influential role is the creation of the 11 intergovernmental audit forums which you today represent. Our involvement started about 4 years ago when six State auditors came to my office to discuss some of their problems in dealing with Federal departments and agencies on auditing matters. They said they often had problems with the Federal audit work that required discussion with one or more Federal agencies. They had great difficulty finding the right people to talk to or the right office or offices to visit to solve their problems. At that meeting the State auditors urged us to take the lead in creating an organization where such

problems could be discussed by the appropriate people and resolved.

As a result of this meeting, we invited Federal, State, and local representatives to join us in an intergovernmental audit forum. The first forum chartered was a regional one, the Southeastern Forum headquartered in Atlanta. About the same time an organization was established in New York City (the Department of Transportation taking the lead), which has since become the regional forum in that area.

The National Forum was officially chartered on November 5, 1973, although it had held some meetings before that. The membership then consisted of the representatives of 16 Federal agencies with grantmaking or Federal Government-wide responsibilities, 6 State auditors selected by the Council of State Governments, and 6 local government auditors selected by the Municipal Finance Officers Association. The number of State auditors in the National Forum has since been changed to 10, 1 elected by the State auditors of each region. With the signing of the charter by the members of the Pacific Northwest Forum in October 1974, all 10 regional forums became operational. We in GAO are pleased that we have been active in helping to get the forum movement started.

We have also issued a number of booklets to acquaint officials, legislators, and auditors with the advantages of the broad scope audit advocated by our standards. Titles of some of these booklets are:

"Auditors—Agents for Good Government."

"Examples of Findings from Governmental Audits."

"Questions and Answers on the 'Standards for Audit of Governmental Organizations, Programs, Activities & Functions'."

"An Illustrative Report Prepared in Accordance with GAO Audit Standards—Air Pollution Control Program, Sassafras County, Maryland."

Similar publications are under development.

We also entered into a demonstration project with the International City Management Association to apply broad scope auditing at the local government level. The project involved 10 cities, 2 counties, and 1 council of governments. The pilot group varied in population, size, geographic location, level of resources available, and sophistication of existing information systems.

Each participating government identified an area in which the audit was to be performed; these represented various governmental activities, including shared municipal services, engineering services, park and recreation maintenance, tax collection and assessment, water department maintenance and work scheduling, parks capital outlay project, vehicle utilization and maintenance, public safety, drug and alcohol abuse programs, community relations, ADP operations, and a program monitoring function. GAO provided leadership in audit planning, and the local government provided the audit staff. There was considerable diversity among the audit staffs, which included internal auditors, certified public accountants, management consultants, internal management analysis and review staffs, and task forces composed of management and other personnel.

The results will be published soon.* While accomplishments at individual locations vary, most of the managers of participating cities were enthusiastic about the results and concluded that broad scope, or performance auditing as they call it, had great potential for improving local government.

As you perhaps also know, we sent a report to the Congress advocating improving the method of compensating State and local government auditors that do audit work for the Federal Government.

Problems to Overcome

Of course, a multitude of problems must be overcome before the vision I projected for 1986 becomes a reality. I won't try to discuss all these today but I will talk about four I consider of special importance:

1. The need for better financial information to help restore the public's confidence in government and its processes.

2. The need for simplification of Government grant programs to eliminate time-consuming technicalities which detract from the efficiency and effectiveness of the programs.

3. The need for training to meet the heavy new challenges posed for auditors by today's information needs.

4. The need to work out cooperative arrangements that overcome problems caused by diversity in the type and authority of government auditing organizations.

Need for Better Financial Information on Governments

Despite the familiarity we have with financial data, in many cases we aren't getting the right kind of financial data to the right people. No one who has read a newspaper in the last 6 months can fail to know about the problems of New York City and the view that its financial system was inadequate to provide the information needed to manage its finances effectively. Almost as widely known is the situation involving the District of Columbia. Senator Thomas Eagleton and others have called for an annual audit of the District in connection with the District's plan to issue its own bonds. I have testified before the House Committee on the District Government that, in our judgment, the books of the District do not permit an auditor to give a clear opinion on financial statements prepared from them. As we see it, the results of such an audit would be a disclaimer of an opinion by the auditor with the recommendation that the accounting system be improved. We can recommend that now and so we favor an immediate effort to improve that system so it can be audited effectively in subsequent years.

*Results were published by the International City Management Association in a special Management Information Service Report, April 1976.

With regard to the Federal Government, I'm sure many of you are familiar with the consolidated financial statements prepared for the Federal Government by the accounting firm, Arthur Andersen & Co. This report was prepared from a wide variety of sources and, although it recognizes that much remains to be done before fully acceptable statements are prepared, the booklet did a good job of showing how consolidated financial statements for the Federal Government might look and what they could contain.

Over 60,000 copies of the report have been distributed. Moreover, it has sparked considerable interest on Capitol Hill, and several bills have been introduced calling for better Government-wide financial reports.

We support this idea, though the actual form and content of the reports will have to be studied extensively. Our Office has offered support and assistance to the Secretary of the Treasury in this undertaking.

Increases in interest rates, inflation, and the Vietnam War have put great pressure on Federal Government finances. As I see the years ahead, we will have to practice sound financial management to a degree we've never had to before. A place to start is with consolidated financial statements.

Obviously the need for better financial management will affect all levels of government. With inflation constantly eating away at savings and earnings, there is more and more resistance to increasing taxes. At the same time, governments are pressured to meet demands for new services as well as to continue existing programs and to meet obligations already created, such as retirement and pension benefits.

Legislators and officials will be looking to auditors to get them the financial information they so badly need. Because of the crunch for money at all levels of government, auditors themselves will no doubt feel their belts being tightened for them. This should make the role of intergovernmental audit forums even more relevant—the more duplication in auditing that we can cut out, the better.

The idea of auditors from all levels of government planning their work together and sharing in the auditing workload makes sense

anytime, but under these circumstances it is unusually important.

Simplifying Federal Assistance Programs

With this audience I hardly need to point out that the number and variety of Federal assistance programs have increased nearly fivefold during the past 10 years. Also the most common complaint about Federal assistance programs are that Federal agencies (1) insist on the "unique" requirements of individual programs and (2) generally lack rapport with State and local officials.

Federal personnel have not been unmindful of these complaints, but in many cases they are legally bound to enforce the "unique" requirements. Furthermore, the purpose of many of the "unique" requirements is to insure fair and equal treatment for all citizens. This is a substantial problem. On the positive side, steps have been taken to promote intergovernmental cooperation, to simplify administrative requirements associated with Federal aid, and to make it easier (1) to fund projects with moneys from two or more Federal agencies, (2) to place greater reliance on State and local governments, and (3) to move Federal decisionmaking out of Washington, D.C.

Nevertheless, administration of Federal grant programs continues as a significant problem. A few months ago, GAO issued a report to the Congress entitled, "Fundamental Changes Are Needed in Federal Assistance to State and Local Governments." During our review we took a broad look at the Federal assistance system, its impact on States and localities, and the attempts to improve it. Our overall conclusions were that the present Federal assistance system:

- Lacks an adequate means for disseminating grant information needed by State and local governments.
- Creates a high degree of funding uncertainty due to late congressional authorizations and appropriations and executive impoundment of funds.
- Fosters complex and varying application and administrative processes.

●Is fragmented: similar programs are administered by different Federal agencies or agency components and programs are too restrictive to meet State and local needs.

This report recommended that the Congress:

●Consolidate programs serving similar objectives into broader purpose programs and assign programs serving similar goals to the same Federal agency.

●Consider greater use of both advanced and forward funding and authorizations and appropriations for longer than 1 fiscal year, in order to reduce funding uncertainties associated with Federal assistance.

There are obviously no simple solutions to these problems.

This group here today has a keen interest in finding solutions to the problems I've talked about. You are also in a very unique position to help bring about the needed changes. Attention to these problems in your audits can be of significant help.

Training Audit Staffs

One principal concern of the forums is training of members' audit staffs. This area merits concern if my vision of 1986 is to come true. The demands on auditors for greater skills in just the financial arena are challenging enough. Even broader skills are necessary to do the kind of audit that produces information on efficiency and economy and effectiveness of programs.

Such audit work is an art about which we all have much to learn. There are many difficulties in doing this kind of work—particularly in evaluating the results of social action programs. Here's how GAO has been trying to meet this challenge.

1. We are learning much by doing.
2. We have been building a staff of engineers economists, mathematicians, and other disciplines, as well as accountants.
3. We are extensively using expert consultants and to a limited degree contracting work out.

4. We are taking increasing advantage of analyses and evaluations of other Government agencies and outside organizations, such as the Urban Institute and the Brookings Institution.

Another training problem is the continually increasing need for greater skill in data processing systems. That is far from a static field, and each new generation of data processing equipment calls for quantum jumps in auditing skills. We have been devoting much work to training in this area, including having 200 of our staff attend an intensive training course developed jointly with the Wharton School of the University of Pennsylvania.

Life is too short for anyone to acquire all the skills needed to perform some of the audit tasks we face. Consequently, we have long since discarded the idea that an individual auditor can possess all the skills necessary to do our work. Our audit staffs are teams of people with varying backgrounds, including accounting, economics, public administration, engineering, and so forth. Their skills are supplemented as necessary by specialists with mathematical, statistical, actuarial, data processing, and related skills. While we employ specialists to do certain jobs, we nonetheless have to train our regular audit staff in the approaches to follow in performing such audits. Moreover, keeping the specialists' skills sharp is a training problem all its own.

Report writing for audits that go beyond a simple opinion on financial statements remains a complicated training problem in governmental auditing. Auditors must communicate with people who are unsophisticated in both the technicalities of programs as well as auditing and accounting terminology. Writing reports that do this is difficult. It requires talent and hard work, mostly the latter. Training in communicating audit results has to be virtually continuous. Some forums have taken steps to provide training by:

1. Sharing in-house training courses with the staffs of other forums members.
2. Initiating training courses in conjunction with the Civil Service Commission.
3. Presenting training in conjunction with forum meetings.

I strongly believe that the forums' interest in helping members get appropriate training will make them an even stronger force for bringing about the kind of cooperation we need for 1986.

Lack of Uniform Organization

A formidable obstacle in attaining effective intergovernmental cooperation in audit work is the great diversity in legal responsibilities for audit work. Who is responsible and for what kind of audit work varies greatly from Federal agency to Federal agency, from State to State, from county to county, and city to city. In some cases, auditors are elected and report to the people, in others they are appointed and report to the legislatures, in still others they report to the executive. In addition, some auditors have legal restrictions on the type of work they can do or the political subdivisions they are allowed to audit.

I will not try to minimize the difficulties of dealing with these problems. I do believe, however, that such problems can be overcome if approached cooperatively.

We believe substantial steps have been taken at the Federal level. For instances, cross-servicing arrangements among Federal agencies have been established. The Federal agency having the predominant financial interest must take the initiative in collaborating with other appropriate Federal agencies to determine the feasibility of one of the agencies conducting audits for the others. More can be done in this regard. But this is a step in the right direction.

Summation

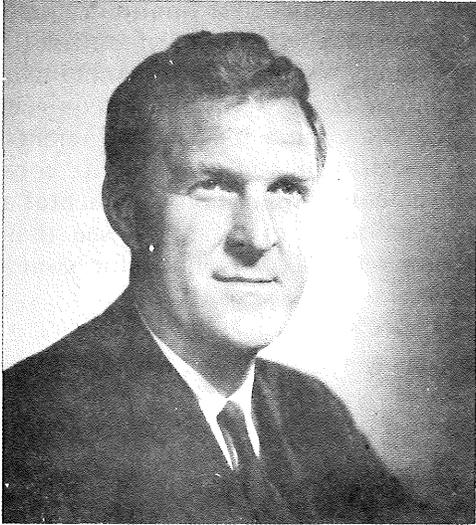
Auditors are going to have an increasingly influential role in the next 10 years. These will be times of difficult choices. The demand for services is going to increase. The cost of pension funds and benefit programs will be a larger burden than previously. At the same time the pressures will be great on all governments to keep from raising taxes.

In making the choices that will be necessary, public officials and legislators are going to want lots of information. They will ask more questions than ever before. "Where can costs be reduced?" "What programs aren't accomplishing anything?" "Where has the money gone?" If experience can

be used as a guide, when they have such questions, they will call upon government auditors for the answers.

If government auditors are to respond, they must improve their capabilities and use their resources wisely. As I have said, this requires training and cooperation. Ambitious and extensive as the current efforts are to improve intergovernmental audit coordination, much remains to be done. The training of staff will be a long and arduous task. Much also remains to be done to standardize Federal audit requirements and to give State and local governments the resources to perform audits that will consider these requirements. The intergovernmental audit forums are uniquely qualified to see that the necessary steps are taken. I hope for your continued success.

A Near And Long Range Strategy for An Effective Intergovernmental Partnership



Address By Governor R. Shafer Before The Joint Conference Intergovernmental Audit Forums New Orleans, Louisiana January 15, 1976

I have come to talk to you about an untamed governmental frontier—and how it might be won. My subject is how to weld a permanent, working, effective Federal-State-and local partnership.

Our Government has an exceptional opportunity to improve its performance where the shortcomings are most acute, namely in development and implementation of National policies and programs which require simultaneous participation of Federal, State, and local governments.

The challenge is to mold the several levels and circumfusion of governments into an administrative system capable of producing grass roots supported policies and operations. A forthright and sustained effort to improve the intergovernmental system would result in better execution of National objectives.

Mr. Shafer is Counselor for Intergovernmental Relations to the Vice President of the United States. He was Governor of Pennsylvania from 1967 to 1971. Prior to his Governorship, he served as Lieutenant Governor. Mr. Shafer also served on the Advisory Commission on Intergovernmental Relations.

The prize will be a higher grade of government for us all—and more effective, efficient problem-solving in a host of domestic fields that cut across all levels of government: social welfare, transportation, land use, economic development, environmental protection, civil rights, energy, health, poverty, education, taxation—you name it—anything that will profit from a joint coordinated governmental attack.

What I want to present here today is a strategy we can pursue to win this very critical goal. It will not be easy. We are talking about melding the efforts of 50 States and several territories, of 3,044 counties across the Nation, of 38,000 general purpose local governments, of 39,000 school and other special districts.

But it promises to be an undertaking that could be a giant step in government administration. But before that, just what is the situation today?

- First, our very progress as a Nation—our industrialization and our urbanization—has spawned nationwide economic, social, and ethical problems not even our founding fathers, with all their clairvoyant wisdom, could foresee two centuries ago—problems the Federal system just wasn't designed to deal with, problems that straddle every level of government.

- Second, confusing the situation are approximately 1,100 categorical Federal grants, overlaid on our traditional structure and functions. In 1974 alone, the Congress passed 140 new categorical programs.

Many of these categorical grants are well meaning and they fuel many critical programs. But at the same time they tend to fracture and Balkanize the three levels of government. Specialists in each field—in education, in highways, in health, and so on—are organized in their separate channels from local departments right up to their counterparts in the States and in the Federal agencies and in the congressional committees with resultant excessive administrative costs. In too many cases leaders at county and municipal levels and even at the State level—including governors—are bypassed, even immobilized in the process.

- Third, there is no recognized plan of action. What is desperately needed is an officially recognized administrative process to let State and local governments play a true partnership role in identifying their needs, blueprinting joint objectives, setting policies, charting programs, and coordinating execution.

There are now a handful of representative associations, such as the Council of State Governments, the National Governors' Conference, the National Conference of State Legislatures, the National Association of Counties, and the International City Management Association, that give us tools with which to coordinate National policies and initiatives. But these are still not enough.

- Fourth, we have made some headway, largely with the help of the Advisory Commission on Intergovernmental Relations (ACIR) and the Office of Management and Budget (OMB), in simplifying grant procedures and administration, in clearance processes, in setting up regional districts, and in decentralizing. General Revenue Sharing and block grants are excellent innovations. But many in Congress want to backtrack on these, undermining the progress already made.

That, briefly, is the situation we face. Now, what do we need? Quite simply, we need a more effective intergovernmental system—if we are to get workable policies and productive results—in

nearly every domestic field. Any strategy we design must take into account the immense diversity of these many policy and program fields and their intragovernmental implications.

I will list just a few of the critical policy questions facing us now that cut across all levels of government and call out for State and local participation:

- The need to correct Federal, State, and local fiscal imbalances and inadequacies.

- The need to develop a National growth policy.

- The need to curb the rapid decay of many urban areas, especially in our core cities and older suburbs.

- The need for a better way to spread out the responsibilities and to finance public welfare and education.

- The need for advance planning of State and local roles and of ways to cope with future recessions and cyclical swings in our economy.

- The need to reconcile environmental protection policies and programs with local pollution and employment situations.

- The need for a comprehensive energy program adjusted to satisfy the conflicting demands of producers, users, regions, States, and localities.

- The need for better, more efficient intra- and inter-city mass transit systems that meet a wide array of differing demands.

- The need to deal with the present social and economic consequences of unrestricted land exploitation, speculation, and mindless wasting of our limited natural resources.

The intergovernmental system we have today lacks the focus to deal with these needs. There is no central nerve center of leadership and negotiation, no constant channels of consultation, to deal with such matters with speed and cooperation.

If I had to point to the single biggest drawback in Federal-State-local relations today, it would be this: State and local governments just don't now have an adequate voice in the policymaking process. Because they don't, we have not and cannot develop acceptable domestic policies and execute them adequately. To build that voice into the system is perhaps the need of all needs.

The key bridges in the Federal system—the States themselves—are often ill-equipped to deal with the situation.

For a partnership to work, programs and operations must mesh closely in metropolitan areas and in regional districts. Yet those systems are in disarray, at the mercy of the power of functional specialists and the lack of areawide political and executive leadership.

There is no centerpost of administrative leadership, policy formation and coordination in the executive branch of the Federal Government with a clearly defined responsibility in this area.

Nor have the universities been in a position to help much. Aside from a few fragmentary National Science Foundation (NSF) grants, they have not been encouraged, or underwritten, to supply public service education, do action-oriented research or give advice to local, State and Federal agencies. There is nothing comparable in any degree to the land grant college educational and extension systems in agriculture.

The OMB Study Committee on Policy Management Assistance reports that Federal technical assistance to States and localities to improve delivery systems totalled \$512 million in fiscal year 1974. That is about 1 percent of grant assistance. Of that, 87 percent centered on functional areas—law enforcement, health, education,

and such. Of the remaining 13 percent, half went for physical land use planning. Only \$40 million was directed to upgrade overall organization and administration of the total system of State and local government.

So what can we do about all this? There are several things. What I am about to propose will be limited to how we can organize differently and what we can do administratively to develop an initial capacity to come to grips in a meaningful way with critical policy issues.

First, we must have formalized channels of consultation. The name of this game is to try to have Federal, State, and local governments interacting and collaborating in policy planning and implementation. But to get that we must have ways to communicate with each other, ways that are officially recognized—and used.

There are obvious natural points of power and decision that we can begin with: namely the President, the Vice President, the Domestic Council, the OMB, and their staffs. On the State level there are the governors and their executive management staffs. On the local levels we have county and city executives and their staffs. Those are the brokerage points.

The present channels linking the Federal departments and their State and local counterparts are so well grooved and established by now that it will take sustained action to hew out essentially new executive channels.

Two separate but interacting channels must be operating—one primary, the other secondary. The *primary* channel is on the highest level. It involves the President—with a counselor to the President representing him—in direct liaison with governors and chief executives of counties and cities. The chief functions of this channel are in the policy realm, in political contact, negotiations and decisionmaking.

The *secondary* channel should link the OMB with comparable management staffs of governors and local chief executives. Its function is to improve systems, procedures, evaluation and performance. Its task is to eliminate bottlenecks, gaps, breakdowns, and delays.

These two complementary channels need to be clearly defined, formalized, publicized, and utilized.

This leads me to a major recommendation—a center to orchestrate intergovernmental cooperation. I call it an Executive Office for Intergovernmental Coordination.

Its central aim would be to equip the White House with the necessary vehicle to coordinate government action nationwide. It would stand at the summit of the policy level. Its first job would be to activate the primary channel of consultation and decisionmaking described earlier.

An executive order of the President is all that is needed to start such an office. It would function under the aegis of a Counselor to the President.

These are the three main tasks the Executive Office for Intergovernmental Coordination would undertake:

First, to maintain continuing effective communication and liaison with governors and local chief executives on major present and proposed policy issues. It would advise the President and the Domestic Council and other appropriate Federal executives on developing policy decisions even as they are still forming.

Second, to shape and coordinate views on policies and programs that cut across Federal, State, and local levels, so that they may be considered by the Domestic Council, OMB, and the President.

Third, to identify major administrative problems in the intergovernmental system and recommend remedies—then follow up to see that they are implemented.

The next major step would be to strengthen the secondary channel. That means strengthening the OMB's intergovernmental activities. I suggest two adjustments:

First, OMB's present Division of Intergovernmental Relations and Regional Operations would formally establish and maintain this secondary level of consultation. This procedure would make it easier for the OMB to do several things. Among them:

- Review continuously how things are working.

- Nurture and maintain contacts with State and local executive staffs.

- Coordinate program implementation.

- Quarterback the review and clearance systems.

- Help the Federal regional councils.

- See that administrative problems get attention when they are flushed out at regional, State, and local levels.

- Do any other necessary jobs helpful to the Executive Office for Intergovernmental Coordination, and the President.

The second step would be to strengthen OMB's intergovernmental hand—its administrative management arm. This could enhance the workability of intergovernmental processes and procedures, simplify and consolidate the grants process, upgrade management capabilities throughout the system, and devise remedies for breakdowns, bottlenecks, and other roadblocks.

This division would play a major role in developing management capacity government-wide, and in other ways service the intergovernmental system.

By taking the first three major steps outlined above—formalizing the channels of consultation, establishing a coordinating center at the highest level, and strengthening the OMB role—you would automatically be taking a fourth: increasing the effectiveness of the Domestic Council as a forum for helping the President find consensus on Federal objectives, priorities, and spending.

Once the Federal Government has put its own house in order, the next major step is to undertake the very important task of upgrading the State and local capability. They must be encouraged to remedy their present structural, administrative, and managerial weaknesses, one of the main causes of the poor performance in the intergovernmental arena. State and local executive

management staff capabilities parallel to those in the Executive Office of the President are essential to proper policy and program execution.

To this end the OMB and the proposed Executive Office for Intergovernmental Coordination should develop a plan to build State and local capacities. The OMB should take into account the recommendations of its own Study Committee on Policy Management Assistance, which calls for long-term cooperative efforts involving the ACIR, public interest and professional associations, universities, and other expert resources.

Then there is the problem of producing qualified personnel to drive the intergovernmental programs. Attacking this problem is the sixth major step. The lack of qualified personnel has been at the very heart of the poor performance in intergovernmental relations at local levels. Any Federal strategy should embody a continuing, comprehensive plan and program to solve this problem. Steps that come to mind are pre-service and in-service education and training in intergovernmental policy making, in running systems, in program and resource management, and in the other related administrative and technical tasks essential at all levels of government.

Some of the tools to do it are already available—the Intergovernmental Cooperation Act, the Intergovernmental Personnel Act (IPA), Title I and Title IX of the Higher Education Act, and U.S. Civil Service Commission and departmental training programs. IPA and Title IX funding need to be expanded. And program management fellowships—which the President proposed in his July 17, 1974, message to Congress—could be financed under Title IX.

Hand in hand with upgrading and educating personnel is to generate knowledge about how to improve organization, administration, management systems, methods, and technology.

The Federal Government has underwritten extraordinary pioneering achievements in agriculture, medicine, space exploration, and the physical sciences. But it has given but fragmentary support to researching and developing administrative systems, organizational concepts, and management techniques—all so essential today for public well-being.

There are also vehicles available to help us with this. The ACIR has done important work already. The NSF's RANN program (Research Applied to National Needs), with in-house help from the Department of Housing and Urban Development; the Environmental Protection Agency; the Department of Transportation; the Department of Health, Education, and Welfare; the Law Enforcement Assistance Administration; and the National Aeronautics and Space Administration, has made key contributions with relatively little funding. Yet the whole field still remains undernourished. The resources of universities and other nonprofit research institutions are seldom called on and supported to this end.

An adequate plan to generate the administrative research and technology to service the Federal-local system is a top priority.

These then are the first steps, which, if pursued with perseverance and resourcefulness, will take us a long way toward a better intergovernmental way of life. Done, they will lay a foundation on which to build further reforms. They will make it possible to deal better with the array of substantive policies, issues, resource problems, and social and economic stresses that beset us nationally.

Whatever we do must be done with an eye to an enduring and effective partnership. With a strong partnership, executive relations with the Congress, in turn, will greatly benefit. Administrative proposals solidly backed by State and local governments would find a far better reception on the Hill.

Integrity, confidence, humility and openness are essential ingredients to anything we do in intergovernmental relations. We are challenged to build trust and incorruptibility into the system for the good of all of our publics. These recommendations are an important first step. And they could have a very happy side effect: they could go a long way in helping to rebuild eroded public confidence in government.

Reimbursing State And Local Auditors For Audits Of Federally Assisted Program

Introduction

Every year, billions of Federal dollars flow into the treasuries of State and local governments. These funds come from various Federal agencies and are administered by an even greater number of agencies and departments at the State and local levels.

Audits of these funds may be performed by government auditors at the Federal, State or local levels or by public accounting firms. However, in some instances required audits are not being made.

State and local audit agencies would likely assume a greater role in auditing these funds if they could do so without sacrificing their statutory audit work load. To perform the additional audit requirements of federally assisted programs, the State and local audit organizations would require a corresponding increase in their audit staffs, and this must be funded in some manner.

While Federal program funds may now be authorized to cover the cost of auditing, the use of program funds for such a purpose is avoided by some Federal and State administrators. In instances where reimbursement funds were provided, they generally came directly from the Federal audit agency or the audit cost was accepted as an eligible program cost.

However, in many instances the funds provided for State and local audit work are not available to the performing State or local audit agency. Instead they become general fund receipts for the State and local governments.

What Is The Problem?

The basic problem is how State and local auditors can be reimbursed for performing the additional work requested by Federal agencies on federally assisted programs and the work scheduled to provide for continuing workload. At least two questions must be addressed.

1. What procedures are necessary to insure that funds will be made available to State and local governments for additional audit work they are requested to do on federally assisted programs?

2. What procedures should be suggested for adoption at the State and local level to enable the auditors to receive and use such funds?

Ideas For Attacking The Problem

There was general agreement that billions of Federal dollars granted to assist State and local governments go unaudited. Federal grants have created increased audit workloads which cannot be handled under existing staffing and funding levels. It was explained that State and local audit agencies are reluctant to use their appropriated funds for audits of Federal programs, and that providing Federal reimbursements directly to State and local auditors has not been effectively achieved. Although Federal funds are in many cases available, through the provision for administration costs, they often cannot be reached by State and local auditors. Federal administrators are reluctant to release program funds which they deem necessary to meet program requirements. State administrators are reluctant to release funds to audit for the same reason. In many cases State and local laws prevent the audit organization from directly accepting such funds. Some participants felt that available Federal funds are not adequately identified, and segregated for audit.

The participants offered some basic recommendations for overcoming some of the problems. They urged that Federal granting agencies identify and segregate funds available for audit of Federal programs by State and local auditors. They also recommended reimbursement

funds be under the control of the cognizant Federal audit organizations. In addition, State and local laws should be suggested for enactment to authorize direct use of such funds by their audit agencies. State and local officials and legislators should be shown that the audit results would benefit their constituency and generate information needed to support legislative and executive decisions.

Role of the Forums

1. An effort will be made to determine the various methods used by the Federal agencies to provide funds to State and local auditors for audit of federally assisted programs. Select the best method or methods. This could be implemented by the National Forum using a questionnaire to gather the necessary data. The results could be the subject of an advisory paper.

2. Encourage the Office of Management and Budget to take actions on the findings of No. 1. This could be done by the National Forum.

3. Determine whether State and local audit agencies are authorized under their charter and existing laws to audit federally assisted programs and whether they can receive direct reimbursement for such audits. This could be implemented by each regional forum through a questionnaire.

4. Each regional forum should develop programs as needed to inform State and local legislators and administrators of the benefits of audits. Several methods could be used, such as inviting State or local legislators and administrators to attend or address forum meetings. Members of regional forums could address State and local legislators and administrators or their committees.

5. Where necessary, suggest corrective legislation when State and local audit agencies are not authorized to audit federally assisted programs or are not allowed to receive direct reimbursement. This could be implemented by a joint effort of the National Forum and one or two regional forums working with State and local audit organizations. One or two regional forums could work with the National Forum to draft proposed legislation. The introduction of such legislation would be the responsibility of the State or local audit agency or their sponsor.

Action Plans

The National Forum should determine what audit work on federally assisted programs should be reimbursed.

The National Forum should determine methodologies for providing for reimbursement of audits of federally assisted programs.

The New England Forum will study the feasibility of developing and testing a questionnaire to determine whether the States are being reimbursed for audits of federally assisted programs.

Regional forums should work through persuasion and suggestion to get the State law changed where the problem exists regarding funds being made available for the use of the audit group.

Audit Planning And Coordination

Introduction

The enormous growth of Federal, State and local programs has created an increased demand for audit services at all levels of government. Additionally, the Federal funding of programs at State and local governmental levels has resulted in various government audit organizations having a need to review many of the same programs.

What is the Problem?

Overlapping audit responsibilities among Federal, State and local audit organizations involving particular programs raises concern over the need for mechanisms to preclude duplication and minimize overlap of audit effort and interferences with agency operations. Liaison between Federal, State and local audit organizations is needed to coordinate such matters as (1) the scheduling of audits, (2) delineation of audit scope, (3) extent of coverage anticipated, (4) notification of entrance and exit conferences, and (5) distribution of audit reports to concerned government audit organizations at other levels.

Problem To Whom?

These problems are common to all government audit groups and, therefore, affect the interests of the National and regional forums.

Ideas For Attacking The Problems

There was general agreement that effective coordination among Federal, State and local audit organizations was a necessary and attainable goal. Measures to be employed include:

- Polling members to identify programs of common interest.
- Using the computer to exchange audit plans and schedules among concerned audit organizations.
- Establishing agreements for notifying other concerned audit organizations of entrance and exit conferences and furnishing copies of audit reports.

Encouraging joint audits.

- Encouraging acceptance of single audit cognizance.

Who Can Do Something About It?

All concerned - Federal, State and local agencies. Federal agencies should take the lead as they have the largest involvement and greatest resources.

What Is The Role Of The National And Regional Forums?

Forums could provide a focus for:

Identifying programs of common interest.

- Exchanging audit schedules among concerned audit organizations.
- Establishing mechanisms for notifying concerned audit organizations of entrance and exit conferences and for distributing audit reports.

Action Plans

The Western Forum has undertaken projects to identify major government programs not being audited with the desired scope and why they are not, and to identify areas of mutual interest and instances of overlap in auditing.

The New York/New Jersey Forum is involved in a project to prepare an automated catalog of audit assignments in process by each Federal agency and a two-year history of audit assignments completed by these agencies.

The New England Forum has undertaken a project to exchange among its members information on audits planned, in process, and completed.

How To Make Effective Use Of Audit Work Performed By Others

Introduction

As long as the electorate demands more services from government, the continued growth and expansion of government programs is assured; and increasing with that growth is the need for audit of public funds at one or more levels of government. Considering this and the proposition that there are more programs to audit than legislators or program managers are willing to pay for, it becomes increasingly important that auditors at all levels of government make more effective use of each other's work and that of public accountants.

What Is The Problem?

This paper focuses on two questions relevant to the issue:

1. What motivates an audit organization to be willing to consider the use of another's work?
2. What can each organization do to assure that their products meet the needs and standards for acceptance by other organizations.

The initiative to seek out and use another's work may be motivated by the need to share work in areas in which others are qualified and have shown an interest. Personal experience or long association with heads of other auditing organizations is a positive factor toward accepting each other's work. Perhaps the main deterrent to an audit organization accepting and using another organization's work is their wanting to be involved in the verification and analysis processes. This may manifest itself in a display of what one auditor stated is a "lack of mutual respect for audit skills of either party."

Once the barriers are down, coordination with other organizations in planning audits to meet each other's needs is critical. Several techniques, such as peer reviews, may be used to assure reliable audit products.

Federal audit agencies do use the work of State auditors and public accountants, particularly in financial areas. The single audit cognizance concept is applied at universities, as well as in determining indirect cost allocations at State and local levels. Many opportunities exist to better use scarce audit resources through cooperative efforts and to relieve the auditee of the burden of orienting and supporting several audit organizations whose efforts are often overlapping.

Ideas For Attacking The Problem

While opinions varied on "how to", and no consensus was reached on proposed solutions, the level of participation and spirited exchange of experiences by most audit directors suggested the need for continued effort in this area. The message forthcoming was that there are no magic cures. It was agreed that the forums have provided opportunities for audit directors to become familiar with the audit operations of others. This can lead to more effective use of audit work performed by other audit organizations.

Several other issues relative to achieving the maximum use of audit work performed by others were discussed at the Conference. These included (1) understanding what motivates an auditor to seek out and use another's work, (2) assuring that your own work meets generally accepted standards, and (3) determining the scope of an audit an organization is capable of performing.

The conferees agreed that:

- Auditors are willing to share work in areas where others have experience, have developed an interest, and represent an organization known to the other party.
- Although some Federal auditors may accept the work of State auditors, there is no assurance that the State auditors' work will be accepted by all Federal audit groups.

Several participants suggested that the problem was not a lack of mutual respect for the audit skills of either party, but rather the lack of audit resources or limited audits which inhibit coverage in program areas.

One Federal audit director questioned the need for a State audit organization to prove its capabilities to each of the Federal auditors whose department was providing funding. If the State audit organization meets the standards for audit as determined by one department, e.g., say the HEW regional audit office, why would it not be reasonable for other Federal auditors to accept the audit reports and work of the organization after appropriate tests?

Comments of the participants suggest that the use of peer review has been very limited, except on a one-on-one basis between a Federal and State audit agency.

It was pointed out during the session that the Missouri State Auditor had an informal peer review made of his operation by a group of CPAs.

A consensus was not reached by the conferees as to whether the concept of peer review had merit.

The consensus of the participants was that it was unlikely that public accountants and most government audit agencies would include broad scope auditing, particularly program results, in their short term audit plans. Thus, most of the audit organizations involved in audit of governmental programs will conduct mainly financial and compliance type audits.

The expanded use of public accountants was discussed and included matters such as:

1. The need for close working relations with public accountants on non-financial audits to fully develop matters of non-compliance and formulate recommendations.

2. The need for the grantor agency to periodically review its audit guide for appropriate coverage of material issues.

3. Define the relationship among the public accountant, client, and grantor on disclosure of results of the audit.

4. The role of the AICPA and State boards of accountancy in handling charges and providing remedies for substandard professional work.

No agreement was reached on the magnitude of problems in these areas.

Who Can Do Something About It?

While no special solutions were recommended by the participants, several general concepts were identified as having merit. These concepts are tied to the central theme that the best payoff is through increased involvement and dedication of each audit forum member to strive to work with each other where there is a common interest.

Forums' Roles

1. Encourage the occasional use of joint audits or task forces to allow for a better assessment of the audit capabilities of other Federal, State, or local audit organizations (Regional forums can actively participate.)

2. Promote the effective use of audit work of others by encouraging the single audit cognizance concept for multi-funded programs and organizations. (The regional forums could study this.)

3. Internally at the Federal level, a need may exist to reassess progress being made in implementing FMC 73-2 on reliance on non-Federal audits. (Could be studied by each Federal member of the National Forum.)

Long Range

Progress is difficult to measure in this area because of the following unanswered questions.

- How much and what type of audit work is being done at all levels of government that can be used by another audit activity?

●What portion of audit work is accepted and hence no additional audit effort required?

●How much overlap in audit coverage results from changes in National policy (changes in fund distribution methods, assumption of programs by the Federal or State governments, or the return of functions to the private sector?)

If we are to optimize auditing work done in the governmental sector, we must at least determine what progress has been made and what level of audit effort we can expect State and local governmental auditors to assume.

Action Plans

The Pacific Northwest Forum is sponsoring a joint audit of the Oregon Division of General Services procurement function. The audit principals are the Oregon Division of Audits and the GAO Seattle Regional Office.

The Southwest Forum will establish an ad hoc committee to explore the need and practicality of a single audit of all Federal funds in each multi-funded council of governments in the five-State region.

The Mid-America Forum will sponsor a project to have a metropolitan area planning agency (MAPA) engage a CPA firm to conduct a single financial audit using the standard financial audit guide issued by GAO as an exposure draft.

How Can Audit Guides Be Made More Uniform

Introduction

The growth of Federal programs has carried with it a corresponding growth in the number and type of audits required. In an effort to involve other audit resources, audit guidelines have been issued by the various Federal agencies to assist non-Federal auditors engaged to audit Federal funds. These audit guides differ as to format, approach, and the degree of guidance and detail.

A recently published list showed 48 separate audit guides for federally assisted programs issued by 14 Federal agencies. Auditors of organizations that receive Federal funds from multiple sources have experienced difficulties because of the various guidelines provided.

What Has Been Done?

Several of the intergovernmental audit forums and other organizations, such as the Council of State Governments, have considered the development of standardized financial and compliance audit guides for federally assisted programs.

In August 1974, GAO, at the encouragement of the National Intergovernmental Audit Forum, established a central library of audit guides. The library is currently maintained by GAO and organizations are encouraged to submit new audit guides to National Forum members for informal review and comment.

GAO has assembled and distributed an inventory of audit guides for federally assisted programs. While it may be incomplete, it represents a valuable source of information. A list of audit guides and related review procedures was also published in the July 1975 Journal of Accountancy.

The National Forum was also involved in the development of a standard financial audit

guide. However, the adoption of the guide will be the prerogative of the grantor agencies.

The audit guide has been reviewed by several government auditors. Wider review and test of this guide, perhaps over a period of a year, is envisioned before it is finalized. This is to attain wider applicability. This guide states the objectives to be achieved and includes illustrative procedures.*

Little has been done toward standardizing audit guidelines for compliance. This area will obviously be more difficult because guidelines will need to be more flexible to encompass program differences and special requirements of grant programs which differ in objective and approach.

What Are The Problems?

Auditors of federally assisted programs must deal with a variety of guidelines as they audit programs involving different Federal agencies. This complicates the engagement and makes it more time consuming because auditors must become familiar with each applicable audit guide. An audit step required in one guide may differ from a step in another guide having the same objective.

If one audit organization does not audit a multi-funded grantee for all parties concerned, the grantee must deal with several audits. Standardized audit guides should increase the use of a single audit to satisfy all needs.

However, peculiarities of each grant program may make complete standardization of audit guidelines impracticable. As mentioned earlier, the objective and approach of grant programs differ greatly.

*An exposure draft of the "Audit Guidelines for Audits of Financial Operations of Federally Assisted Programs" was issued on March 30, 1976.

Ideas For Attacking The Problems

There was consensus among the participants that a uniform audit guide is desirable and that the feasibility of such standardization should continue to be explored with initial emphasis on financial and compliance areas.

Most of those attending the discussions agreed that establishing and implementing uniform financial audit guidelines is feasible, but in some instances additional steps may be necessary to cover special features or circumstances.

A more questionable issue was whether uniform guidelines could be developed for compliance audits. Because of differences in the objectives and program requirements between federally assisted programs, a uniform guide was thought by some to be unattainable. However, it was agreed that some standardization is possible.

If enough standard provisions exist among the various grant programs, it was suggested that a general set of audit guides could be established, with each grant program having a supplemental guide covering peculiar aspects of that program. This approach will draw greater acceptance if the add-on guidelines are kept brief.

To keep the supplemental guidelines as brief as possible, it was proposed that a study be made of the existing compliance steps in the various guides; grant managers would be urged to eliminate those not considered necessary or cost effective.

Another approach was also considered. This involved developing audit guides by "type of industry." Such an approach could result in a uniform guide being developed for each group of programs having some similarity in their operations or objectives; or the approach may be used for special, unusual operations that cannot be covered by a general guide—such as a council of governments.

Suggested Forum Action

The forums—particularly the National Forum—it was agreed, are the key instruments through which a resolution should be sought. With State, local and Federal auditor representation, the forums are the logical group to work on a practicable and acceptable solution.

Other groups and organizations should also participate in the process of standardizing audit guides. The Federal grantor agencies should be consulted for eliminating unnecessary compliance audit requirements and to adopt any uniform guides that may be developed. The Office of Management and Budget would play a key role in imposing uniform guidelines on Federal agencies, if that is necessary, and perhaps acting as a checkpoint for screening and approving additional audit requirements.

Others, such as the Congress, State and local organizations, and, to some extent, the AICPA, would likely be involved.

There seemed to be full agreement that uniform guides resulting from these efforts should be submitted to representative audit groups for review and comment before final acceptance and implementation.

Action Plans

The Southwest Forum will initiate a project to ascertain whether a framework can be established to develop standard audit guides for compliance.

The Western Forum will initiate a project to develop an inventory of federally assisted programs that do not have audit guides.

Position Statements — A Vehicle To Assist In Bringing About Effective Auditing

Introduction

Position statements have been issued by the National Intergovernmental Audit Forum and by three regional forums,

National Forum—

Register of Audit Agencies

Intergovernmental Audit Agency Cooperation

Audit Guides

Application of Generally Accepted or Other Specified Accounting Principles

Contracting for Audits by Public Accountants

Southwest Forum —

Level of Audit Effort Needed for Federally Assisted Programs

Audit Information Exchange System

Required Audit Scope in Federal Audit Guidelines Applicable to State Audit Organizations

Pacific Northwest Forum —

Invitees to Entrance and Exit Conferences

Western Forum —

Continuing Education

Several forum charters provide for issuance of position statements, while others do not.

The National Forum position statements were issued without prior review by the regional forums; the regional forum position statements, without prior review by the National Forum.

What Is The Problem?

Position statements can assist in bringing about more effective auditing, or they can be of little value and actually serve to polarize the forums.

Position statements will be of benefit to all parties if the following points are considered:

- What are position statements intended to accomplish? Is there a need to fill?

- Can the National Forum speak for the regional forums; can the National Forum speak without speaking for the regional forums?

- Should position statements issued by the National Forum be open for adoption by regional forums?

- Can the regional forums speak individually?

- Are these statements coordinated with other interest groups?

- What authority is needed to issue position statements?

- Who—National, regional, or both—should review position statements prior to issuance?

- Should minority views be recognized?

- To whom should position statements be issued; how?

•How can we encourage acceptance? Do the position statements carry any weight?

•What has been the effect? Do we have a feedback mechanism?

•Should position statements be limited to a specific subject area?

Whose Problem?

While this is primarily a forum problem involving the National and regional forums, State audit organizations have been apprehensive that such policy pronouncements encroach on their freedom of action.

Ideas For Attacking The Problem

Policy statements, currently referred to as position statements, issued by the forums should accomplish a definite purpose—to serve as guides toward effective auditing practice (internal and external to the forums) and as an influence upon government auditors at all levels.

It should be made clear that thoughts presented in the statements are for information and consideration only and are not binding upon any individual or any organization. Issues should be presented openly.

To assist in this regard, the title “position statement” should be changed to “advisory paper”. The format and heading should be revised to resemble less a government regulation or document. This new form should be for standard use on all future advisory papers.

Every advisory paper should carry a preamble. The preamble should have four statements, the first three of which should be uniform for all advisory papers:

1. The overall purpose of the intergovernmental audit forums.
2. Why advisory papers are issued.
3. A statement that conclusions reached are not binding and

that there may be differing or minority opinions.

4. The nature of the problems being addressed.

Issues To Be Addressed—How To Be Identified And By Whom

Only substantive matters should be the subject of an advisory paper. Both National and regional matters may be addressed, but upon review many issues that at first appear to be regional matters actually are of National concern. Issues may be external or internal to the forums.

Alternate courses of action should be set forth in the paper along with their relative merit.

Any forum member should be able to suggest an issue as a possible subject of an advisory paper. It is not necessary or advisable to have an inter-forum committee identify the issues or write the papers.

There was unanimous agreement that the individual suggesting the issue should write the first draft of the advisory paper. This is true whether the issue is National or regional in scope. Any necessary research would be his responsibility, although he would have the full cooperation of all the forums when needed and requested.

Draft advisory papers should be sent to all forums for review and comment prior to issuance. The originating forum may request comments from other interest groups as considered appropriate. To prevent delays, a time limit for responses should be set.

The National Forum will assist in coordinating with other professional organizations and public interest groups.

With widespread review, some minority opinion will probably be expressed. As a minimum, this minority opinion should be treated in the preamble, and a discussion of specific minority opinions could be included in the paper. The advisory paper issued by the originating forum should also show how each group—Federal, State and local—voted.

Publications, Distribution, and Evaluation of Advisory Papers

Advisory papers of National concern should be issued by the National Forum. Papers dealing solely with a regional concern should be issued by the originating forum.

National Forum advisory papers should continue to be distributed as at present. Regional papers should be distributed to members of the issuing forum, the executive secretaries of the other forums, and other interested parties, as that forum desires. Recipients of the papers, National and regional, may make further distribution, but this should be coordinated with the issuing forum. The issuing forum will decide whether advisory papers are to be sent to department or agency heads in addition to audit directors.

All issuing forums are encouraged to request feedback from the recipients of their advisory papers. This will help determine the reaction to the papers and provide guidance for future issuances.

Action Plan

The Western Forum will develop a suggested format, heading, and preamble for advisory papers.

What Can Be Done To Improve The Recognition Of Government Experience For The CPA Certificate

Introduction

The prerequisites for becoming a certified public accountant are inconsistent and complicated by legal requirements which vary among the States and territories.

Authority for the issuance of a license to practice as a certified public accountant in the United States rests with the State boards of accountancy or similar bodies. These boards, in effect, determine the requirements to take the CPA examinations and the qualifications necessary to receive the CPA certificate and/or license.

There are considerable variations in the requirements for admission to the CPA examination. Most States require some public accounting experience before an individual may become certified; however, some States have no experience requirements for taking the examination or for receiving the CPA certificate. Some States recognize government experience, while other States have refused to accept certain types of government auditing experience as qualifying, or have severely discounted its equivalency with public accounting experience. As to educational requirements, a college degree with a concentration in accounting and other business subjects is generally required.

It is obvious that basic regulatory authority rest with the State boards of accountancy. However, the lack of uniformity among the States, leads to confusion on the part of the candidate.

What Is The Problem?

- How can we encourage acceptance of Federal, State, and local government auditing experience? Should we encourage unlimited acceptance?

- What is the meaning of the CPA certificate? Is it evidence of basic competence in the discipline of accounting or only a certificate one needs for practicing public accounting?

- Could government auditors be permitted to obtain a CPA certificate upon passing the examination but not be permitted to obtain a license to practice public accounting until after gaining the related experience?

- Why have some State boards of accountancy refused to accept government auditing experience?

•Is uniformity desirable?
Would it preempt States' rights?

•Should uniform criteria be established for accepting as equivalent the experience of auditors in government agencies?

•To whom should the problem be addressed: legislatures; State boards of accountancy; AICPA?

•Should we align our efforts to gain recognition with those of other professional accounting associations?

•Can the National and regional forums speak for their members on this matter? How?

•How can we overcome the impediments established by those States that do not recognize government auditing experience or recognize only certain government experience?

Whose Problem?

This is a National problem which affects the interests of members of the National and the regional forums.

Ideas For Attacking The Problem

There are two basic issues to be resolved before addressing the need to improve the recognition of government experience for the CPA certificate. Do we want only the CPA certificate or both the CPA certificate and the license to practice.

The majority of the conferees felt that we should align our efforts toward obtaining recognition for only the CPA certificate. They felt recognition of government experience by the State boards of accountancy for the CPA certificate could be used as an incentive for recruiting more capable personnel into governmental auditing and accounting. Further, there is a need for prestige within the governmental accounting community and the CPA certificate is a mark of distinction and indicates a high level of competence. It is the most widely recognized and accepted mark of professional achievement in the accounting field.

Many of the conferees felt that government accountants and auditors had no need for the license. However, a few felt that without both the certificate and the license, government accountants and auditors would not attain the same status as those in public accounting.

A few of the conferees thought it was useless to try to convince States to accept government experience as qualifying for the CPA certificate

because they believe (1) the CPA certificate is not necessarily evidence of professional competence, (2) such efforts tend to separate the accountants from the other disciplines within the agency's audit staff, and (3) government auditors and accountants do not normally have the attest function required of a public accountant.

What Can Be Done To Improve The Recognition Of Government Experience For The CPA Certificate?

Several methods to advance the recognition of governmental auditing experience as qualifying for the CPA certificate were discussed.

A few participants related experiences of utter frustration in attempting to get government experience accepted by State boards of accountancy. The group felt that this is a real problem and one that merits our attention.

The group agreed that the CPA certificate is a worthwhile mark of achievement and that the forums should make every effort to have government experience accepted for the CPA examination and certificate. The conclusions and recommendations reached by the group on what can be done about this problem are summarized below.

- The National Forum should establish an integrated program to achieve greater recognition of government experience. A special National committee should be appointed to work towards the development and implementation of this program. The program should be coordinated with or developed in concert with the Association of Government Accountants, the American Institute of Certified Public Accountants, and the National Association of State Boards of Accountancy.

- Most of the participants felt that a two-tier approach would be acceptable if it will facilitate the acceptance of government experience. That is, government auditors would be permitted to take the examination and receive the certificate, but they would not be able to obtain a license to practice until they had satisfied the State's experience requirements. A few participants felt that this was not a good approach because it would place the government auditors in a second-class position.

- The National and regional forums should establish a method for developing and exchanging information on the type of experience ac-

cepted for the CPA certificate by the various States. Through this exchange of information, ideas could be developed on how to approach effectively the problem of experience acceptance.

- Encourage government CPAs to become active in the State boards and State societies of CPAs. Through these organizations they can begin to have some impact on the decisions which affect the acceptance or rejection of government experience.

- Invite CPAs in practice to participate in forum meetings. This would help them become more familiar with what we are doing and, hopefully, would make them more agreeable toward recognizing government experience.

- Contact State legislatures and solicit their help in gaining recognition of government experience for the CPA certificate.

- Regional forums should provide assistance to individuals who present their cases before the State boards of accountancy.

- Encourage and use the auditor exchange program to help individuals obtain the type of experience they need for the CPA examination. Consideration should be given to the possibilities that (1) there may be more appropriate or more acceptable audit work available at other government agencies, or (2) personnel may be exchanged between CPA firms and government audit organizations.

There is little doubt that gaining acceptance of government auditing experience as qualifying for the CPA examination and certificate is a many-sided problem which does not have a stock solution. Obviously, much needs to be done to advance the acceptance of government experience by the State boards of accountancy. We recognize that the ideas expressed by the participants are a start in this direction, but our goals can be achieved only through a concerted effort by forum members.

Auditor Exchange

Introduction

The temporary assignment of an auditor to another government agency can provide needed technical assistance to the audit organization as well as training for the individual auditor, and can also improve intergovernmental relations. In considering this issue, we discussed the Intergovernmental Personnel Act (IPA), the potential benefits of auditor exchange, and the infrequent participation by auditors.

BOB Circular No. A-73 issued in 1965 (now FMC 73-2) encourages maximum reliance by Federal agencies on State and local government audits, and the Intergovernmental Cooperation Act of 1968 permits the assignment of Federal employees to State or local governments and vice versa. The 1970 Intergovernmental Personnel Act (IPA) was enacted to eliminate problems experienced under the 1968 act. Title IV of the IPA provides for the temporary assignment of personnel between the Federal Government and State and local governments and institutions of higher education. It is designed to:

- Improve the delivery of government services at all levels of government by bringing the specialized knowledge and experience of skilled people to bear on problems of mutual concern to State or local jurisdiction and the Federal Government;

- Strengthen intergovernmental understanding, broaden perspective and increase capacity of personnel resources; and

- Help preserve the rights and benefits of employees so they will be better able to accept temporary assignments.

The IPA provides almost unlimited flexibility in arranging for and sharing costs of assignments as long as the two agencies (Federal and State or local) and the assigned individual(s) agree that the assignment is mutually beneficial. It authorizes assignments of employees, with their consent, from one governmental jurisdiction to another for periods up to two years. Assignments may be extended, not to exceed two additional years. A Federal employee can be assigned in one of two ways:

- On detail, with the Federal agency paying all or part of his salary.
- On leave without pay, receiving a State or local government appointment or salary. However, he would receive any difference in pay from the Federal agency if his Federal pay is greater.

The two methods for assigning State or local government employees to Federal agencies are comparable to the methods authorized for Federal employee assignments. The provision for travel expenses is broad enough to provide for the needs of Federal, State, and local government employees enroute to, from, and during the assignment.

Following is a table showing the number of persons who have participated under Title IV of the IPA.

	Total	Federal	State and Local
FY 1976 (4 mos.)	323	111	212
FY 1975	831	413	418
FY 1974	790	495	295
FY 1972-3	<u>714</u>	<u>419</u>	<u>295</u>
Total	<u>2,658</u>	<u>1,438</u>	<u>1,220</u>

General management people (including auditors) probably constitute less than 20 percent of these assignments.

What Is The Problem?

There have been only a few instances where Federal auditors have had temporary assignments with State or local governments or institutions of higher education, and even fewer the other way around. Following are examples of such assignments:

- An HEW auditor assigned to the office of the Pennsylvania Auditor General for a year to assist in "professionalizing" the audit organization.

- Georgia Public Service Commission accountants assigned on an intermittent (as time permits) basis to the Rural Electrification Administration to provide assistance in exchange for experience and training in auditing.

- A Department of Agriculture employee assigned as Administrator of Auditing to the North Dakota Social Services Board.

- An HEW auditor assigned for a year with the North Dakota State Auditor to assist in developing and planning audits.

- A DOT auditor assigned to the Illinois Bureau of Fiscal Management.

- An HEW auditor assigned as Comptroller of Lincoln University in Pennsylvania for a year to work on financial management problems.

Participants indicate worthwhile results; but with so few auditor exchanges under the exchange programs, the full potential benefits available under the act are not being realized.

Ideas For Attacking The Problem

Inquiry into the cause for so little auditor participation disclosed five reasons:

1. The program is not well known to auditors.

2. It is not clear what can be gained by an exchange of auditors.

3. There is a question of whether it is a desirable program for the audit profession.

4. There are several management "hang-ups."

5. There are a number of employee concerns about the program.

To make the program better known, information about the Intergovernmental Personnel Act should be disseminated and discussed among forum members. Information about the availability of—or need for—auditors should be disseminated among forum members to determine interest in participating in exchange programs.

What can be gained by an exchange or one-way assignment of auditors? It is clear that the assignment must be mutually beneficial to both organizations. There must be a need for the assignment. Information about past and current assignments could help in determining the need for this program.

If the first three issues are successfully dealt with, management "hang-ups" such as the loss of a good person, staff shortage, fear of costly training time for the new person, or fear of domination should be reduced. A good understanding of the program should also help eliminate such management fears or "hang-ups."

Finally, the employee's concerns must be dealt with. Management must clearly demonstrate that participation will not be detrimental to the employee's career in his organization.

The employee must be convinced that with this varied experience, he becomes more valuable to his organization. Other areas of employee concern such as differences in pay, relocation costs, and per diem are largely taken care of by the Intergovernmental Personnel Act. However, it is possible that some States may need their own legislation to facilitate temporary assignment of local or State auditors to the Federal Government.

What Is The Role Of The Regional And National Forums?

Regional forums should make their members more aware of the opportunity for improving auditing at the various levels of government through the IPA exchange program. Discussion and dissemination of information about the program, including results of assignments, should help members become involved in temporary assignments.

The National Forum should encourage participation in the exchange program and serve as the focal point for assistance involving temporary assignments.

Action Plans

Informative material on the program will be made available by the National Forum. Regional forums should have a Civil Service representative speak at forum meetings as currently planned by the Western and Southwest Forums. Several forums already have had persons speak on the IPA employee exchange program.

How To Build The Auditor's Capabilities For Using The Computer As An Audit Tool

Introduction

Since the mid-1950's, the use of computers has become common for recording and managing Federal, State, and local programs.

The auditor interfaces with the computer in two completely different roles. First, in his attest function he is responsible to make sure that adequate controls are present to assure accuracy and completeness of accounting records and reports prepared from computer based files. Second, in his role of examining efficiency, economy, and program results he uses the computer to provide special analyses, listings, extracts, or data needed for the assessments to be made. Because of the highly technical nature of the auditor's role in the attest function, related complexities caused by differing hardware configurations, and the need for more extensive specialized training, it was not feasible to include a discussion of this auditing role at the conference.

The availability of numerous software packages with differing data manipulation capabilities and the availability of time sharing terminal systems offering various mathematical problem-solving tools, make it desirable to consider methods to catalog and share information about such tools.

What Is The Problem?

What methods might be employed to catalog and share information among government auditors on:

- the capability of various software packages, their cost, and the hardware on which they may be used;

- the experience of audit organizations with particular software packages and the ease of use and results obtained;

- types of audit applications effected; and

- training sources for audit staff.

Whose Problem?

This is a problem which affects all government audit groups and therefore affects the interests of the National and the regional forums.

Ideas For Attacking The Problem

There was a wide range of reactions among the participants on the forums' role in bridging the gap between the audit agencies that have and those that have not used the computer as an audit tool. Most participants believed the forums have an important role in this area. The ideas emanating from these discussions included:

1. Top management within the audit organization must support the use of the computer.

2. Trained personnel are not available in all audit organizations and a decision must be made as to whether to train or hire them.

3. Software packages and network systems being used by some forum members should be catalogued showing the types of audits on which used, examples of the types of use, and who can be contacted at the particular agency for more information. Further, the information should be included in the forums' directories.

4. Conduct demonstrations of computer assisted audit techniques at forum meetings.

5. Bring specialists from various audit staffs together to meet their counterparts at other agencies

and establish a committee to continue the relationship.

6. Encourage joint projects to acquaint audit organizations with exposure to such audits.

7. Agencies should use similar computer language and have equipment that either is the same or can interface with other equipment at other locations. Further, a single computer installation could be shared by city, State, and Federal audit agencies.

Who Can Do Something About The Problem?

Forums have a role in bridging the gap of knowledge that exists regarding the computer as an audit tool. Privacy legislation does not impair the exchange of training information or software packages, only the use of data itself. The National Bureau of Standards is responsible for standardization in the computer area and the forums should not attempt to standardize the use of computers, languages, or packages.

What Is The Role Of The National And Regional Forums?

Forums could address the following matters:

National

- Take the leadership in getting audit directors to support the implementation and use of computer assisted audit techniques.

- Determine the extent of knowledge and use of computer assisted audit techniques and compare with information obtained from professional groups such as the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and the Association of Government Accountants, and provide feedback to interested groups.

Regional

- Catalog forum member experience with specific software packages, types of applications (i.e., financial and compliance, efficiency and economy, and program results), their cost, and a contact for additional information.

- Establish subcommittee of auditors who have hands-on experience with software to exchange information on packages and applications, provide mini briefings at forum meetings, encourage joint projects, and encourage the use of computer software techniques.

Action Plans

The Western and Pacific Northwest forums are preparing a catalog on the various software packages available in their areas. On completion, these forums will furnish the results to the other forums. These two forums have subcommittees established to train audit staffs in the use of the computer.

How To Identify, Fund, And Fulfill Training Needs

Introduction

Qualified staff are the main assets of any professional organization. Training is essential to achieve desirable quality standards, to maintain quality at an acceptable level, and to improve staff qualifications.

What Is The Problem?

Changes and improvements in knowledge and work environment make continuous training and education a basic need of any profession. Auditing is no exception. A staff member may be up-to-date one day and outdated the next in managerial skills as well as technical knowledge. A recurrent problem is identifying, funding, and fulfilling training needs.

Problems To Whom?

This is a problem (1) to the audit agency trying to maintain viable performance, (2) to the audit organization's staff, and (3) to in-house and external training institutions trying to anticipate and meet a practical and worthwhile balance of training needs at reasonable cost.

Ideas For Attacking The Problem

Three questions concern these ideas: (1) how to identify the training needs of staff levels and individuals, (2) how to get funds or other resources needed for training, and (3) how to adequately fulfill the needs.

Identifying Training Needs

Suggestions for identifying training needs include the following:

- Training should be matched to an individual's position on the career ladder.

- After the standard training program, individual development needs should be identified and training sought to meet specific needs (of the organization as well as the individual).

Review continuing education requirements for auditors to help determine education needs.

- Immediate training of new staff can have a low payoff. Give the employee a year or so to adjust to the job, then determine needs and fulfill them. (This would not apply to orientation training.)

- When you observe a good training program or technique in another audit organization (Federal, State or local), use it to train your staff. Enlist the organization's staff to assist in the training.

- Don't try to give all staff the same technical training because the training will not be as effective to those who are not interested or to those who are already qualified.

- Some audit organizations hire consultants to determine their training needs. Also, Civil Service Commission Regional Training Centers have a "needs survey" to assess training needs. It can be made available to the organization for self-evaluation. Also HEW is developing a model training ladder.

Funding Training Needs

The problems and solutions for funding include:

- The lack of funding is a problem in local, State and Federal agencies. One solution is to obtain training slots from other agencies. To date, there have not been adequate openings.

- An Intergovernmental Personnel Act grant is one way to obtain professional assistance in developing a training program or structuring a specific course.

- Use the forums or some other organization to act as a clearinghouse for courses to reduce promotional costs.

- Encourage home study courses.

● Use the CPA continuing education requirements as a partial justification for increasing funding.

Fulfilling Training Needs

The subjects covered in this area include:

● Little use has been made of audio visual training technology.

● The Council of State Governments is developing video-taped courses and these can be obtained by State and local auditors.

● Courses should be evaluated to determine compatibility with employee needs. Evaluation can take place after the course or before.

● Cooperative arrangements can be made with colleges, universities, industry, and public accounting firms to provide training, course material, instructors, etc.

● Development of curricula in colleges and universities is one way to establish a training program. Methods should be found to assist in developing curricula to better meet training needs.

● Use the grantor's audit agency to provide technical training on a given program. This can result in immediate application and paybacks to the grantor agency at no tuition cost and reduced travel costs to the audit agency receiving the training.

● Courses that have proven worthwhile need to be identified. Good courses identified include operational auditing, statistical sampling and report writing. Reading and writing skills for entry level auditors seems to be the single biggest need. HEW Atlanta Regional Office has contracted an organization, Communication Skills, to teach writing skills, report writing and verbal logic to its staff.

● Rotating audit team members is a good way to achieve in-house training.

● Conducting joint audits can be an effective means of fulfilling training needs.

● Institutional training is a solution; although auditor travel requirements can be a problem.

● Some State and Federal agencies provide employees with the opportunity to attend colleges and universities.

● With limited training resources, agencies should conduct training in areas where employee needs are greatest, e.g., not accounting to accounting majors.

● Forums should encourage the elimination of course duplication.

● Forums should publicize training that is available to its members.

● Train one or two individuals in an organization to train the rest of the staff.

● Some training can be given over a period of time, one or two hours a week in the office.

● Try to schedule training of short duration (3-4 days) and high impact.

● Where it exists, the lack of training resources should be disclosed.

● Travel to training sites is a problem, especially for State and local government audit organizations.

Action Plans

Individual Organizations

● While training needs are unique for each agency, resources can be shared. Many agencies (Federal, State, and local) and public accounting firms ("Big 8") are willing to share materials, instructors, etc.

● If you have a problem with training location and travel expenses, bring the training to your agency. Work with a local college or university to meet your training needs.

● Determine the skills required for the job, then develop a training model or program. The program should include basic reading and writing skills, as well as technical skills.

●Many agencies develop their own in-house programs, others use consultants or the Civil Service Commission.

Regional Forums Are Encouraged To:

●Identify and disseminate information on courses available to members.

●Sponsor courses.

●Provide for course critique and evaluation.

●Promote joint audits.

●Promote the sharing of skills among forum members.

●Conduct workshops in conjunction with forum meetings.

National Forum is Encouraged To:

●Serve as a clearinghouse for courses available through National training institutions and professional organizations.

●Establish better communication with the regional forums concerning training.

●Develop guidelines for recommending skills necessary for various types of audits.

●Develop a clearinghouse or central library of home study courses.

Uniform Administrative Requirements For Grants-In-Aid To State And Local Governments Under Federal Management Circulars

Introduction

Federal Management Circular (FMC) 74-7 established uniform financial and administrative requirements for grants to State and local governments. The effective date of the circular was January 1, 1973. Its purpose is to promote consistency among Federal agencies in their administration of grants by establishing maximum administrative requirements that can be imposed on grantees in the following areas:

- Standard application forms
- Waiver of single State agency rules
- Grant payment methods
- Matching share
- Cash depositories
- Minimum financial management systems, internal control, and audit
- Procurement standards
- Property management
- Bonding and insurance
- Program income accountability
- Reporting requirements on standard forms
- Periodic performance reports by grantee
- Budget revision procedures
- Closeout procedures
- Records retention

Only specific requirements imposed by the legislation establishing the grant program can take precedence over FMC 74-7.

FMC 74-4 provides uniform rules for determining costs applicable to grants and contracts with State and local governments. It defines allowable costs and sets forth the procedures to recover them.

Costs may be direct or indirect. Direct costs are specifically identifiable to the grant. Indirect costs are those incurred for common or joint purposes that benefit more than one activity. To allocate indirect costs, a grantee must develop an indirect cost rate expressed in percentage terms.

This rate is applied to direct costs to determine the amount of reimbursement for indirect costs.

To recover indirect costs, the grantee must have a cost allocation plan which forms the basis for the percentage indirect cost rate. State agencies and departments must have their plans approved before indirect costs can be recovered. Local governments and departments need not submit their plans for approval unless requested by the agency responsible for reviewing their plans.

The circulars do not control State and local government grant recipient activities and procedures, but they do provide policy to be followed by Federal grantor agencies.

What Are The Problems?

Problems presented below were contributed by the participants.

- The procedures of FMC 74-4 requiring the preparation of an annual cost allocation plan, which forms the basis for the percentage indirect cost rate, are too stringent.

- Some units of government have engaged public accountants to prepare their cost allocation plans and develop their indirect cost rates. Subsequently some audit agencies have disallowed costs, resulting in the grantee not being able to collect sufficient funds to cover the cost of the plan.

- There is no expertise available to assist smaller units of government in the proper preparation of their cost allocation plans.

- If funds are collected as a result of the application of the indirect cost rate, in many States the funds are not available for the use of the State audit organization.

- Some Federal agencies will not accept the indirect cost rate that has been approved by the agency responsible for the audit and approval of the cost allocation plan.

●For programs where the funds flow through the State down to the local level, the local unit may not be able to recover all of their indirect costs if the State agency's approved rate is less than that of the local unit.

●Federal grant administrators impose administrative requirements which exceed the standardized requirements of FMC 74-7.

●Grantees are not familiar with the standard provisions of FMC 74-7 and therefore are not aware of additional requirements imposed by Federal or State officials.

●The provisions of FMC 74-7 are not implemented consistently by Federal agencies.

●FMC 74-7 states that audits usually will be scheduled annually, but not less than once every two years. Should this provision be made more flexible in view of the many small grants, the backlog of required audit work, and considering the financial controls of the grantee as well as past experience with the grantee?

●There is a lack of direction from top management of the Federal agencies in the proper implementation of these circulars.

●The transfer of responsibility for certain management functions from OMB to GSA and back to OMB creates confusion and makes the FMC's appear unimportant.

●The circulars are difficult, if not impossible, to obtain at the State and local level.

Problems To Whom?

These problems are common to all government audit groups and therefore affect the interests of the National and regional forums.

Ideas For Attacking The Problems

The following ideas for attacking the problems were advanced by the participants:

1. The provisions of FMC 74-4, regarding the development of an indirect cost rate, are complicated and costly to the unit that has to develop the plan, as well as to the agency responsible for audit and approval of the plan. In view of the fact that the application of the indirect cost rate to grants does not provide additional funds

to the State, except when applied to an open-end grant, it was suggested that the provisions of FMC 74-4 be simplified or eliminated. It was suggested that with the advent of revenue sharing there is not as strong a basis for the application of an indirect cost rate.

2. The smaller units of government (smaller cities, counties, etc.) should not have to go through the same detailed requirements for developing a plan as States and larger cities because they lack the expertise and resources. It was suggested that a short form be devised for use by smaller units of government (under a specified size) in lieu of the present complicated procedures.

3. Inquiry should be made of State and local governments to determine what their experiences have been in the application of the two circulars. What has been their experience with the cost allocation plan and what benefits did they derive? What have been their problems in administering Federal grants?

4. To eliminate the costs and the problems associated with the negotiation of an indirect cost rate, a flat overhead rate should be computed and applied against each grant.

5. Members of the forums should meet with the State, local, and Federal officials responsible for negotiating the indirect cost rates to identify the problems involved. The forums should then work with the Federal regional councils to resolve problems and improve the system.

6. Grants should be sampled to determine the audit frequency, the size of the grants being audited, and the relationship of the audit cost and frequency to the size of the grant. Have management controls and past experience been factors in scheduling audits?

7. Arrangements should be made so that pertinent FMC's are readily available to State and local government personnel.

Who Can Do Something About The Problem?

The forums can urge that OMB take the following actions.

1. Reevaluate some provisions of the circulars, such as the frequency of audit, and make necessary adjustments.

2. Reissue and disseminate applicable FMC's to all State and local units of government that are subject to their provisions.

3. Assure that units of government that must have indirect cost proposals approved, are advised which Federal agency is responsible for approval and audit.

The Role of the National and Regional Forums

The forums should determine the extent of the problems and suggest to appropriate officials ways to improve grant administration. Any group attempting to resolve the problems should include representatives from each level of government.

One approach would be a task force of representatives from the National Forum and some of the regional forums to work together on the problems. Representatives at the National level should work on ways of improving grant administration at the headquarters level after considering the information and comments submitted by field personnel experiencing problems. An alternative would be for a committee from the National Forum to work with committees from several regional forums to collect the necessary information and work toward resolving the problems.

Action Plans

The Southeastern Forum is evaluating the consistency of application of FMC 74-4 by Federal agencies.

The Southwest Forum is reviewing the determination and allocation of indirect costs and rates under FMC 74-4.

In addition to the above, GSA is making a review of FMC 74-7 and GAO is making a review of FMC 74-4. The National Forum will monitor the studies by GSA and GAO and subsequently coordinate efforts with OMB to implement the suggestions of the Joint Conference.

Joint Conference Intergovernmental Audit Forums

New Orleans, Louisiana
January 14-16, 1976

Conference Program

Wednesday, January 14

- 9:00 — Welcoming addresses by the Honorable E. L. Henry, Speaker of the House of Representatives, Louisiana, and Mr. Henry G. Simmons, Director of Finance, City of New Orleans.
- 9:20 — Explanation of the operation of the conference by Mr. Robert Ryan, Executive Secretary of the National Intergovernmental Audit Forum.
- 9:30 — Capsule presentations on five issues of concern.
- I. How can State and local auditors be reimbursed for performing additional work required by Federal agencies for federally assisted programs? Mr. Thaddeus Buczko, State Auditor of Massachusetts and member of the New England Forum.
 - II. How to coordinate planning and scheduling of audits to meet the requirements of Federal, State, and local auditors. Mr. Bernard Luger, Chairman, New York/New Jersey Forum and Audit Director, HEW Audit Agency, New York Region.
 - III. How to make effective use of audit work performed by others. Mr. E. J. Caljouw, member, Mid-America Forum and HUD Regional Inspector General for Audit in Kansas City.
 - IV. How can audit guides be made more uniform? Mr. Joseph H. Burris, Legislative Auditor of Louisiana and member, Southwest Forum.
 - V. Position statements—a vehicle to assist in bringing about effective auditing? Mr. Jack Birkholz, Executive Director, Western Forum, and Audit Manager, GAO San Francisco Regional Office.
- 10:15 — Rotating discussion groups—ideas for addressing the five issues shown above.
- 12:00 — Luncheon
- Speaker - The Honorable Elmer B. Staats
Comptroller General of the United States
Subject - Government Auditing—Yesterday, Today, and Tomorrow
- 2:00 — Report on selected forum projects. See Appendix II.
- 3:15 — Solutions for the five problem areas. In-depth discussions of the five issues introduced during the morning group discussions.

Thursday, January 15

8:15 — Combined session—Feedback from prior day's in-depth discussions.

9:30 — Capsule presentation on five issues of concern.

VI. What can be done to improve the recognition of government experience for the CPA examination and certificate? Mr. David Legge, member, Mid-Atlantic Forum, and Director, Office of Audit & Inspection, D.C. Government.

VII. How to get greater participation in the auditor exchange program at all levels of government. Mr. Emil A. Trefzger, Jr., member, Southeastern Forum, and Regional Audit Director, HEW, Atlanta, Georgia.

VIII. How to build the auditor's capabilities for dealing with and using the computer. Mr. William L. Tibbs, member, Midwestern Forum, and Regional Audit Manager, Department of Commerce, Chicago, Illinois.

IX. How to identify, fund, and fulfill training needs. Mr. Michael L. Kaiel, member, Pacific Northwest Forum, and Division Manager, Bureau of Management and Budget, City of Portland.

X. Failure of Federal agencies to implement uniform grant procedures as set forth in Financial Management Circulars. Mr. Lawrence Solomon, member, Mountain and Plains Forum, and Regional Inspector General for Audit, HUD, Denver, Colorado.

10:15 — Rotating discussion groups—ideas for addressing the five issues shown above.

12:00 — Luncheon

Speaker - Governor Raymond P. Shafer
Counselor on Intergovernmental Relations,
Office of the Vice President of the United States

Subject - A Near and Long Range Strategy for an
Effective Intergovernmental Partnership

2:00 — Reports on selected forum projects. See Appendix II.

3:15 — Solutions for the five problem areas. In-depth discussion of the five issues introduced during the morning group discussions.

Friday, January 16

9:00 — Combined session—Feedback from prior day's in-depth discussions.

10:30 — Departmental discussions.

These discussions were manned by representatives of those Federal departments and agencies that have significant involvement with federally assisted programs. Discussions for particular departments and agencies were attended by those State or local representatives who had questions related to a particular problem.

11:30 — Closing remarks—Mr. Robert Ryan, Executive Secretary, National Forum.

Joint Conference Intergovernmental Audit Forums

New Orleans, Louisiana

January 14-16, 1976

Reports on Special Forum Projects

Wednesday, January 14

Exchange of audit schedules between forum members at various levels of government.

● A pilot study by the New England Forum. Presented by Mr. Anthony Piccirilli, Auditor General of Rhode Island, and member, New England Forum.

Data base on audits in process and completed, including a two-year history.

● Project undertaken by the New York/New Jersey Audit Forum. Presented by Mr. Bernard Luger, Audit Director, HEW Audit Agency, New York Region. Mr. Luger is also chairman of the New York/New Jersey Forum.

A joint audit of the Get Set program in Philadelphia by the HEW Audit Agency, the Auditor General of Pennsylvania, the Controller of Philadelphia, and the Philadelphia GAO Regional Office.

● Discussed by Mr. William G. Klenk, II, Controller of Philadelphia and member of the Mid-Atlantic Forum.

Development of a single audit guide for financial audits of grants and other federally assisted programs.

● Audit guide developed as a project of the National Forum. Presented by Mr. D. L. Scantlebury, Director, Financial and General Management Studies Division of GAO, the Vice Chairman of the National Forum.

Thursday, January 15

Forum management style and structure leading to reorganization of standing committees along functional lines in the Pacific Northwest Forum.

● Presented by Mr. Phil Bernstein, Chairman of the Pacific Northwest Forum, the Regional Manager of the GAO Seattle Office.

Inventory and sharing of training by the Western Forum.

● Presented by Mr. Charles Grant, Western Region Audit Director for GSA, the Chairman of the Training and Professional Development Committee of the Western Forum.

Training of State audit staff in conjunction with audit forum meetings.

● Presented by Mr. Irwin D'Addario, Chairman of the Mountain and Plains Forum, the Regional Manager of the GAO Denver Office.

Interaction with professional public accounting societies.

● Presented by Mr. John Stanford, member, Mid-America Intergovernmental Audit Forum, and Regional Audit Director, HEW, Kansas City, Missouri.

Joint Conference Intergovernmental Audit Forums

New Orleans, Louisiana
January 14-16, 1976

List of Attendees

Name & Affiliation	Forum Membership
Martin L. Allen Director of Finance Sacramento, California	Western
Leonard J. Bernaciak Regional Auditor Community Services Administration San Francisco, California	Western
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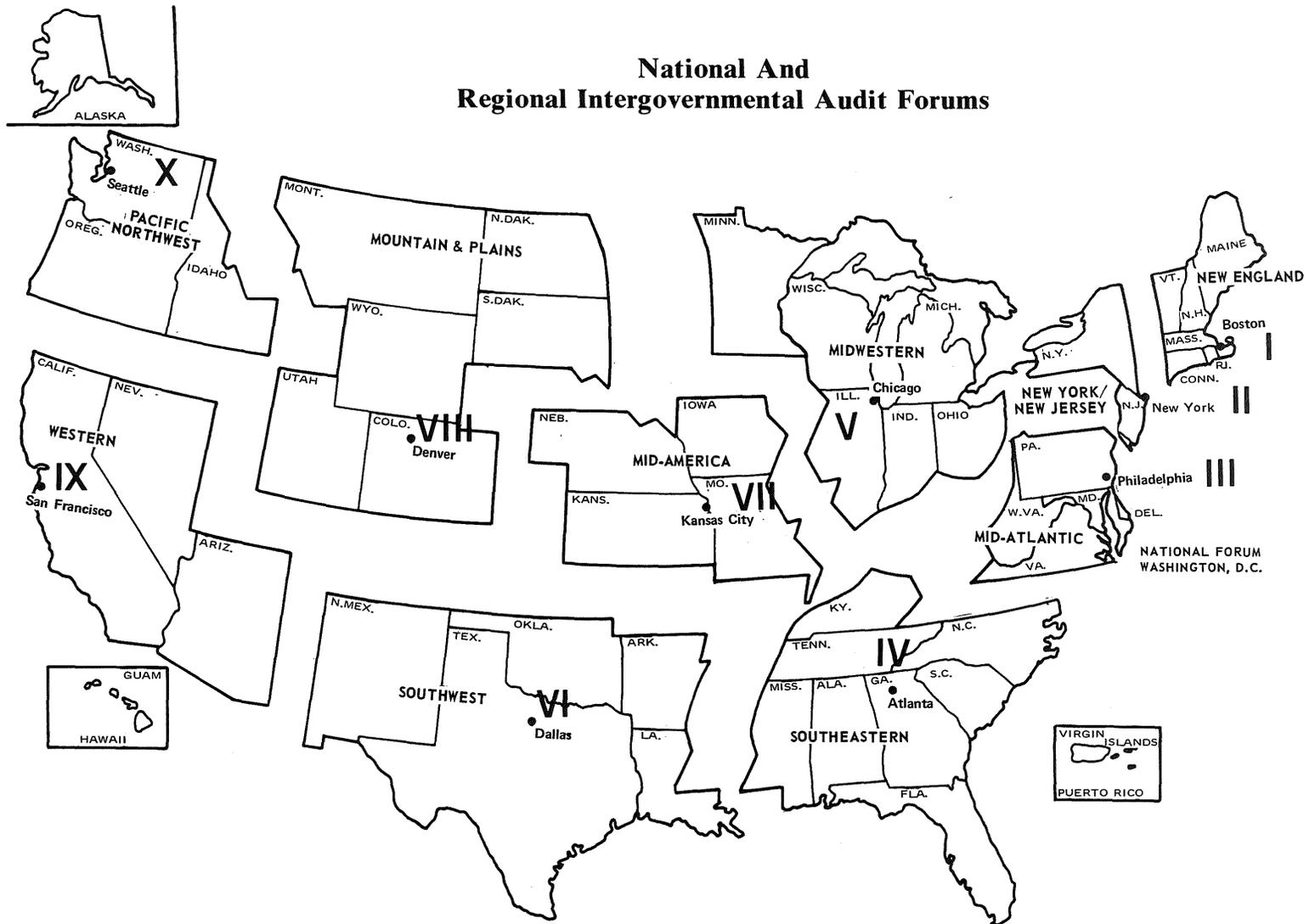
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National And Regional Intergovernmental Audit Forums



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Joint Conference Intergovernmental Audit Forums

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