

28831

AUDIT
STANDARDS
SUPPLEMENT
SERIES
NO. 10



CASE STUDY

BY THE
COMPTROLLER
GENERAL
OF THE
UNITED
STATES

729477

Using Broad Scope Auditing To Serve Management



*How the Governor
of Mississippi
introduced
broad scope auditing
as a management tool*

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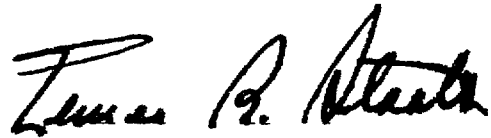
PREFACE

Since publishing the *Standards for Audit of Governmental Organizations, Programs, Activities & Functions* in June 1972, the General Accounting Office has closely followed efforts by Federal, State, and local audit groups to expand the scope of their audits and otherwise improve audits of federally assisted programs. The Office has published a series of pamphlets explaining and supplementing the standards and has participated in joint projects with State and local audit groups and others to demonstrate and test the standards' application to various functional areas of government.

The concept of broad scope auditing advocated in the standards has received widespread acceptance by Federal auditors, and it is an increasingly important factor in the evolution of the auditing discipline at all levels of government.

Auditors are not alone in their concern with the issues that broad scope auditing is designed to address. Managers and public officials want to know whether the funds for which they are responsible are handled properly and whether governmental programs are being conducted efficiently and effectively. Broad scope audits can provide this information and can point out to managers and public officials actions that should be taken to improve governmental activities.

This publication illustrates what can be achieved when a top public official questions how well his government is operated, takes deliberate steps to find out through broad scope auditing, and then takes corrective action where it is needed.

A handwritten signature in black ink, appearing to read "James A. Stacks". The signature is written in a cursive, flowing style.

Comptroller General
of the United States

December 1, 1977

Letter From Governor Finch



THE CAPITOL
JACKSON

CLIFF FINCH
GOVERNOR

OCTOBER 26, 1977

TO FELLOW PUBLIC OFFICIALS:

When I took the oath of office as the 57th Governor of the State of Mississippi, one question was uppermost in my mind. That question was: What do we really need from state government, and if we are not meeting these needs, what can we do to get the job done at the lowest possible cost? My preparations for the office had already convinced me that these questions would not be easy to answer. The traditional role of the Governor in Mississippi did not give this office the authority and resources to do much about charting a course for our state and there was a serious void in the flow of information to the Governor as chief executive officer. This hampered my ability to judge how well our government was doing.

I was determined to change the traditional relationship between the Governor and the legislature. The serious times we faced required that the Governor and the legislature arrive at a new working agreement—a partnership that would be responsive to the demands of good government and equally responsive to the needs of our state and our people. The time had come when the legislative and executive branches must equally share the responsibility of operating state government as required by the state constitution.

Our system of state government had grown awkward and unworkable, inefficient, and too expensive. We could not continue in that system which had kept us on the bottom rung of the ladder. To reverse the trend, we had to cut government bureaucracy, spend less, and get more for our hard-earned tax dollars.

In order for the executive branch to take a hand in reversing the trend in government and achieving more efficiency and effectiveness, there had to be a flow of information to top management which did more than supply financial data on how much was spent for salaries, commodities, and other costs incurred in running governmental units. We had to have information to enable us to judge whether the taxpayer's money was spent wisely. Were funds and other resources properly handled? Did the programs achieve their intended results? Could we learn from past mistakes and improve future performance?

We were not getting the type of information we needed to answer these questions. One of the first actions I took as Governor was to initiate an evaluation of state government operations as one way of getting answers to these important questions.

The evaluations proved beneficial in more ways than one. Not only did we save hard-earned dollars of our taxpayers and improve the economy and efficiency of agency operations, we demonstrated that management evaluations using the broad-scope audit techniques, long advocated in the federal government, were equally at home in state government. The evaluations also reinforced my belief in the program budget approach and the beneficial effect this will have in meeting our goals and objectives. In fact, after our evaluations, the legislature mandated that program budgeting be adopted by all state agencies.

We have made progress, but much remains to be done. If we are to achieve our objective of more economical, efficient, and effective state government that better serves all Mississippians, then one of our highest priorities must be the continuation of these evaluations.

If public officials really want to know how "good" their government is, they have to take deliberate steps to find out. Broad-scope auditing of governmental organizations, programs, and activities is a good way of getting the answer. It is the most effective tool available to us, as public officials, to make certain the taxpayers get full value for every tax dollar.



CLIFF FINCH
GOVERNOR

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CHAPTER 1

Introduction

When Governor Cliff Finch took office in January 1976, he announced, in an address to the Joint Assembly of the Mississippi Legislature, plans for an evaluation of State government operations. The purpose of the evaluation was to assist top management by identifying opportunities for improving government operations and by disclosing ways of making more efficient and effective use of available resources. The Governor saw the evaluation as benefiting State government through reduced expenditures, reallocation of scarce resources, increased revenues, and greater credibility with the State's taxpayers.

With assistance from the General Accounting Office, the Governor formed a temporary audit group to perform the evaluations. Representatives of State and Federal governments and the private sector comprised the group, which was directed by a senior member of the Governor's staff.

An audit plan was prepared which included objectives and scope, target dates, required resources, and guidelines for survey and review work. The effort was to include all elements of broad scope auditing identified in the *Standards for Audit of Governmental Organizations, Programs, Activities & Functions*, issued by the Comptroller General in 1972. The objectives were to answer such questions as the following:

Financial and Compliance

Were financial operations conducted properly, financial reports presented fairly, and applicable laws and regulations complied with?

Economy and Efficiency

Was the agency managing its resources (personnel, property, space, funds, etc.) economically and efficiently? What were the causes of any inefficient or uneconomical practices—inadequacies in management information systems, in administrative procedures, or in organizational structure?

Program Results

Were desired results or benefits being achieved? Were the objectives established by the legislature or other authorizing body met? Were alternatives considered which might give desired results at lower costs?

Because financial and compliance audits were being done by the State Auditor, little additional work was necessary in this area. Therefore, the audit focused on only two elements of broad scope auditing, economy and efficiency and program results.

The following pages present the results of the audit as applied to the Office of the Governor and to several agencies of the State. Chapter 2 describes the organizational and operational improvements made in the Governor's office. The practices identified by the audit group that offered opportunities for reducing waste and making more efficient use of resources in several agencies are discussed in chapter 3. Chapter 4 explains why a program results audit was not feasible and what changes were recommended to facilitate such efforts in the future. Top management's reaction to broad scope auditing and its continuation is discussed in chapter 5.

CHAPTER 2

Office of the Governor

The Office of the Governor was chosen as the starting point for the audit, on the basis that any need for organizational or operational improvements in that Office should be dealt with before the effort was extended to other executive agencies.

ORGANIZATIONAL CHANGES NEEDED TO IMPROVE THE OFFICE OF THE GOVERNOR

The Governor's Office was a "one-man operation" with no formal organizational structure. The staff was not organized to identify, plan, or establish programs that would achieve the Governor's objectives. The staff was a reactive one that became involved in the pressures and crises of the moment. Little attention was given to guiding and directing the agencies and programs which were under the Governor's control. Even less effort was made to coordinate with agencies over which the Governor had no legal control, even though the participation of these agencies was necessary in many of the Governor's programs.

The group recommended establishing a programs staff which would be the link between the Governor and the agencies of State government. In response to the recommendations, the Governor established additional "Assistant to the Governor" positions to provide State agencies with the leadership, direction, coordination, and communication needed to successfully pursue his objectives. This reorganization also provided for the establishment of a permanent staff in the Governor's Office to continue evaluations of State government operations.

IMPROVED ADMINISTRATIVE AND MANAGEMENT PROCEDURES

The audit group found that:

- The movement of correspondence and other information was not timely or effective.
- The absence of a sound organizational structure and clearly defined responsibilities contributed to confusion and weak performance.
- Other procedural problems hindered the efforts of the Governor and his Office.

Over 40 recommendations were made for improving day-to-day operations. Most of the recommendations were immediately implemented; the others required additional time for devising final actions. Some of the major changes follow.

- The mission of the Governor's Office was reassessed and restated, a formal organizational structure was established, and a staffing plan was developed that more clearly defines administrative responsibilities and permits the Governor to devote more time to program matters.
- The office layout and conference room facilities were improved for more effective work flow and communications, and some staff were relocated because their functions did not require immediate or continuing contact with the Governor.

-
- An appointments assistant position was established to better schedule the Governor's time for visitors, meetings, speeches, trips, etc. This gave the Governor more time for furthering his program objectives.
 - Responsibility for mail was assigned to qualified personnel, and accountability for incoming correspondence, from receipt through final disposition, was established.

Greater Economy and Efficiency in Operating State Agencies

The Governor's primary goal was to increase the efficiency of State government operations. Therefore, the audit was designed to evaluate the economy and efficiency of State activities. To do this, the auditors reviewed several major agencies' organizational structures, procedures, and operations to identify ways of reducing the cost or improving the results of government programs. They identified instances of inefficient or unnecessary use of resources and the underlying causes.

As the audit work was concluded at each agency, a draft report was prepared, and agency officials were invited to submit their comments before a final report was released to the Governor. In most cases, the Governor accepted the audit group's recommendations and directed agency heads to make the needed changes.

Following are examples of findings and recommendations, together with brief background statements on the agencies involved.

TAX COMMISSION

The State Tax Commission administers and collects 25 separate taxes and is also responsible for the wholesale distribution of alcoholic beverages. The commission thus handles more than 90 percent of the State's general fund revenues. In fiscal year 1976, this agency collected approximately \$700 million. It is governed by three commissioners and has a staff of approximately 500 employees. Its approved annual budget is \$8.6 million.

**More Timely Deposits of Tax
Collections Could Increase Revenue**

The Tax Commission was depositing tax collections and other receipts in non-interest-bearing accounts in local banks for up to 15 days before transferring these funds to the State Treasury where they could be invested.

The average daily balance in these non-interest-bearing accounts exceeded \$15.8 million during fiscal year 1976.

The audit group estimated that prompt deposit of the funds into interest-bearing accounts could earn additional revenue of \$1 million annually. As a result of the audit, the Governor directed the Tax Commission to study the problem further, and, where practical, move tax collections into interest-bearing accounts without delay.

**Organizational Changes Needed to Increase
Managerial Control and Improve Efficiency**

The activities of the commission were carried out by 10 separate organizational units, each reporting directly to the chairman of the commission. Since the units had similar responsibilities in tax administration, they performed operational and administrative functions that were similar or duplicative.

Following are some of the recommended changes that were adopted or are in the process of implementation as a result of the audit.

-
- A reduction in the number of major divisions from 10 to 4.
 - Consolidation of the accounting and administrative functions into one administrative service division.
 - Establishment of an internal audit and management review department to report directly to the commissioners.
 - The transfer of certain investigative functions of the alcoholic beverage control permit section to the enforcement section, to reduce travel and make better use of personnel.

The group recommended this reorganization to reduce the need for the commissioners to be directly involved in day-to-day operations and allow them more time for executive planning and policy formulation.

Revenue Lost as Result of Failure of Agency to Enforce Filing of Quarterly Declaration of Estimated Income Tax

The audit group estimated that the failure of taxpayers to file declarations of estimated State income tax was costing the State approximately \$360,000 in interest annually.

Presently, the failure to file quarterly statements is a violation of criminal law punishable by fines of up to \$100. The Tax Commission had found it uneconomical to enforce the law because of the cost of criminal proceedings and the light penalties assessed. The audit group concluded that, if a civil penalty assessed by the Tax Commission was substituted for the criminal penalty, and the limitation on the amount of the penalty increased, then it would be

economically feasible for the Tax Commission to enforce the law. The auditors recommended that legislation be enacted to accomplish this. Such legislation has been prepared by the commission and proposed to the State legislature.

MOTOR VEHICLE COMPTROLLER

The Motor Vehicle Comptroller is the second largest tax-collecting agency in the State. Collections for the fiscal year ended June 30, 1976, amounted to over \$150 million from taxes on petroleum products, truck size and weight fees, license tag fees, title fees, and fees for safety inspections of pressurized fuel tanks. The agency employs about 420 people; operating costs amounted to about \$7.7 million in fiscal year 1976.

Need to Improve Controls Over Procurement of Goods and Services

The audit revealed serious deficiencies in controls over the agency's procurement of goods and services.

- Requisitions generally were not justified and approved before purchase orders were issued.
- Receiving reports were not prepared to document the receipt of goods or services.
- Basic controls, such as separating the duties of issuing purchase orders from the duties of paying invoices, were absent.

The audit group recommended major improvements in the procurement procedures to give greater assurance that the agency acquires only required goods and services and that they are delivered at the agreed time, place, and price. Most of the recommendations concerning the procurement procedures were acted upon during the audit, and others were under consideration at the completion of the audit.

**Organizational Changes Needed
To Improve Efficiency**

Organizational changes were needed to eliminate overlaps of field division boundaries and reduce duplication in operations among the agency's divisions, allow the agency director to devote more time to overall agency direction and policy matters, reduce travel, and permit more effective use of personnel. The recommended changes which were being implemented at the completion of the audit included:

- Reducing the number of divisions reporting directly to the comptroller from 10 to 3.

- Consolidating administrative functions, including accounting, data processing, maintenance, purchasing, and property management, into one bureau of administrative services.

- Reducing the overlap and duplication of field districts by consolidating field functions and establishing uniform boundaries, and reducing travel by assigning personnel to smaller districts. (Field personnel were traveling 4 to 6 hours per day. The audit group estimated that changes in field organization would save \$248,000 annually in travel costs and that the resulting increased productivity would equal another \$285,000 annually in personnel costs.)

GAME AND FISH COMMISSION

The Game and Fish Commission was created by the legislature in 1932 to take care of the State's wildlife and fish and to promote wise conservation practices.

The commission is a special-fund agency and receives its revenue principally from license sales. Smaller amounts of revenue are derived from Federal funds, fines, cropland leases, and timber sales. These funds are spent to support law enforcement activities, administration, fisheries management and activities, and game management and related activities. The commission had 307 employees and budget of \$5.5 million for fiscal year 1976.

Excessive Costs Incurred to Meet Minimum Travel Requirements

A review of the use of nine vehicles assigned to agency officials showed that \$37,800 was spent for only 324 days of vehicle usage. The vehicles were used an average of less than 3 days a month each for official travel during fiscal year 1976.

The audit group estimated that pooling vehicles or reimbursing employees for using privately owned vehicles could save approximately \$32,000 annually. As a result of the audit, the agency arranged for these vehicles to be pooled so all personnel could use them as needed for agency business.

**Improved Procedures Needed
To Insure Remittance
of License Sales Revenue to the State**

The sale of hunting and fishing licenses is the largest source of revenue for the Game and Fish Commission. Sales amounted to about \$3.7 million in fiscal year 1976.

State statutes require each bonded agent to remit receipts from license sales to the Game and Fish Commission on or before the 10th of each month. Some agents were not complying with the law—keeping receipts sometimes for more than a year—and the commission had not established procedures to insure collection of such receipts. The audit group recommended that conservation officers located throughout the State contact the independent agents periodically and enforce the timely collection of license sales receipts.

**Need for Improved Procedures and
Controls Over Collection of Fines**

The audit disclosed that local justices of the peace were not remitting fine collections according to State game and fish laws. These laws provide that money collected as fines or penalties be remitted on or before the 20th of the month after collections are made. Some justices retained fines for over a year before remitting them to the commission. Also, citations issued by conservation officers were not controlled by prenumbered forms; thus, there was no assurance that all assessed fines were collected.

As a result of the audit, the Game and Fish Commission had officers begin using prenumbered tickets for which they are held accountable. Also, a procedure was established for conservation officers to insure that justices of the peace remit fine collections on time.

Audits of Program Results

The results of State programs were also given considerable attention by the audit group. This element of broad scope auditing, called "program results audit" and sometimes referred to as effectiveness audit, is to determine whether the desired results or benefits of a program or activity are being achieved. Program results reviews can be made only if the purposes or goals of the organization or program being reviewed have been established. In addition, criteria must be available for measuring performance. Finally, a system is needed for accumulating data to reflect the program's achievements.

The audit group found that the State agencies being audited did not satisfy these basic requirements. For example, they did not have well-defined program goals. One agency goal was "the promotion and development of *more and better* paying jobs," and some of the objectives included (1) developing *as many* industrial type jobs *as possible*, (2) developing *better* markets, (3) *increasing* the tourist dollars spent in the State, and (4) *promoting* small business development. Objectives stated in such vague terms as "more," "better," and "many" are not subject to a meaningful assessment of achievements.

Furthermore, the agency had not established feedback systems that would show what the programs had achieved. Progress—in some cases major progress—had indeed been made in attaining some of the agency's goals, but other organizations and outside factors had contributed to this progress. No plans had been made to accumulate data to distinguish results attributable to the programs from results attributable to outside factors. There was no reasonable way to measure that part of the progress brought about by the agency's efforts.

Therefore, the principal finding of the audit group, insofar as program results were concerned, was that, if the State were to measure the effectiveness of its programs, it would need to (1) set more specific goals so that progress could be measured and (2) accumulate data on accomplishments.

Overall program goals and criteria should be established by the government body that authorizes the program, with more specific objectives developed by the program managers. When no overall goals and criteria are provided, however, the program managers should prepare them as well. The audit group recommended that each of the agencies develop program goals and criteria and establish feedback systems to permit meaningful assessments of results.

Continuing Efforts

The Governor undertook broad scope auditing to develop information which would be useful in managing—information that would help managers carry out government activities and increase efficiency of programs. The Governor and the agency heads considered the results of the review highly beneficial.

Because of the audit, performance in the Office of the Governor was improved, the need for criteria for measuring the effectiveness of activities and programs was recognized, and program deficiencies and weaknesses were identified.

Furthermore, the broad scope audit identified several audit areas with a potential for saving money or improving programs. Several of these possibilities were related to procedures and organizational responsibilities that involved more than a single agency. The audit group recommended a series of studies of functions and activities that would cross agency lines and identify improvements needed governmentwide. Some of the needed improvements that were identified require further study, including:

- An organizational structure that will provide more effective managerial control and consolidate agencies with overlapping and duplicate functions, activities, or programs.
- Opportunities for greater consolidation and sharing of computer hardware and software among agencies, through the State's centralized ADP center. Computers are being used

more and more, at substantial cost, in administering State government operations, and several State agencies are operating their own data processing sections.

- Procurement practices that will help insure that money is spent wisely for goods and services. Each agency, and in some cases each component of an agency, operates its own procurement system. Savings may be possible through a consolidated procurement system for all State agencies.
- A system of administrative and fiscal controls that will help insure the propriety of every government expenditure. Controls over expenditures for travel and personnel service contracts do not assure that such services have actually been received or that they satisfy valid needs. Basic controls, such as getting requisitions approved before purchase orders are issued, recording data on bids received and the basis for selection of vendors, and preparing receiving and inspection reports, were nonexistent in some agencies.
- A State-wide merit system that would standardize personnel policies and procedures and enhance the hiring and retention of qualified State employees.
- A system of program planning and budgeting that would permit a more meaningful consideration of agency budget requests and provide a means of measuring accomplishments. Such a system would require improved planning and budgeting procedures in almost all State agencies.

In his second state of the State address to the joint session of the legislature, the Governor pledged to continue the reviews of State agencies and recommended that the program budget approach be adopted for all State agencies so their effectiveness can be measured. Excerpts from the Governor's address follow.

"The head of every department, agency, board and commission should be given necessary authority to manage budgets, personnel and policies so they can streamline operations, cut costs and increase efficiency.

"The evaluation team I appointed this year has studied four major agencies and has recommended changes and adjustments that would further save ten percent in those agencies evaluated. If cost savings can be made in these agencies, savings can be made in others.

"This additional ten percent savings would free money for use in meeting critical needs now unmet, including merit raises and highways. These evaluation studies are available to you.

"The evaluation * * * will continue examining other agencies seeking additional savings.

"We should adopt the program budget approach for all agencies of state government so we can measure their effectiveness by what they do for people instead of just by how much they spend. Major state functions and services should be grouped into not less than ten or more than twenty agencies."

The Governor is continuing the review effort with a temporary audit group. The review will be expanded to include all State government operations and will cross agency lines into functional areas. Future plans call for a permanent staff to carry on audits and evaluations of State government operations.

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