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.
GOVERNMENT AUDITING--PAST, PRESENT, AND FUTURE

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 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.

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

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

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

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

As you can see I visualize 1986 as bringing, not a radical change in approach, but more the achievement of what we are now working toward. 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 information. 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.
GAG'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 inter-governmental 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 Regional 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 had 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 projects, 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, independent auditors (CPAs), 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.

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 complaints 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 in 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 forum 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 instance, 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.
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.