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1975-1976
Chap. 1
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SPIRIT OF '76

The cover of The GAO Review for the Nation's Bicentennial year has been designed around the well-known "Spirit of '76" painting by Archibald M. Willard that so deftly symbolizes our country's spirit of determination and dedication to move ahead.

Willard was a buggy painter and decorator in Wellington, Ohio, who had some limited training in art. Wanting to paint something for the 1876 centennial, he hit upon the idea of the two drummers and a fifer marching into battle after watching such a group during a militia muster day in Wellington. The painting was exhibited at the Philadelphia Exposition in 1876, where it was a very popular attraction.

After the centennial, the author painted other versions of the picture; some accounts say as many as 14 were painted. The original, however, is said to be the one owned by the town of Marblehead, Massachusetts.

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Governmental Auditing— Yesterday, Today, And Tomorrow

The first joint meeting of the national and the 10 regional intergovernmental audit forums, made up of Federal, State and local government auditors, was held in New Orleans on January 14, 1976. At the meeting, the Comptroller General reviewed the state of government auditing and some of the problems and prospects. This article is adapted from his remarks at that meeting.

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 performed 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 has become 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 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.

Government Auditing in 1986

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 have 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 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.

More and Better Intergovernmental Audit Cooperation Needed

In 1974 GAO assessed the extent that Federal, State, and local governments were cooperating on audits in which they had mutual interests. We found that 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 governments' 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 doubtless 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 published *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.

AICPA Committee on Relations with GAO

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 our audit standards to help independent public accountants understand them and their effect on auditing practice and their relationship to AICPA's generally accepted auditing standards.

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.

Intergovernmental Audit Forums

Another important step in this direction in which we have had an influential role is the creation of the 11 intergovernmental audit forums.

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

Special GAO Publications

We have also published 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.*

Other publications are under development.

ICMA-GAO Demonstration Project

We also entered into a demonstration project with the International City Management Association to demonstrate application of 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 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

had great potential for improving local government.

Problems to Overcome

A multitude of problems must be overcome before the vision I have projected for 1986 becomes a reality. I won't try to discuss all these but there are 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 Federal 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 are not getting the right kind of financial data to the right people. No one who has read a newspaper in recent 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 testified before the House Committee on the District Government on December 8, 1975, that, in our judgment, the books of the District do not permit an auditor to give a clean opinion on financial statements prepared from them. As we see it, such an audit would result in 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.

In the Federal Government, the public accounting firm of Arthur Andersen & Co. recently recommended that the Federal Government regularly prepare and publish consolidated financial statements. This firm's report was prepared from a wide variety of sources and, although it recognizes that much remains to be done before fully acceptable statements can be prepared, its booklet did a good job of showing how consolidated financial statements for the Federal Government might look and what they might 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.

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 especially important.

Simplifying Federal Assistance Programs

The number and variety of Federal assistance programs have increased

nearly fivefold during the past 10 years. The most common complaints about these programs are that Federal agencies (1) insist on the unique requirements of their 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, we submitted 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.

Our 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 one fiscal year, in order to reduce funding uncertainties associated with Federal assistance.

There are no simple solutions to these problems.

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 make the kinds of audits that produce useful 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. In part GAO has been trying to meet this challenge by:

- Learning much by doing.
- Building an integrated staff of engineers, economists, mathematicians, and other disciplines, as well as accountants.
- Using expert consultants and to a limited degree contracting work out.
- Using 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 working with data processing systems. Each new generation of data processing equipment calls for quantum jumps in auditing skills. We devote much time and effort to training in this field.

Life is too short for everyone 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 made up of 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.

Report writing for audits that go be-

yond opinions 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 effective reports requires talent and hard work, mostly the latter. Training in communicating audit results has to be continuous.

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 do believe that such problems can be overcome if approached cooperatively. 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 of this can be done.

Summation

Auditors are going to have an increasingly influential role in the next 10 years. There will be times of difficult choices. The demand for governmental 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 be asking 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 many of the answers.

If government auditors are to respond, they must improve their capabilities and use their resources wisely. This requires training and cooperation. Ambitious and extensive as the current efforts are to improve inter-governmental 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 inter-governmental audit forums are uniquely qualified to see that the necessary steps are taken.

Preserving Public Credit

. . . As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible: avoiding occasions of expence by cultivating peace, but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it; avoiding likewise the accumulation of debt, not only by shunning occasions of expence, but by vigorous exertions in time of Peace to discharge the Debts which unavoidable wars may have occasioned, not ungenerously throwing upon posterity the burden which we ourselves ought to bear.

Washington's Farewell Address
1796

~~7/21/69~~

GAO As a Catalyst for Senior Citizens' Rights

How a GAO audit led to a Civil Service Commission project of great benefit to retired Federal employees who forgot or just overlooked their Federal pension rights.

The civil service retirement system was created to provide former Federal employees (meeting certain eligibility requirements) with pensions during their retirement years. Under the system, employees contribute to the plan during their productive work years to gain financial benefits later in life. A large number of employees, however, leave Government service early and do not file benefit claims at retirement age. The contributions made by these employees remain a perpetual obligation of the retirement fund.

The financial plight of many senior citizens is only too well known. A large number of them, living on fixed or limited incomes, have difficulty coping with the inflationary aspects of the economy. Too often, these citizens are unable to obtain the basic necessities of life—food, medicine, shelter. Many of these senior citizens may have been former Government employees who are

unaware of benefits due them.

Since many of these people are beyond the normal retirement age, the chance of them claiming benefits seems very remote. However, in today's social accountability environment, questions are appropriate as to the Government's proper role in administering the fund. Is the Government merely a trustee for employee contributions to the retirement system? Or, should the Government actively seek out former employees and advise them of their retirement benefits when they have been overlooked?

These questions had to be dealt with in our audit of the retirement system. During the audit, we noted that the retirement system was maintaining unpaid benefit accounts with cumulative balances of millions of dollars. Additionally, the retirement fund had earned interest on these accounts over the years. The accounts represented unliquidated claims of former employees who

Mr. Muldoon, audit supervisor with the Washington regional office, has previously contributed to *The GAO Review*. He holds a bachelor's degree from the University of Scranton and a master's degree from George Mason University. He joined GAO in 1968 after serving 2 years with the U.S. Army.

had not filed for benefits.

No effort was being made—in fact, none was required—to locate the former employees who earned these benefits. What made our audit so unique was that it culminated in prompt agency action for the good of thousands of senior citizens. As a result, many former employees, or their heirs, will receive substantial sums to which they are rightfully entitled.

Surfacing the Problem

In 1972, GAO submitted a report to the Congress entitled “Unclaimed Benefits in the Civil Service Retirement Fund” (B-130150). In the report, GAO said that thousands of former Federal employees, well beyond normal retirement age, had not applied for annuities or refunds of their retirement contributions.

This situation arose because the Civil Service Commission, responsible for administering the retirement fund, had no obligation under existing laws to locate retired citizens and pay benefits. Applicable laws say that Federal agencies must advise employees of their retirement rights and that employees must file claims with the Commission.

The Commission reassessed its position when it became known that many millions of dollars could be involved. Recognizing the magnitude and gravity of the situation, the Commission and GAO worked cooperatively in a pilot study to determine the feasibility of conducting a project to locate former employees and pay benefits and to identify the costs that would be associated with such a project.

Solving the Problem

Although the Commission initially felt that it would be too costly to seek out and locate beneficiaries, the pilot study revealed that the benefits to be paid from such an undertaking far outweighed any cost considerations. The pilot effort, in which the Social Security Administration and the Internal Revenue Service cooperated, resulted in identifying the current mailing addresses of many former employees. Claim requests were sent to these addresses.

This study resulted in payments of about \$19,000 to 20 former employees, who were unaware money was owed them. GAO estimated that a full-scale project could easily result in payments of another \$10 million to the rightful owners of the funds.

Impact of Commission's Project on Senior Citizens

Convinced that a massive project was beneficial and in the best interest of senior citizens, the Congress appropriated over \$640,000 in fiscal year 1974 so the Commission could attempt to return additional unclaimed retirement benefits to former Federal employees, their heirs, or survivors. This was a one-time appropriation.

In its project, the Commission searched its data files and identified over 100,000 potential claimants. To date, about 10,600 people have received cumulative payments exceeding \$13 million. Commission actuaries project another \$20 million to be paid the current project beneficiaries. These payments are expected to easily exceed

GAO's original estimate. The following examples illustrate the significance of the project.

- A former employee, in his early seventies, received an initial check of over \$40,000. He had been entitled to an annuity since the early 1960s. He had over 20 years of Federal service but did not remember to claim his money.
- A former employee, in his mid-eighties, received a check for over \$35,000. He had been owed an annuity since 1948. His monthly benefit will be \$230.
- An 81-year old man received a check for nearly \$10,000. He had been entitled to an annuity since 1955 but did not realize it.
- Another man, in his mid-seventies, received \$6,000 in deferred annuities. He used the money to finance a major operation which he had postponed on several occasions due to a lack of funds.
- Records of 10 former Members of Congress were retrieved. To date, about \$11,000 has been paid to 6 of them.
- An individual in his mid-sixties received a check for about \$3,500, with recurring monthly benefits of \$125. This person said his employing agency advised he could not claim his benefits until age 70.

A substantial sum of money still remains unclaimed in the fund because only 10 percent of the retirees or heirs have benefited from the Commission project. What has happened to the remaining 90 percent? Without doubt, many have died. For those, however, who received an invitation from the

Commission to claim their benefits and did not do so, time is still available to file claims.

As the project's effects spread among the senior citizen population, many more people may be encouraged to write the Commission and obtain their benefits.

Conclusion

One benefit of a Federal service career is the attractive retirement plan, the purpose of which is to provide financial resources in our retirement years. For decades, the retirement fund was an untapped reservoir of potential benefits for thousands of senior citizens. Now, however, because of GAO auditors, the Commission has provided a public service by contributing to the well-being of many senior citizens.

As citizens, we can be proud of this Government-sponsored project. Also, GAO's continuing influence in improving the efficiency of governmental operations is demonstrated in yet another social arena, namely as a behind-the-scene catalyst for senior citizen's rights.

For auditors who have forgotten what job satisfaction is, or who are still searching for it, I hope this experience demonstrates that GAO can exert a strong influence in Government affairs to produce greater efficiency and effectiveness. This influence takes on an added dimension when a social good is to be achieved. The quantifiable rewards of knowing that former employees were remembered in their old age can be measured at about \$33 million; qualitatively, however, the happiness that this project has generated is priceless.

Ratman of Capitol Hill

On November 3, in the year of our Lord 1975, the Subcommittee on Health and the Environment, Interstate and Foreign Commerce Committee, U.S. House of Representatives, began hearings on disease prevention and control programs. Being the resident rat expert from the Philadelphia regional office and an enthusiastic contributor to the popular and locally renowned rat report ¹ to the Congress, I was selected to represent the Philadelphia region's color during GAO's testimony on the Federal Urban Rat Control Program. *Gregory Ahart*, director, *Robert Farabaugh*, assistant director, and *Lawrence Gaston*, supervisory auditor, of the Manpower and Welfare Division in Washington were the other GAO witnesses.

Prior to our 10:00 a.m. appearance at the famed Rayburn building in downtown Washington, the other GAO participants and myself were given the opportunity to review the "back-up" books which we would carry to the hearings which provided details on the workings of the rat control program. We also had a brief run-through on various

¹ Comptroller General's Report to the Congress, "The Urban Rat Control Program Is in Trouble" (MWD-75-90, Sept. 29, 1975).

questions we anticipated the subcommittee might ask. Unfortunately, we also should have had a brief run-through on the answers to the questions.

Alerted by a telephone call that the time had come to leave, Messrs. Ahart, Farabaugh, Gaston, and myself scurried to the GAO basement for limousine pickup and transfer to the Rayburn Building. Upon arrival at this monument to American building know-how, we made our way to the hearing room where we were seated at the microphone-and-water-pitcher-adorned witness table.

Although it was indicated to me that Mr. Ahart would read GAO's prepared statement and field most of the questions from the subcommittee members, I was advised to prepare for any eventuality. Heeding this advice, I prepared myself by sipping through two pitchers of water, plastering down my cowlick, and lighting two cigarettes at once.

Noticing that my shoes were beginning to slosh, I pushed away the water pitcher, coolly lit the filter end of another cigarette, and awaited the start of the hearings.

After introductory remarks by the subcommittee chairman and a minority party representative, Mr. Ahart was

Harry Benchoff, a supervisory auditor with the Philadelphia regional office, joined GAO in 1961. He has a B.S. degree in Business Administration from Drexel Institute of Technology (now Drexel University) and is a member of the American Institute of Certified Public Accountants.

called upon to read GAO's prepared statement. After eloquently accomplishing this, Mr. Ahart volunteered to entertain questions from the panel. Several questions were asked by the panel members and flawlessly handled by Mr. Ahart and Mr. Farabaugh.

Next, it was Congressman Florio of New Jersey who tried to "stump the experts." In response to Mr. Florio's multifaceted and complex question, Mr. Ahart proudly exclaimed that his colleague—me—would answer the question. As my entire life flashed through my mind, I fingered my newly waxed mustache, took a big drag on my pencil, and exuded a barely audible "Humma," "Humma," "Humma." Recovering rapidly, my next answer seemed to satisfy the Congressman.

Obviously encouraged by GAO's clear and concise answers and knowledge of Government affairs, Mr. Florio addressed another question to the wit-

ness table. Again, Mr. Ahart's colleague was the designated respondee. Since my life had already flashed through my mind on the previous question and the 5th amendment was out, my next answer came more quickly. Unfortunately, my vocal cords did not respond quite as fast. Nevertheless, when the answer finally came my instincts told me that Mr. Florio was quite impressed.

When no further questions were asked by the panel, we were thanked for our contribution and the next witnesses were called. As we swaggered out of the hearing room, I knew how the Watergate crew had felt.

In all seriousness, sitting at the witness table and participating in GAO testimony was, to me, a unique happening. While I admit to a certain degree of anxiety at the time, the opportunity to participate was, in retrospect, an enjoyable experience.

One Committee Value

There is no more dangerous citizen than the person with a gift of gab, a crusading complex and a determination "to pass a law" as the antidote for all human ills. The most effective diversion of such an individual to constructive action and the greatest silencer on earth for foolishness is to associate him on a research committee with a few persons who have a passion for truth—especially if they pay their own expenses.

Herbert Hoover
American Scientist
January 1951

Washington-Field Rotation— An Opportunity

A GAO auditor who rotated from headquarters in Washington to the Cincinnati regional office reports on her experiences and insights.

For several years junior staff members have been rotating from Washington to the regional offices, spending 2 to 3 years there, and then possibly returning to headquarters. Under this program, I had the opportunity to combine my experiences in Washington with those in the field by being assigned to the Cincinnati regional office in May 1975.

Washington

Of my many experiences in Washington, the one I enjoyed the most was seeing the complete picture. It was very interesting to get a full understanding of what a certain Government program was designed to do, find out whether it was effective and efficient, and determine in what areas a survey—and possible review—would be most useful.

Developing the guidelines to explore such areas was the most challenging aspect of my work. Assuring thoroughness and objectivity, accurately projecting staff requirements, and plan-

ning to overcome known difficulties, such as limited access to records, are only a few objectives in preparing an audit guide. Merely planning for what is known, much less trying to determine what you may have missed, is very difficult. But, when you think you have done it well, it can be a rewarding experience.

Seeing the “big picture,” writing, and guiding audit programs are activities most auditors would probably enjoy. But what about report polishing and processing? I learned a lot by seeing people with more experience and different viewpoints reshape reports I thought were complete. I saw thoughts clarified, wordiness reduced, support strengthened, and recommendations improved. Therefore, I have an appreciation for some of the agonies of developing a final product and have witnessed the importance of writing well.

Cincinnati

Why, if I enjoyed headquarters so much and learned so much there, did I

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desire a field assignment? There were several reasons:

1. I thought the field could provide me with experiences and insights I might never have in Washington.
2. I believed my audit planning and execution skills would be strengthened by such an experience.
3. I expected to enjoy my new location as much as I enjoyed Washington. (So far, I have not been disappointed.)

In the field, I have experienced the difficulty of auditing without knowing the whole story. One survey, in particular, seemed pretty aimless not only to me but also to some experienced field staff members. We worked on details with no clear notion of where they fit into the picture. This problem is often inherent in the early stages of a survey. Part of it can be overcome by keeping all participating regions fully informed.

On this matter of full information, regional office staff spend a good deal of time making informative and instructive progress reports. The field regards these reports as important communication tools. Perhaps it was my own particular failing, but I can see clearly now that as a member of the headquarters staff I paid too little attention to these reports. I did not realize that field personnel consider the reports vehicles for communicating important information rather than as a dreary biweekly duty.

I have also enjoyed carrying out the audit guidelines developed by the Washington staff. Problems do exist—primarily those I mentioned before, relating to a full understanding of the complete picture—but these can easily

be overcome by better communication. I also have thoroughly enjoyed traveling to an audit site and doing the work which establishes what is happening in a program and why. I will always envy field staff this pleasure after I return to Washington. I will also know, rather than just suspect, that very often only the field can report on what really happens when laws and regulations become actions.

Because of the regional manager's desire to make my field experience as meaningful as possible, I have been given insights into regional administration. One item in particular has struck me as important: sometimes regions just cannot provide the staff for new assignments as quickly as headquarters might wish. Aside from the ever-present need to assign people to congressional requests on short notice, regional office staff are in all parts of the region on any given day. Some of these people will not return to the office for months. Knowing this, one should always try to arrange for field support on self-initiated work well in advance.

Benefits of Rotation

Before returning to headquarters, I hope to carry out many more activities which will give me insights into defense work, congressional request work, and recruiting and other aspects of regional administration. Nevertheless, my experiences to date have been invaluable. I have found that field office personnel are competent and highly motivated to carry out assignments as well as possible. They can do this if audit guidelines and reporting objectives are clear

enough for everyone on an assignment to have the same perceptions of what we are trying to accomplish and how we plan to do it.

However, I no longer believe objectives and guidelines are sufficient in themselves. Because they work with different program levels in extremely diverse organizational settings, the Washington and field staffs will often define program problems differently and view different areas as worthy of increased audit effort. Usually these developments occur after objectives are established and guidelines written.

Only continuing, multilateral communication can blend these differing viewpoints into a cohesive audit effort which takes into account all the information developed in an assignment.

Field rotation for Washington staff—and headquarters rotation for field staff—imparts an understanding of the factual, organizational, and attitudinal environment in which the other person operates. Such understanding will, I think, improve communication. This, in turn, will greatly improve GAO's cooperative audit efforts.

Bicentennial Resolution

I call upon every man, woman, and child to celebrate the diversity of tradition, culture and heritage that reflects our people and our patrimony. Let each of us resolve to cherish and protect what we have achieved in the United States of America and to build upon it in the years ahead, not by words alone, but by actions which bespeak a continuing commitment to a heritage of individual initiative, creativity, and liberty.

President Gerald R. Ford
Bicentennial Year Proclamation
December 31, 1975

7-21769

Going a Step Further in Auditing to Get Results

An audit success story related to the highly technical field of managing electronic computer modeling.

Computers first burst upon the American scene in the early 1950s. Since then, they have been used to solve complex governmental problems that otherwise might have strangled our economy. An unhappy byproduct, however, has been the waste of millions of taxpayer dollars because of mismanagement in designing and developing computer programs to solve specific practical problems.

One of the areas in which much waste has occurred is computer modeling, in which computers are used to simulate physical occurrences which are too dif-

ficult, too slow, too expensive, or too dangerous to create and observe in real life or with physical models. Computer models, if successful, can demonstrate very quickly and reliably the potential effects of constructing or not constructing a flood control dam. They can tell planners and politicians the effects of a specific industrial discharge into various parts of a river system at varying times, the survivability of weapons systems during nuclear attacks, and the best allocation of hospital personnel. Perhaps their most publicized success was in helping design the hardware and

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The authors wish to thank Seattle regional office staff member *Ronald V. Nowocin*, project manager in charge of the audit discussed, for his valuable assistance in preparing this article.

procedures that have let man go to the moon and back.

Auditors, independent researchers, and others haven't written much about the successful applications, but they have written a lot about the unsuccessful applications in which management problems have adversely affected the promptness, cost, and usefulness of models. Independent researchers in government and private industry have identified and publicized the problems before, but the waste continues and increases as government agencies reach out ever more eagerly for the benefits of computer applications.

One day about a year ago several of us in GAO sat down and asked ourselves, "Why?"

After considerable brainstorming, we concluded that the past reports had never (1) developed any *practical* solutions and (2) publicized them in a way that potential users would learn about and accept them. The approach of collecting a lot of adverse evidence and reporting deficiencies clearly had not worked in solving the problems of computer models. So we wondered: What can we do differently that might succeed?

The answer that evolved was to get the model developers and users themselves involved in an effort to identify the problems and develop *practical* guidelines for future model developments. This was the basis of our audit.

Refining the Audit Objective and Approach

Our audit objective was not to develop one more report documenting dramatic,

wasteful practices and recommending the same "best" solutions based on the same "expert" advice, but rather to develop and test at least one practical set of guidelines for alleviating management problems and to conduct our audit in such a way that potential model users and developers would actually use our guidelines.

Accordingly, we developed the following audit plan:

1. Inventory all the current and recent modeling activities in the Pacific Northwest and decide on a selection criteria.
2. Use questionnaires to invite a sample of model users, developers, and sponsors to *tell us* (rather than vice versa) what went wrong with their modeling activities.
3. Analyze the responses and develop tentative guidelines to prevent these same problems in developing future models.
4. Go back to the model users, developers, and sponsors and ask them to comment on the practicality of our proposed guidelines.
5. Revise the guidelines accordingly and publish them.

Developing an Inventory and Selecting a Sample

Ideally, to use statistical sampling to get reliable knowledge about some activity, an auditor needs to know the total number (population) of similar activities that exist. However, we found it impractical to identify all computer modeling activities in the Nation. Thus it was obvious we needed to reduce the scope of the audit and at the same time

have enough coverage to make the results meaningful.

Since our review of past reports indicated that the model management problem existed throughout the modeling community, we decided that, if we could identify the modeling population in the Pacific Northwest (the location of the Seattle regional office), we could probably identify a sample for our review that would be representative of the problem of the computer modeling activities nationwide.

The Questionnaire Procedure

To our dismay, we quickly found that a complete inventory of computer modeling activities did not exist anywhere in the country, much less in the Pacific Northwest. We therefore decided that questionnaires would be the best way to inventory modeling activity in our region. The first step was to identify the organizations that might have such activity. We compiled a list of all colleges and universities, Federal agencies, and government contractors in our region. We also contacted State audit agencies in Alaska, Idaho, Oregon, and Washington for the names of State and local agencies that might be involved with computer models.

Our research resulted in our distributing 538 questionnaires. Amazingly, within 3 months we had received responses to every single one. What did we do to achieve a perfect response rate?

Well, first we gave some thought to who would be receiving the questionnaire. We decided that a short and relatively simple questionnaire would give us the best response. We developed a

6-page package: a 1-page cover letter, a 1-page explanation of terms, and a 4-page questionnaire.

The questionnaire consisted of a page of general questions to determine if the organization had any modeling activity; if so, the type of activity; and whether the organization was considering obtaining or expanding a modeling activity. If it had some modeling activity, we asked for a description of any management problems and suggestions for anticipating or alleviating those problems. Last, we asked the respondents to complete a brief schedule describing some of the characteristics of their specific model developments.

We followed the standard questionnaire procedure of pretesting, validating selected responses, and making ourselves available to answer the recipient's questions. But the most important thing we did was to obtain the name of a person in each organization responsible for computer activities. This procedure had two benefits. First, it placed the responsibility of responding to the questionnaire with a specific person. Second, it gave us a readily established focal point to direct our followups. It took us only about a week to identify the "focal point" in each agency. We received about 80 percent of our questionnaires without any followups. For the other 20 percent, it took only about 2 weeks of phoning to obtain responses.

Developing Guidelines for Model Managers

A careful review of the responses to the questionnaires gave us information about the model process as well as about

the problems experienced by model users.

By studying the apparent causes of the problems identified in the questionnaires and in past reports, we developed a draft set of proposed guidelines for managing the computer modeling activities. These guidelines, our first attempt to develop solutions to the management problems, served as the basis for testing our approach in discussions with experienced model developers, users, and sponsors.

Testing the Guidelines

All our questionnaire results were keypunched into a computer so that the information could be summarized more quickly and accurately. Our analysis of the data obtained helped us develop the eventual selection criteria, which revolved around model cost. We had observed that 57 of the 519 models identified each had development costs of at least \$100,000 and that their combined cost represented 55 percent of the total \$39 million modeling investment indicated on the questionnaires. We reviewed each of these 57 models in detail.

During this phase of the audit we talked to more than 100 model developers, users, and sponsors. They represented 40 different organizations, including 16 Federal agencies and 12 government contractors. Each of these individuals was asked to comment on the adequacy and practicability of implementing GAO's proposed management guidelines. We also asked them if the problems they experienced could have been anticipated or alleviated by

use of the guidelines.

The guidelines we developed focused on the major considerations in model development. They are broken into five phases:

Phase I

Problem Definition: identify the problem, the need for solving it, and the reasons for or against modeling.

Phase II

Preliminary Design: reappraise and revise the description and solution arrived at in Phase I based on a first effort to establish detail model specifications.

Phase III

Detail Design: monitor the construction of the model for compliance with problem solution and learn how to operate the model.

Phase IV

Evaluation: confirm that the model works.

Phase V

Maintenance: provide for updating and for an orderly distribution of the model.

The details of the guidelines can be found in our report submitted to the Congress entitled "Ways to Improve the Management of Federally Funded Computerized Model Development" (LCD-75-111).

The End Result

The response to our guidelines was overwhelmingly favorable. All the modeling participants, whether they had experienced avoidable problems or not, supported our concept for managing the model development process. They agreed that the guidelines were flexible

and practical, that their use did not discourage competition, and that they would also be usable on research and smaller modeling efforts.

The favorable impact of our work was almost immediate. Some Government agencies and contractors adopted the guidelines before we even released our report, and we have received requests from several additional State and local governments, Federal agencies, and even one foreign government for copies of the guidelines. In addition, one agency official wanted to present them to

an international symposium, but we asked that such action be postponed until our report was issued.

We are extremely gratified by the results of our cooperative audit approach and the achievement of a practical solution that has a chance of widespread beneficial use. We think that this auditing approach can be applied equally well to functional areas other than computer modeling, and we hope to see many more successful applications of these techniques by GAO and other governmental auditors in the future.

Planning and Reporting

Most planning and reporting techniques are good up to the point that the technique becomes more important to the people involved than the data that it reveals. What many reporting systems tell us is that we made a mistake. As such, they are historians, but what we sorely need in this business are prophets—or at least something reporting in real time.

O. C. Boileau
President, Boeing Aerospace Company
Defense Management Journal
January 1976

Using Public and Private Sector Expertise In Technical Reviews

Two accountants and an economist explain how they did a highly technical engineering review with assistance from the public and private sector, and suggest that increased use of such assistance will enable GAO to remain responsive to congressional needs.

The Federal Government has allocated \$18 billion to the States to help municipalities construct waste treatment plants to clean up our waterways. What would you do if you were an accountant or economist assigned to a review—requested by the Chairman of the Senate Committee on Public Works—to determine whether a technique called value analysis could reduce the cost of building these plants?

Understanding the Waste Treatment Construction Grant Program

The Federal Water Pollution Control Act Amendments of 1972 established

interim water quality goals of protecting and propagating fish, shellfish, and wildlife and providing for recreation in and on the water by 1983. The commitment of Federal funds to States and municipalities for cleaning up the Nation's waterways increased drastically from \$50,000 in fiscal year 1957 to \$3 billion in fiscal year 1974. Federal funds obligated under the waste treatment construction grant program totaled about \$9.2 billion during this period. However, in a February 1975 report to the Congress, the Environmental Protection Agency estimated that it would cost \$107 billion to control pollution from municipal sources, excluding storm water runoff, and an additional

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\$235 billion to solve the problem of pollution from storm waters not flowing through combined sewers.

With such huge amounts required to construct municipal waste treatment plants, cost controls are needed to insure that Federal funds are being used effectively. Even minor percentage reductions in plant costs would:

- Result in great savings.
- Help States and municipalities finance their portion of the costs more easily, thereby increasing the probability of earlier construction.
- Permit wider distribution of Federal funds for constructing the plants, resulting in earlier water quality improvement.

Understanding Value Analysis

The Chairman, recognizing the potential dollar savings in the construction grant program, asked GAO to determine whether value analysis, if effectively applied to a waste treatment plant, could be an instrument for obtaining some of these savings.

Value analysis is a systematic technique designed to optimize the value of each dollar spent. It questions the function of an item or method by asking:

- What is it?
- What must it do?
- What does it cost?
- What is it worth?
- What other material or method could be used to do the same job?
- What would the alternative material or method cost?

Through a system of investigation using trained, interdisciplinary teams of architects and engineers, high-cost areas are identified and modified or eliminated if they do not contribute to the system's basic functions. Using creative techniques and current technical information on new materials and methods, the teams develop less costly alternatives for specific functions and propose them to the designer.

Value analysis was first applied in the industrial area and was introduced only recently in the construction industry. The technique had never been used for waste treatment plant construction before our review.

Our Approach

With a basic understanding of value analysis and the purpose of the construction grant program, GAO's headquarters and field staffs met to discuss our audit approach. Our main objectives were not difficult to determine, but when we attempted to plan the necessary audit work, the job's complexity became evident.

First, we all agreed there was a need to apply value analysis to a waste treatment plant. To do this, we had to have the plans and specifications for a plant, which necessitated obtaining permission to use them. Also, one or more multidisciplinary teams of structural, civil, mechanical, electrical, and sanitary engineers, an architect, and a cost estimator were needed, in addition to a team leader familiar with value analysis. This type of expertise was not available within GAO, nor was it readily available within the Government. Such

expertise did exist, however, in the private sector.

Secondly, the job involved highly technical engineering matters in which we had insufficient experience and expertise. We had to educate ourselves in two technical areas: waste treatment plant construction and value analysis. Here again, the need for expertise from the private sector became evident. Consultants familiar with sanitary engineering, waste treatment plant design, and value analysis were needed.

A third problem was the extent of the work itself. Our task was not only to determine whether the value analysis technique had applicability in EPA's waste treatment plant construction grant program, but if it did, to explore the alternative methods the agency could use to implement the technique and present our views as to how the program could be introduced most effectively. This task required full understanding of the construction grant mechanism and its implementation problems at the Federal, State, and municipality levels. Extensive audit work at EPA headquarters, regional offices, and State water pollution control agencies would be necessary to comprehend (1) the legislative requirements for approval of a waste treatment plant design and (2) the procedures required of municipalities and private consulting engineering firms for receiving Federal and State financial assistance.

It was quite apparent that without assistance from the private sector, it would be difficult understanding the application of the value analysis technique and the construction grant mechanism and also demonstrating the technique on an

actual project. Our major concern was how much private sector engineers could help us.

Applying Value Analysis

During an interview with the General Services Administration value analysis program staff, we learned of a series of 40-hour workshops sponsored throughout the country by the American Consulting Engineers Council and the American Institute of Architects, to train architects and engineers in using the value analysis methodology in GSA's program. GSA provided the basic text, materials, and project designs to be analyzed.

At our suggestion, GSA got approval from the professional societies to use an EPA-subsidized waste treatment plant design in the workshops. With a list of commonly constructed types of projects that had recently been designed and approved by EPA, we began asking the design firms to use their projects for the workshop. After several telephone calls, it became apparent that obtaining permission would be more difficult than we had expected. Many firms were cordial and helpful but very reluctant to submit one of the projects to a workshop where a group of strangers could "second guess" their design decisions.

Fortunately, one firm was curious enough about value analysis to allow us to use its project. We agreed that the project and the firm would remain anonymous and that, before publishing the study results, we would discuss all proposals with the firm to determine whether they could be reasonably implemented.

Value Analysis Workshops

The waste treatment plant design submitted for analysis at the workshop was for a 4.5 million gallon-per-day activated sludge plant costing an estimated \$4.1 million to build. Engineers at workshops in Boston, Dallas, Denver, New York, and San Francisco analyzed the project and at each location we monitored the session and acted as liaison with the design firm.

The five workshops proved invaluable. Not only did they provide access to many individual engineers and professional society representatives, which allowed us the opportunity to have the project value analyzed, but also, by attending 5 workshop sessions, we were able to have the technique applied by 11 separate multidisciplinary teams. Since this was the first application of the technique to a waste treatment plant, we were able to improve the study approach on each successive application.

Besides benefiting from the instruction given at each workshop, the week-long exposures to the professional architects and engineers allowed us to gain an understanding of the design process, constraints, and Federal and State requirements under which the designers must work. This exposure gave us insight into the problems we had to contend with when considering the necessary elements in a proposed value analysis program.

In the 5 workshops, the 11 teams were successful in identifying potential initial capital project cost savings of up to 40 percent.

An unexpected occurrence at the workshop sessions was the attendance of several EPA staff members as either

course participants or session monitors. This was to be the first step toward EPA's establishing its own value analysis program.

Summarizing Workshop Results

Even with the valuable assistance of the private sector at the workshops, we still had a major problem. Eleven separate studies, all of a highly technical nature, had to be consolidated into one technical report. A few attempts evidenced our lack of expertise in eliminating impractical proposals, providing cost estimates, and presenting the final proposals to the designer. Evaluating and responding to the designer's reply to the proposals presented an even greater problem.

We therefore contracted with McKee-Berger-Mansueto, Inc., which had provided one of the workshop instructors, to consolidate and validate the potential cost savings developed and to help us present the proposals to the designer firm. Two consultants, a sanitary engineer, and an engineer familiar with waste treatment plant design acted as technical advisors during the drafting of our final report.

The potential savings the firm validated are summarized in table I.

Since the project was already being constructed during the workshop series, the proposals we presented could not be implemented; however, the designer's comments on the proposals' practicality confirmed that we had valid results which generally fell into three categories:

1. Some proposals could have been implemented had they been suggested during the design

TABLE I

<i>Area</i>	<i>Potential savings</i>	
	<i>Initial</i>	<i>Annual operation, maintenance, and replacement (OMR)</i>
Buildings	\$ 230,000	\$ 6,500
Electrical distribution	112,000	—
Plant layout	420,000	—
Underground structures	92,000	-2,000
Process changes	369,000	43,600
Total	1,223,000	\$ 48,100
Total operation, maintenance, and replacement savings (note a)	1,443,000	
Total interest savings (note b)	2,568,300	
Total potential savings	\$5,234,000	

^aBased on 30-year project life; present-value savings would be \$597,000.

^bBased on sample interest at 7 percent for 30 years.

- phase.
- 2. Some proposals were technically feasible, but, because of regulatory agency requirements and engineering judgment, they probably would not have been implemented.
- 3. Some proposals were not practicable because of technical considerations.

Creating a Framework for A Value Analysis Program

While the workshop studies were going on, we were doing audit work at EPA headquarters and regional offices, States, and municipalities to determine whether value analysis could be applied in the waste treatment construction

grant program and, if so, how it could be applied most effectively. A desire to find a system that could be implemented with the least cost to the Federal and State governments and the least administrative burden to the municipalities was foremost in our minds. To accomplish this task, we had to have a thorough understanding of the constraints and requirements of the grant mechanism at all levels of government.

Throughout the review, we met with EPA officials to discuss the problems of implementing a value analysis program and to inform them of the workshop study results. On the basis of initial reactions to the results, EPA established a voluntary value analysis program for its construction grant program, which included assigning a full-time

staff member and initiating test studies at several regional offices.

GAO regional staff members held many discussions with State and municipal personnel and 22 private consulting engineering firms to identify the problems of designing a treatment plant and to obtain their views on value analysis.

While regional staff members determined how the construction grant process actually worked, headquarters staff members concentrated on how value analysis was being done by private industries and Federal agencies. We met with engineers of 23 Federal construction agencies and numerous private engineering firms to ask if and how they were using value analysis. From the mistakes and successes of these groups, we found the management controls necessary for a successful value analysis program.

Preparing the Final Report

Incorporating input from consultants, regional offices, and headquarters into one final report that meets GAO criteria is not an easy task. The subject matter posed additional problems in maintaining the readability of the report because of technical engineering material presented to substantiate our findings.

We decided to write two reports: (1) a technical report presenting the details of how value analysis was applied and what results were obtained and (2) a general report summarizing the results of the study and presenting our views on an effective framework for a value analysis program.

We asked McKee-Berger-Mansueto, Inc., the firm which we had contracted

with to summarize the workshop study results, to prepare the technical report and to include a complete discussion of all engineering data for the benefit of engineers or architects considering value analysis.

One GAO staff member was assigned to work directly with the firm. This liaison secured the additional information needed and monitored the firm's work to keep the report consistent with GAO's writing requirements. Our two engineering consultants reviewed the technical report to make sure all the facts were adequately presented.

From the technical report, the results of the study and all pertinent information were summarized in language clear to laymen. This section made up the basis for the Comptroller General's report to the Congress entitled "Potential of Value Analysis for Reducing Waste Treatment Plant Costs" (RED-75-367, May 18, 1975).

Agency Action

Since issuance of our report, EPA has applied value analysis to two waste treatment plants. In its first study, the plans of a plant estimated to cost \$40 million were analyzed. Proposals of ways to save \$2 million were generated by the study, and actual savings resulting from implementation of some of these proposals amounted to \$700,000. EPA officials felt much greater savings could have been realized had the study been made earlier.

EPA's second study reduced the estimated cost of a plant from \$7.5 million to \$6.1 million, or approximately 19 percent of the project's initial capital

cost.

EPA is so pleased with the results of these studies that it will be establishing a mandatory program in the near future whereby all plants with an estimated cost of \$10 million or more will have to be value analyzed before being approved.

Conclusions

As GAO continues to expand its audit efforts from the traditional financial audit to the more complex program results audit, we find ourselves perform-

ing highly technical reviews with staff members having diverse backgrounds. This does not mean that GAO should limit its efforts in these highly technical areas or hire a large number of specialized people. Experts in the public and private sectors are more than willing to assist, and tapping these sources can greatly help GAO staff members in their audit work. We must continue to increase our use of this expertise in the future if we expect to remain responsive to the needs of the Congress.

Source of Power

. . . The Power under the Constitution will always be in the People. It is entrusted for certain defined purposes, and for a certain limited period, to representatives of their own choosing; and whenever it is executed contrary to their Interest, or not agreeable to their wishes, their servants can, and undoubtedly will be, recalled.

George Washington
1787

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Auditing the Loan Program of the Small Business Administration

This article, a followup to "Planning a Full-Scale Audit of the Small Business Administration" (Fall 1975 GAO Review), describes the effective cooperative working relationships between GAO's Washington and regional office staffs in carrying out an extensive audit of the agency's largest loan program.

Because of its concern about the management and operation of the Small Business Administration, the Congress, as part of the Small Business Amendments of 1974 (Public Law 93-386), directed GAO to conduct a full-scale audit of the agency. We undertook several reviews, covering as many different district offices as possible, to accomplish this legislative mandate. Our largest review—of SBA's 7(a) loan program—was carried out simultaneously at 24 district offices by 15 GAO offices and involved about 9,000 staff-days. This paper discusses how this review was made.

The Small Business Administration

The Small Business Administration

was established in 1953 to aid small businesses—those which are independently owned and operated and which are not dominant in their field. The agency operates 10 regional offices and 81 district and branch offices to carry out its basic mission of making direct loans or guaranteeing loans made by participating banks to aid the 8.8 million small businesses throughout the United States. These loans usually are limited to \$350,000 per business.

SBA also administers special-purpose programs designed, for example, to guarantee leases of commercial and industrial properties, provide contractual and financial assistance to minority small businessmen, assist homeowners struck by physical disasters, or provide management and pro-

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curement assistance to small businessmen. As of June 30, 1975, SBA had a loan portfolio of \$6.1 billion.

The 7(a) Business Loan Program

One of SBA's major responsibilities is to administer the business loan program authorized by section 7(a) of the Small Business Act, as amended. Under this program, the agency makes loans to small businesses to finance plant construction, conversion, or expansion; to purchase equipment, facilities, machinery, supplies, and materials; and to supply working capital.

The 7(a) loan program, as of June 1975, accounted for 80,582, or 72 percent, of the business loans outstanding, exclusive of disaster loans, and about \$3,930.4 million, or 80 percent, of the dollar value outstanding.

Planning Our Review

In March 1974, the Detroit regional office began a survey of the 7(a) loan program which was almost complete when Public Law 93-386 was passed in August 1974. Therefore, we had a working knowledge of the program and some of its problems. Because our work was to be so extensive, however, the director of the General Government Division assigned an audit manager solely to supervise the field offices and pull together a draft report.

Our first step was to decide which district offices to review. Originally, we selected 30 offices—10 large, 10 medium, and 10 small—according to their geographical dispersion, dollar value of loans made, and number of loans approved. (We later reduced the

number to 24 because of travel fund restrictions.) We had one self-imposed restriction—to use no more than six staff members from any one region. Why?

- Good geographical coverage was insured by limiting the staff resources from each region, thereby requiring the selection of only two SBA offices per GAO region.
- We didn't want to impede other priority work in the regions.

We estimated it would take at least three staff members to carry out the review at each district office, so we selected only two district offices from each GAO region.

We limited our review to the 7(a) loans approved by SBA during fiscal years 1971 through 1974: 80,166 loans totaling \$5,942.7 million. The 24 district offices we had selected accounted for 35,618, or 44 percent, of the loans approved by all district offices and \$2,802 million, or 47 percent, of the dollar value of the loans approved. Although we could not review all loans approved by these district offices, we wanted to be able to show the importance of our findings agencywide, and we wanted to review several loan files at each district office.

Naturally, we went to the statistical sampling group in the Financial and General Management Studies Division and discussed our problem. With their help, we worked out a system for randomly selecting 40 loans from each district office, which would put us in a sound position to project the results of our analyses to the universe of the 24 offices. To help us make the random selection, we asked SBA to prepare a list, by district office, of the loans it had

approved during fiscal years 1971 through 1974. We then selected loans from each office for detailed analysis. A total of 980 loans, a few more than 40 per office, were reviewed.

Carrying Out the Review

Six Detroit and Washington staff members spent 1 week in September 1974 preparing the review guidelines. They put together the audit steps; the standard questionnaires for private bankers, borrowers, and SBA personnel; and the pro forma schedules to be used in reviewing 7(a) loan files so that the information gathered would be consistent for the 24 offices and could be statistically projected.

During the first 3 weeks of October, three kick-off conferences were scheduled, with five GAO regions represented at each. Each region had a chance to review the guidelines before the conferences and came well prepared with questions and comments for improving them.

The regional offices represented at

each conference and the district offices they were to review are shown in table 1.

The conferences were very useful. First, the Detroit staff presented the results of their survey, thereby providing the regional staffs with a working knowledge of the program and its problems. Then the guidelines were discussed, item by item, and changed and clarified where appropriate.

Reporting objectives, visits by Washington staff to the field, and calendar day requirements were also worked out. It was the Washington staff's responsibility to make sure that changes to the guidelines or audit approaches were communicated to all concerned.

As soon as the conferences were over, each office began its review. Even though we thought that the guidelines were clear and that all details had been worked out at the conferences, many questions arose during the audits. Numerous telephone calls were made to Washington for clarification. This was one requirement agreed on at the conferences—solutions would be sought by telephone whenever questions arose.

TABLE 1
Conference

<i>No. 1</i>		<i>No. 2</i>		<i>No. 3</i>	
<i>GAO office</i>	<i>SBA office</i>	<i>GAO office</i>	<i>SBA office</i>	<i>GAO office</i>	<i>SBA office</i>
Detroit	Detroit	San Francisco	San Francisco	Kansas City	Kansas City
	Cleveland	Los Angeles	Los Angeles		St. Louis
New York	New York		Las Vegas	Dallas	Houston
	Newark	Seattle	Seattle	Norfolk	Charlotte
Boston	Boston	Denver	Denver		Clarksburg
	Hartford		Salt Lake City	Atlanta	Birmingham
Cincinnati	Columbus	Far East	Honolulu	Chicago	Chicago
	Indianapolis	Branch			
Philadelphia	Baltimore				
	Philadelphia				

However, 24 locations were being audited simultaneously by about 70 auditors; thus, when a question was raised by one staff and an answer was provided, this problem and its solution had to be communicated to the other 23 locations.

Because we were planning to statistically project our results, the information we gathered had to be consistent. The audit staffs, therefore, received many memorandums which modified or clarified the audit guidelines. As a result of their enthusiasm and cooperation, we were able to insure that the same aspects were covered at each office. However, because we were trying to finish the review in a minimum amount of time, we made no substantial changes in audit direction as we progressed further into the audit.

Originally we had planned on having midpoint conferences to discuss job progress and audit direction. However, we were not planning to substantially deviate from our original audit direction, which is usually the purpose of a midpoint conference, so we scrapped the idea. Instead, it was agreed that Washington staff members would visit each location twice—once after the staffs had been working approximately 1 month and then about 3 weeks before completion of the audit. Both visits took place within about 4 months, which meant continuous travel for the Washington staff.

The purpose of the first visit was to (1) further discuss the audit program and clarify any problems, (2) review the data being gathered for statistical projections, and (3) guide the staffs in the appropriate directions. During the second visit, the information to be used for

statistical projections was discussed and the draft reports were reviewed. Additional work was done when necessary.

The field staffs made their reviews from November 1974 through January 1975. However, to review at least 40 SBA loans and other district office operations within the required time, the staffs had to forego taking leave during the holiday season in December. They worked long, hard hours, doing their job with tremendous enthusiasm, and the results showed it.

Report Development

The field staffs had statistical summaries to Washington by the end of February. This information was turned over to the statistical sampling group for analysis. They completed the projections quickly, enabling us to crystallize our thinking very early in the reporting phase.

The draft reports prepared for each district office were completed, indexed, but not referenced, and sent to Washington by the end of April. The Washington staff consolidated these drafts into one 180-page report and sent it to each regional office staff for comments and suggestions. In many cases, this final review had to be done in the evenings because staff members were working on other jobs, but comments came back to Washington within 1 week. All staffs offered good suggestions, including shortening and emphasizing different points in the report, and pointed out areas in the draft report that needed clarification. This regional office input improved the report considerably.

As for referencing, two Washington staff members worked on the consolidated draft, sometimes raising points which couldn't be cleared. In these cases, all it took was a phone call and the regional staffs came to Washington to clear the referencers' comments. In one instance, because of travel distance from Washington, the referencers' comments and the portion of the draft being questioned were sent to the regional office for clearance. The regional staff gathered additional data and the referencers' comments were cleared.

As a result of the regional office staff's enthusiasm and the cooperation with Washington, a draft report was sent to the agency about 1 year (and 9,000 staff-days) after the start of the review. Copies of the draft report as it went to the agency were also sent to the regional office staffs.

The final report, entitled "The Small Business Administration Needs to Improve Its 7(a) Loan Program" (GGD-76-24), was submitted by the Comptroller General to the Congress on February 23, 1976, and on the same date the di-

rector of the General Government Division, *Victor L. Lowe*, testified on the findings reported before the Senate Select Committee on Small Business.

Overall Observations

As the above discussion shows, cooperation between the field offices and Washington works well if all communication lines are open to allow information to flow easily and if the staffs involved want it to work. The review was successful because of (1) a mutual understanding between the field and Washington, (2) hard and enthusiastic work by the field staffs, and (3) the willingness of the Washington staff to travel continuously. The Washington staff realized that, since it was impossible to obtain the same information at each district office, adjustments had to be made, and the field appreciated Washington's job in trying to coordinate the simultaneous work of 24 audit staffs.

The lesson is obvious: We are on the same team and we do our best when we all pull together!

World's Granary

. . . I hope, some day or another, we shall become a storehouse and granary for the world.

George Washington
1788

721772

D. L. SCANTLEBURY and JOHN R. SCHULTZ

Lessons We Can Learn from the Equity Funding Scandal

A major fraud in a private investment-insurance company has some old lessons in it for auditors—in GAO and elsewhere: check all control procedures carefully, require convincing evidence, and take nothing for granted.

In the late 1960s and early 1970s the Equity Funding Corporation of America was the darling of Wall Street. Its reported earnings were excellent, its prospects ballooning, and the value of its stock soaring. On Sunday, April 1, 1973, the bubble burst. Its Board of Directors met that day and listened incredulously as a story of extensive fraud began to come out.

As the word leaked to the outside world, some thought it was an elaborate April Fool's joke; others *hoped* it was. Soon all had to accept the fact that fraud existed and that it was very severe. What had appeared to be one of the most imaginative and profitable marketing

schemes of our time turned out to have reached its eminence through one of the biggest frauds that had ever existed in the United States.

It was imaginative all right. When the dust settled, the court-appointed trustee reported that the \$737 million of assets which the corporation reported on its last financial statement was overstated by about \$185 million. Instead of a net worth of almost \$145 million, the corporation was in the red by about \$40 million. Furthermore, the consolidated financial statements for Equity Funding and its subsidiaries had been audited annually by independent public accounting firms. A separate firm had also

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Mr. Schultz is a supervisory auditor in the Financial and General Management Studies Division. He received a B.S. degree in Business Administration from the University of Kansas and joined GAO in 1968. He has attended the Wharton-GAO Information Systems Program and is currently working toward an M.B.A. at George Washington University. Mr. Schultz is a member of the Association of Government Accountants and is on the board of directors of the National Capital EDP Auditors Association.

audited one of the company's main subsidiaries. However, these audits did not result in public disclosure of the fraud. The question of how such a gigantic hoax could be staged without being detected by auditors, customers, or business associations was soon a matter of concern to all interested in business and the stock market.

We have made a study of the available information and tried to assess its importance to GAO auditors. All the information available to the authors of this article was obtained from the sources cited later; therefore, our knowledge of the details of the fraud is not as complete as we would like it to be, and our conclusions are based on second-hand information. The results of our study follow.

History

The predecessor of Equity Funding Corporation was organized in 1959 by a man named Gordon McCormick, who was an insurance and mutual fund salesman. He perceived that insurance and mutual funds seemed to have some common objectives as far as the purchaser was concerned, so he formed a company to deal in both. The company was called the Tongor Corporation, for the first three letters of his wife's and his own first names. Two of McCormick's principal associates in the firm were Michael Riordan and Stanley Goldblum who, in 1960, along with two others bought McCormick out. In 1961 they changed the name of the company to Equity Funding Corporation of America, and Riordan and Goldblum emerged as the dominant figures.

Riordan, the company's Executive

Vice President and Chairman of the Board, was "Mr. Outside." He was a promoter, liked to mix with celebrities, and enjoyed an endless round of parties. Goldblum was "Mr. Inside." He managed the organization and stayed in the background.

In addition to their roles in the company they were dissimilar in other ways. While Mike Riordan bought his clothes off the rack, Stan Goldblum was a stylish dresser, and he furnished his home and his office lavishly. Both were big men physically, but Goldblum was the bigger in appearance. He stood 6'2" tall, but his excellent physique (he lifted weights religiously) made him look even more impressive.

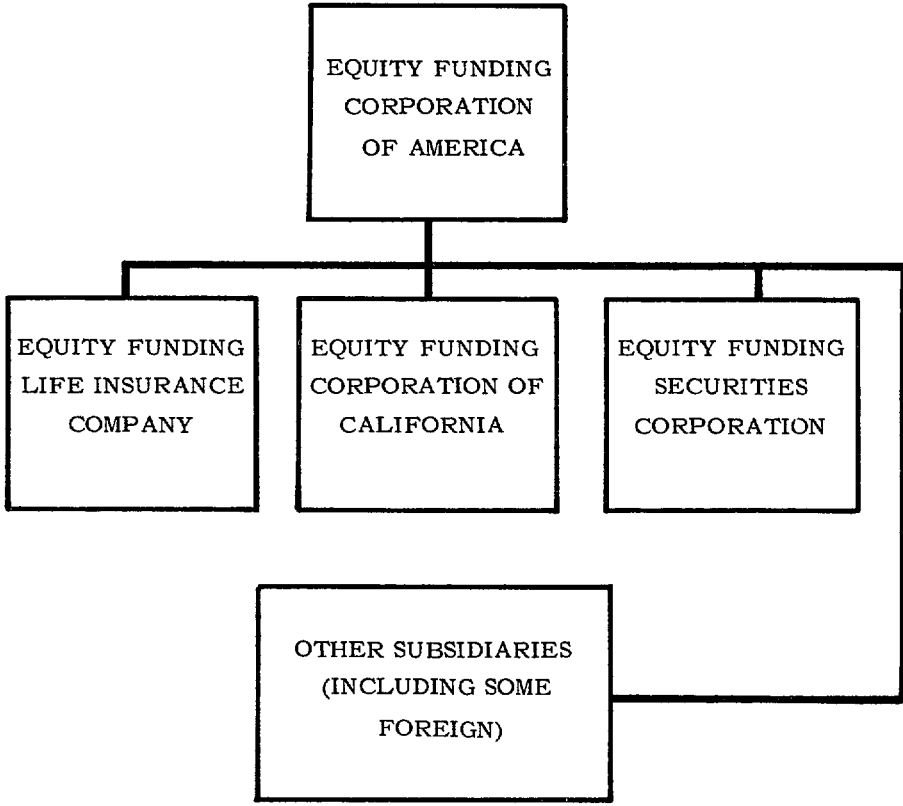
In the 1960s Equity's published reports pictured the new company as prospering. But, 1969 was a disastrous year. California was beset by a series of heavy rains causing extensive mudslides in the hills outside Los Angeles. In a sequence of events reminiscent of a disaster movie, Mike Riordan was trapped in his bedroom in a sea of mud. Firemen attempted to rescue him, but before he could be extricated, he drowned in a second mudslide.

After Riordan's death, Goldblum, who had been President, took over complete control of the company. He and about 20 other Equity Funding employees were charged with involvement in the fraud after it was uncovered in 1973.

Organization

To explain the fraud, we have simplified Equity's organization in figure 1. According to the trustee, Equity Funding's organization was as follows:

FIGURE 1
EQUITY FUNDING CORPORATION
OF AMERICA



- Equity Funding Corporation of America—the parent company.
- Equity Funding Corporation of California—the primary insurance marketing agency which marketed policies written by other insurance companies, including Equity Funding Life Insurance Company.
- Equity Funding Securities Corporation—a broker/dealer through which mutual fund shares were sold to program participants. This company made the sales on behalf of the fund distributor.
- Equity Funding Life Insurance Company—until 1968, Equity Funding only marketed insurance policies for other insurance companies. But, realizing that the selling part of life insurance is the least

profitable part, it acquired, in 1967, the Presidential Life Insurance Company of America, which later became Equity Funding Life Insurance Company. This subsidiary, plus some others, later began actually to write policies for their programs. The policies were marketed by Equity Funding Corporation of California and other subsidiaries as agents.

The other subsidiaries included insurance, oil and gas, real estate, and livestock companies and foreign companies, some acquired secretly. Most of the foreign companies were never serious business enterprises for Equity Funding, but they were involved in the funding fraud.

Operating Methods

In a typical Equity Funding program, the participant undertook to purchase a life insurance policy and to invest in mutual fund shares over a 10-year period. The participant paid cash for the mutual fund shares. Equity Funding paid his life insurance premiums, recording the payment as a loan to the participant and retaining the mutual fund shares as collateral to secure the loan. In essence, the equity in the participant's mutual fund investment was used to finance (fund) his purchase of an insurance policy. Hence, the package was called an equity funding program, and the loan itself a funded loan.

As the renewal premium on the insurance policy and interest on the funded loan became due each year, the loan was increased to cover these costs. At the same time, the participant purchased

additional mutual fund shares in an amount at least sufficient to secure the increased loan. On Equity Funding's books, the asset representing the loans to program participants was called "Funded Loans Receivable."

The company's income from the program at first was from commissions for selling mutual fund shares and insurance policies and interest on the funded loans to participants. Later, when the insurance company began issuing policies, the company also realized premium income and income derived from reinsurance operations.

The Fraud

Much has been written about the Equity Funding fraud, but some confusion still exists about what happened. Was it a computer fraud? Was it an insurance fraud? How did the conspirators benefit?

According to available data, Equity Funding was a securities fraud. The effect of the fraudulent actions was to make the company look like a growing, profitable concern. This kept the price of the company's stock high. The principals involved were the major shareholders and benefited from the high value of the stock.

The trustee reported that several methods were used to perpetrate the fraud. They may be classified broadly into three types:

- Phony program sales.
- Free credits.
- Bogus insurance policies.

Phony Program Sales

In our earlier explanation of an Equity

Funding program, we noted that loans made by the company to purchasers of the plan were carried on the books as Funded Loans Receivable. So if one wanted to claim more program sales than actually existed, he would have to increase the balance in this account to reflect these sales. That is exactly what the Equity conspirators are alleged to have done.

The most intriguing point about how this was done is its utter simplicity. Only manual entries were made in the company's books; no effort was made to provide documentation for the entries. In addition, no one attempted to conform the individual customers' accounts to the overall totals. As the trustee points out, this part of the fraud was easily perpetrated by a few people, so the risk of discovery was minimized.

Free Credits

This name was given by the fraud participants to another device. The trustee's report indicates that Equity's conspirators simply did not record borrowed money on the books as liabilities. Instead of crediting a liability account, they made a credit entry to the Funded Loans Receivable account, thereby reducing the debit balance in the account. This gave the appearance of funding program participants paying off their loans. The term "free credit" is said to have been coined by the conspirators to describe their accounting treatment for such transactions.

Bogus Insurance Policies

The most widely publicized aspects of the Equity Funding scandal—and the first one to be discovered—was the in-

surance fraud. However, until 1968, Equity Funding's role in the insurance business had been as a marketing agent for insurance underwriters. Realizing that the selling end of the business was not the most profitable part, Equity's officers moved to establish the company as an insurance underwriter.

The corporation acquired a small insurance firm, which became the Equity Funding Life Insurance Company. The parent corporation also acquired some other insurance companies, but Equity Funding Life played the major role in the fraud. With these companies in its fold, Equity Funding sold its own insurance as part of its programs.

To generate operating cash, Equity followed an established industry procedure called "reinsurance." That is, it wrote policies, then sold them to other insurance companies which assumed some or all of the risk. Equity Funding received as payment as much as 190 percent of the first year's premiums. In succeeding years Equity collected the premiums and received a fee for doing so, but the major portion of the premiums went to the reinsurer.

Equity had an agreement with one of its reinsurers, Pennsylvania Life Insurance Company, for an option to purchase stock in that company. That option could only be exercised if Equity had sold a certain amount in face value of insurance policies for Pennsylvania Life.

In 1968, it became apparent that Equity would not reach its quota. If it failed to do so and could not exercise what was a valuable stock option, the growth pattern of Equity Funding would have been broken. That would have ad-

versely affected Equity's own stock. This result was deemed unacceptable and corrective measures were undertaken.

They began relatively simply. Equity Funding sold life insurance to its own employees, but forgave them the first year's premium. Equity then sold them to *Pennsylvania Life* through reinsurance agreements. The employees got a year's free insurance, Equity exercised the stock option, and all was calm—until the second year. The trustees' report indicates that many employees who received free insurance canceled in the second year when they would have had to start paying premiums.

To continue to meet the quota for reinsurance, Equity started listing pending business as insurance actually in force. Pending business was insurance for which applications had been taken but not finally approved or paid for. This business was also reinsured as if insurance contracts had actually been issued. Not all the pending business was finalized. This left Equity owing *future years' premiums to reinsurers on policies that did not exist.*

From this point the trustee says it was but a short step to fabricating policies completely. The Equity conspirators allegedly were more meticulous in creating phony backup documents this time. According to our sources, they opened a "mass marketing division" office in a small brick building across the street from the Beverly Hills Tennis Club on North Maple Drive. This office, unknown to most Equity employees, was a phony insurance documentation factory, staffed by what became known as

the infamous "Maple Drive Gang." Here clerks prepared the bogus policies from scratch to show auditors upon request.

The phony insurance scheme had a serious drawback. After the first year of each policy's existence, the companies with which Equity reinsured it would expect to receive premiums from policyholders. So Equity had to keep generating more cash to cover these premiums as well as to finance its own operations. They did this by creating and reinsuring more bogus policies. They were caught in an infinite pyramid.

How Much Was Involved?

The trustee estimated that \$185 million in Equity's reported assets—about 24 percent—did not exist. At yearend 1972, Equity Funding claimed to have \$3.2 billion in life insurance policies (face value in force). Of this amount, \$2.1 billion was fictitious according to the trustee's report. This was about 56,000 out of 97,000 policies, according to another source.

How Did They Fool The Auditors?

It may seem inconceivable that a scheme this massive could have been hidden so long from Equity Funding's auditors. All in all, three public accounting firms had an opportunity to scrutinize all or part of Equity's operations, but their work did not result in public disclosure of the fraud.

Equity's trustee, Robert M. Loeffler, has sued the three accounting firms for

many millions of dollars. *The Journal of Accountancy* reported that three members of one of those firms—Wolfson, Weiner, Ratoff, and Lapin—have been convicted of crimes stemming from the fraud.¹

There are those who argue the auditors had to be intimately involved in the fraud. The trustee calls the auditors negligent and says they aided and abetted the crime. The record is not clear on this point, but if the auditors were in on it, Equity Funding officials took considerable pains to try to fool them anyway. A study of how they did it shows a combination of international financial dealings, use of the computer to throw up a smokescreen, and auditing procedures that the trustee said were not in accordance with accepted standards.

The 1968 Audit

The 1968 Wolfson, Weiner audit highlights Equity officials' attempts to mislead the auditors and some auditing approaches which enabled Equity to carry it off.

To begin with, no one could find the Equity Funding Corporation of California's general ledger. Equity's controller had to reconstruct the yearend financial position from a September trial balance.

One account in particular, the Funded Loans Receivable account, gave the auditors trouble. This account had been increased to reflect the supposed increase in sales of Equity's insurance/mutual fund-backed loan plan. However, since many of the sales were fictitious, no support for the \$36

million balance in the account existed. In fact, the auditors only accepted about \$11 million as confirmed, leaving a \$25 million discrepancy.

According to the trustee's report, Equity explained much of the discrepancy to the auditors by saying it was a common practice for mutual funds to give extra commissions, or give-ups, to sales agents to encourage them to increase sales. Even though stock exchange rules did not permit Equity Funding to receive these give-ups, it told the auditors it still received them. Obviously, Equity could not report improper payments; nonetheless, if one wanted a true picture of Equity's financial position, one would have to include this money somewhere, according to corporate officials.

Equity officers assured the auditors the payments really were company assets, and the auditors are said to have believed them. The trustee's report indicates the auditors made no attempt to verify that the money existed. One Wolfson auditor, who was in charge of the Equity audit, at this point is said to have pressed for better backup for the balance claimed. He was reassigned to another Equity Funding project and, the trustee maintains, the auditors accepted unsubstantiated explanations for \$25 million of Funded Loans Receivable.

Equity's auditors are alleged to have accepted unsupported or loosely documented explanations of other assets as well. These included several million dollars in notes receivable placed by companies that were only shell organizations secretly owned by Equity Funding. These notes were signed by officials who

¹ *Journal of Accountancy*, September 1975, p. 14.

never existed and were laundered through intercompany accounts among several foreign subsidiaries. According to the trustee, a reasonable amount of checking could have determined that the companies placing the notes had no substance to back them up, but apparently the auditors did not bother to find out.

How Was the Computer Used?

Many computer experts, as well as Equity's trustee, do not consider the crime a computer fraud. Perhaps this is because the essence of the fraud did not depend on "rigging" regularly used computer programs. However, without the computer the phony insurance aspects of the fraud probably would have bogged down much sooner because of the sheer weight of detail.

The computer created and kept track of phony insurance policies at the insurance company. It was also used to construct other phony records and to process premiums due reinsurers and death benefit claims for phony policyholders who "passed away." But the main question is how the computer was used to help fool the auditors.

During the 1972 audit, auditors tried to look at the support for the Funded Loans Receivable account. They asked for a computer printout listing the Equity Funding programs in effect.

Equity claimed to have about 50,000 programs by yearend 1972. In fact, it only had about 20,000. The problem was how to make the auditors believe all 50,000 existed.

The problem was solved adroitly. Computer tapes of the 20,000 good programs were rerun enough times to pro-

duce a list of sufficient length. Each computer record of a funding program was identified by a five-digit number, but on the printout only the last three digits were printed, making repetitions look less suspicious.

Equity's auditors allegedly accepted this list from which they selected 2,000 programs to verify. One of the conspirators supposedly ran the sample back through the computer, retrieving actual names and addresses and identifying duplicate selections.

For the duplicates which represented nonexistent programs, the Equity staff substituted names and addresses of conspirators or friends and provided them to the auditors. When the auditors sent confirmation letters to them, the letters were appropriately completed and returned.

Where Did the Auditors Fail?

The trustee has accused all three firms which audited Equity Funding of performing their duties in a negligent manner, failing to employ properly trained or reasonably skilled personnel, failing to use good care, and making a few more mistakes as well. We can classify their alleged shortcomings as follows:

1. *Failure to examine underlying detail*

One official involved in the fraud investigation has been quoted as saying the auditors did not willingly participate in the fraud, but they were "induced to look the other way, or not look at all."¹ Much of the information that has come to light indicates that Wolfson, Weiner auditors accepted the existence of sub-

¹ *Fortune*, August 1973, p. 132.

stantial assets without examining the support for it. Instead, they apparently often accepted explanations by Equity officials, without support for those explanations.

Included in this category is the method in which confirmations were handled. For example, Equity claimed investment holdings and notes receivable (mentioned earlier) that never existed. Wolfson, Weiner auditors sometimes apparently were fooled by letters confirming account balances forged by Equity officials. Once, conspirators even set up a phony branch bank (with a name almost identical to a well-known bank) to which they had auditors send a letter to confirm the existence of Equity investments held there. Greater care in handling confirmations should have resulted in detection of this fraudulent response.

2. *Acceptance of information from computers*

The auditors had no control over the information provided by Equity's data processing staff. They allegedly accepted printouts without knowing how they were produced.

According to the trustee's report, the auditors simply asked for data and took whatever the data processing staff provided them. So great was the separation of the auditors from the computer that the head of Equity's systems and programming staff is quoted as saying after the fraud was exposed that the auditors never set foot inside the data center and did not conduct audits of the data processing department.

3. *No review of internal controls*

Equity's trustee describes its books and records as "a literal mess." He be-

lieves the company never had adequate internal controls in many areas. Internal controls at Equity Funding were so poor, one consultant to the trustee speculated, that even the conspirators did not know the company's true financial position. Various subsidiary companies' books were out of balance on intracompany transactions. There were no monthly closings. There was no internal audit group.

The trustee goes on to state that, if the auditors had done their job and required Equity to maintain orderly records and to develop adequate control procedures, it would have been impossible for the conspirators to have launched the funding fraud.

This lack of control extended to the data processing operations. The controls were so lax, said the trustee, that various individuals were using Equity's computer to generate fraudulent checks for themselves.

The trustee believes that one of the accounting firms was seriously deficient in not reviewing data processing procedures. Had they done so, information gained from the computer would have been held suspect at best.

What Can We At GAO Learn From This Experience?

It appears that generally accepted auditing procedures, faithfully followed, should have uncovered the fraud.

The AICPA Special Committee on Equity Funding reached about the same conclusion. Its view is that the scandal does not point out a need to revise generally accepted auditing standards, with

the exception of procedures relating to confirmation of insurance-in-force. The committee believes that "customary audit procedures properly applied would have provided a reasonable degree of assurance" that the fraud would be detected.

One can conclude that, to avoid further cases like Equity Funding, auditors need to follow good auditing practices faithfully and make careful tests of internal controls. And they must understand the computer system and be able to control the data they get from it.

What Is GAO Doing?

For several years, GAO has been upgrading its ability to work in a data processing environment. We began a decade ago by using standardized retrieval software (Auditape) to control the data obtained from agencies' computers. Today we have a staff of programmers, analysts, and other specialists who can conduct reviews in sophisticated computer environments. We not only use standardized retrieval programs but also write our own programs to aid in reviews. We provide staff support functions to regular audits and conduct reviews of data processing facilities management.

At the date of this writing, we are working on a risk analysis concept of auditing. Under this concept, the auditor first determines the extent to which he relies on computer-produced products in his job; then he assesses the system's internal controls to determine how confident he can be that the information produced will be accurate. The auditor can then decide how extensive

his audit tests must be.

In addition we have begun our own study of computer-related crimes in government. None of them has been in the same league with Equity Funding, but our analysis of these cases reinforces our view that we must be able to deal directly with the computer without any intermediaries.

We realized the necessity of upgrading our ability in computer auditing long before the Equity Funding scandal broke. But the revelations from this and from our work in studying computer-related crimes in government confirm the necessity for continuing to increase our ability to cope with computers. Computers are continually getting more complicated and more difficult to audit. We, in turn, must be constantly working to improve our capability so that the technology won't leave us behind.

The need to understand the computer is only part of the lesson. Few cases point out so well the need for auditors to follow sound auditing procedures in all their work and to be constantly alert for peculiar or unexplained transactions which may be indications of significant problems. In our training programs we stress the use of sound auditing procedures in our work as explained in the Comprehensive Audit Manual. These standards include the use of due professional care in all our work and require us to make a careful review of the effectiveness of management controls. Our internal review process, from basic on-the-job supervision through final report reviewing, also plays an important part in insuring the quality of our work. These standards and procedures exist for a reason. The Equity Funding scandal is

an example, albeit an extreme one, of how failure to follow them can lead to disaster.

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On Bribes and Kickbacks

I am a strong advocate of the American system of free enterprise and of a competitive economy. When a business seeks to obtain orders or make sales through bribes and kickbacks, it not only undermines competition in the marketplace, it seriously erodes the reputation of the American business community. This cannot be tolerated.

William E. Simon
 Secretary of the Treasury
 and Chairman of the Emergency
 Loan Guarantee Board
 February 19, 1976

721773

ROBERT B. MANGUM, JR., ROBERT E. SHELTON,
and JENNIE S. STATHIS

The Pot at the End of the Rainbow May Be Empty

How sound is the Federal civil service retirement and disability system? An understanding of the workings of this system and its funding is important to all GAO staff members, as well as thousands of other Federal employees.

When you are ready to retire, will the Government be able to pay your annuity? This is more than a frivolous question. New York City's financial problems have been attributed, in part, to the vast sums needed to fund city employees' pension plans. The percentage of the Federal budget needed to finance employees' retirements increases every year.

Federal employees also contribute to the program—7 percent of pay. The main benefits we expect are:

- A retirement annuity after the required number of years, with the

option of providing annuities to our survivors.

- A disability retirement annuity if, after 5 years' service, we become unable to do our job.
- Annuities for our survivors if we die after 1½ years' service.

In our personal financial planning, we must have some assurance that the Government will keep its promises.

GAO has been concerned about adequate retirement funding for a long time. In recent years the Federal Personnel and Compensation Division of GAO has been reviewing various retire-

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ment issues from three perspectives—employer, employee, and taxpayer. This article sets forth three aspects of the civil service retirement program on which we recently testified—method of funding, process of adjusting annuities, and disability.

Not counting a number of small systems, there are 10 major Federal and District of Columbia staff retirement systems:

- Civil service
- Uniformed services
- Foreign Service
- Federal judiciary
- U.S. Tax Court Judges
- Federal Reserve Board
- Tennessee Valley Authority
- D.C. Police and Firemen
- D.C. Teachers
- D.C. Judges

Together they had about \$201 billion unfunded liabilities at the end of fiscal year 1973. No uniform practices or principles exist on financing these various retirement systems. Some are on a contributory basis; others are noncontributory. Some provide for fully funding benefits as they accrue, some for partial funding, and others are completely unfunded. Lacking a coherent, coordinated Federal retirement policy, programs have evolved and developed in a piecemeal fashion, resulting in the creation of duplicate and inconsistent benefits.

The civil service retirement system—which provides annuities for GAO employees—is the largest of these systems. Although our following comments are limited to the civil service system, much of what we say also pertains to other Federal systems.

Retirement System Funding

The last major change to civil service retirement funding policies occurred in 1969 with the enactment of Public Law 91-93. Prior to this change, the only contributions to the retirement fund consisted of agency and employee contributions of 6.5 percent of pay each. Estimates at that time indicated that the fund would be bankrupt by 1987 unless funding changes were made.

The 1969 legislation increased both agency and employee contributions to 7 percent. It also required the Government to make additional annual contributions to the retirement fund, including:

- Payments by the Treasury for (1) interest on the unfunded liability and (2) the cost of allowing retirement credit for military service.
- Annual appropriations to fund new liabilities created by employee pay increases, liberalization of retirement benefits, or extension of retirement coverage to new groups of employees.

While the intent of the 1969 legislation was to lend stability to the retirement fund and retard the growth of the unfunded liability, this intent has not been fully realized.

Retirement funding remains a serious growing problem that needs further attention. Both the Government's contributions to the fund and the unfunded liability are growing at alarming rates. During fiscal years 1970 to 1974 the Government's contributions increased by 147 percent—to \$4.8 billion, or 14.7 percent of the payroll. The unfunded liability increased by 46 percent to \$77

TABLE 1
Government Contributions

<i>Fiscal year</i>	<i>Dollars (000,000 omitted)</i>	<i>Percent of payroll</i>	<i>Unfunded liability (000,000 omitted)</i>
1970	\$ 1,952	7.59	\$ 52,804
1971	2,663	9.82	58,616
1972	3,327	10.95	63,481
1973	3,902	12.99	68,677
1974	4,840	14.72	77,032
1975	6,463	18.02	97,075
1976	7,671	20.18	104,200
1977	9,017	22.38	111,831
1978	10,516	24.62	119,986
1979	12,186	26.92	128,690
1980	14,041	29.26	137,942
1981	15,292	30.06	148,537
1982	16,666	30.91	160,592
1983	18,172	31.80	174,215
1984	19,820	32.72	189,522
1985	21,609	33.65	206,639

billion. Assuming the same yearly average pay and cost-of-living increases (6 percent) as occurred in fiscal years 1970 to 1974, by 1985 the Government's annual contributions to the fund will increase another 350 percent to \$21.6 billion, or about 34 percent of pay, and the unfunded liability will increase another 168 percent to about \$207 billion.

Table 1 shows Government contributions and the unfunded liability for 1970 through 1974 and projections through 1985.

What is causing the growth in contributions and unfunded liabilities? Contributions have increased for the most part because of employee pay raises and the funding changes required by the 1969 legislation. The unfunded liability continues to increase because the 1969 legislation excluded annuity cost-of-living adjustments from the

funding requirements. These adjustments have occurred frequently and in large amounts.

The normal cost of a retirement system is the average percentage of new employees' salaries that must be paid into the fund from the time they begin employment until they leave in order to accumulate sufficient funds to pay their benefits. Normal cost, as currently estimated by the Civil Service Commission, is about 13.6 percent of pay, or slightly less than the combined agency and employee contributions of 14 percent.

But the Commission does not consider increased benefits payable because of future pay increases and annuity adjustments in the actuarial determination of normal cost. As a result, the true cost of providing retirement benefits is significantly understated. The latest report of

the retirement system's Board of Actuaries showed that normal cost would actually be about 28.7 percent of pay if the cost calculations included the very conservative assumptions of annual general pay increases of 3 percent and Consumer Price Index (CPI) increases of 4 percent.

The 1969 legislation recognized that increased liabilities caused by pay raises are not covered by agency and employee contributions and required the liability associated with each pay raise to be funded over a 30-year period through appropriations to the retirement fund. For cost-of-living adjustments, however, only the annual interest payments on the added liabilities are required by the 1969 legislation. The unfunded liability will continue to grow each time an annuity increase is granted.

Retirement system financing should be a major concern of the Congress, employees, and taxpayers. Employees should be assured that the retirement fund is sound. At the same time, they should not be misled to believe that they are paying half the cost of their retirement benefits. Similarly, the proper recognition of retirement costs would enable the Congress not only to make well-informed decisions on retirement matters but also to better evaluate the cost effectiveness of agency programs. As shown in table 2, agencies actually incur greater costs than their budgets show.

The preferable approach to retirement funding would require cost recognition and funding on a dynamic basis, with full consideration of the effect of pay increases and cost-of-living adjust-

TABLE 2

<i>Costs incurred in 1974</i>	<i>In billions of dollars</i>	<i>As percent of payroll</i>
Employee contributions	\$2.3	7.0
Agency contributions	<u>2.3</u>	<u>7.0</u>
Total	4.6	14.0
Unrecognized costs	<u>4.8</u>	<u>14.7</u>
Total costs	<u>\$9.4</u>	<u>28.7</u>

The Government contributed an *additional* \$2.5 billion, or 7.7 percent of payroll, to cover some of the costs that were not recognized in prior years.

ments on ultimate annuity payments and allocation of all Government retirement costs to agency operations. The extent to which employees should share in the cost of the retirement program is more properly a separate consideration as part of overall compensation policy. As a minimum, however, the law should be amended to require funding of annuity cost-of-living adjustments so that the growth of the unfunded liability can be checked. While it may be a long-range problem, the effect of continuing to grant sizable increases to Federal retirees without recognizing the impact of these costs on the retirement fund is obvious.

One side effect of the underallocation of full retirement costs to agency operations is the hidden subsidy to certain organizations whose programs are required by law to be financed by users of their services. Such Government organizations as the Federal Deposit Insurance Corporation, Export-Import Bank, and the District of Columbia Government contribute only 7 percent of pay to the retirement fund. Thus they do not

pay their full share, and the rest of the cost is borne by the Nation's taxpayers.

The manner in which the retirement system is funded has no bearing on the amount of annuities which must ultimately be paid to annuitants. The issue at hand is essentially one of when and how the costs should be recognized and allocated. Unless all costs are fully recognized as they accrue, the issue for discussion in the future could well be the continued affordability of the retirement system and its impact on the tax-paying public.

Annuity Cost-of-Living Adjustments

A pension system operates on the premise that those who have worked are entitled someday to stop working and receive a retirement income as a right earned through their past service. Inflation—particularly the recent double-digit inflation—shrinks the purchasing power of all Americans. Pensioners, annuitants, and others on fixed incomes are the most adversely affected.

Annuities of civil service retirees and survivors of retirees or deceased employees are automatically adjusted whenever the CPI increases at least 3 percent over the CPI at the time of the previous adjustment and remains at this higher level for 3 consecutive months. Annuitants receive cost-of-living adjustments equal to the highest CPI percentage increase during the 3-month period, plus 1 percent. Annuity increases are effective on the first day of the third month following this period.

Purpose of Annuity Adjustments

It is commonly believed that annuity

adjustments are intended to protect the purchasing power of retirees' annuities. But the legislative history is not clear. When the House Post Office and Civil Service Committee approved the 1-percent add-on feature in 1969, it intended to assure the maintenance of purchasing power by compensating for the timelag between advances in the CPI and the actual adjustment of annuities.

The reasons given by the Senate Post Office and Civil Service Committee in approving the extra 1 percent are generally overlooked. That committee said it wanted the adjustment process to result in an improved standard of living for retirees. This indicated that increases merely to maintain purchasing power were insufficient. Needless to say, this background puts us in quite a quandary when trying to evaluate the process in relation to congressional intent.

Our research has shown that retirees have received greater increases than needed to maintain their purchasing power at retirement. Since the enactment of the formula in 1969, annuity adjustments have totaled 72 percent, but the CPI has risen by only 56 percent. This variance occurred because the 1-percent add-ons are permanent and become part of the annuity base for each succeeding adjustment. Annuities have also increased faster than Federal white-collar pay rates. Since 1969, pay has increased 58 percent, as compared with the 72-percent increase in annuities.

The civil service process bears no relationship to the processes used by most non-Federal employers for adjusting pensions. A 1974 survey by the Confer-

ence Board—an independent, nonprofit business research corporation—of the benefit programs of 1,800 major private employers showed that only 4 percent had pension plans which were automatically adjusted for cost-of-living increases and none provided payments in excess of the percentage rise in the cost-of-living index. In fact, the few plans that had automatic adjustment processes generally had an annual limit on the increase that could be granted. The Tennessee Valley Authority has a similar policy—cost-of-living adjustments may not exceed 5 percent annually.

The civil service adjustment provision is also more liberal than that provided by social security and the Federal Employees Compensation Act (workers' compensation). Like civil service, workers' compensation recipients receive benefit increases whenever the CPI increases by 3 percent and remains at least 3 percent higher for 3 consecutive months. Workers' compensation recipients, however, are not entitled to the extra 1-percent increase, but their benefit increases are effective 2 months earlier. Social security recipients are entitled to annual cost-of-living increases in their benefits representing the actual rise in the CPI.

Can the Government afford to continue giving this liberal benefit? Adjustments are extremely costly—adjustments of 72 percent since November 1969 have increased the unfunded liability by over \$20 billion. Looking ahead, the cost of the 1-percent provision depends upon annual rates of inflation. For example, each 6-percent increase in annuities will generate at

least \$4 billion in additional unfunded liability. Assuming a constant 6-percent annual rate of inflation from 1975 to 1990, it is estimated that the 1-percent provision could cost another \$37 billion by 1990.

If the 1-percent add-on is considered necessary to compensate for the time lag inherent in the adjustment process, it would be a fairly simple matter to revise the process to remove its overcompensating effect. For example, the CPI base could, for purposes of each succeeding adjustment, be increased by 1 percent. Each annuity adjustment would be of about the same magnitude as that produced by the current method, but adjustments would generally occur less frequently—the difference being the number of months it would take for the CPI to rise by an additional 1 percent. The same end result could be achieved by eliminating the 1 percent and making the adjustments effective 2 months earlier.

Frequency of Adjustments

Annuity checks are sent monthly to 1.4 million annuitants. Each cost-of-living adjustment adds to the cost and administrative workload to prepare the changes and send the initial check. Also, each scheduled annuity increase tends to cause a large number of additional retirements which add to the workload.

The present policy of granting adjustments each time the CPI increases by 3 percent may have outlived its usefulness. When automatic adjustments began in 1962, the process called for an annual adjustment if the CPI had risen at least 3 percent during the preceding

year. The process was changed in 1965 to gear adjustments to monthly changes in the CPI because the annual process had not produced an adjustment. Although the legislative history is silent as to the anticipated frequency of adjustments, it appears that the monthly process was never intended to trigger an adjustment more often than annually. The annual rate of inflation in 1965 was slightly less than 3 percent, and it would have taken over a year for the process to trigger an adjustment. Annuitants received a legislated increase in 1965, but the first automatic adjustment did not occur until January 1967. The next two adjustments occurred at approximately 1-year intervals.

The situation today is vastly different. The high inflation rates experienced since 1973 have resulted in annuity adjustments about every 6 months. There have been six adjustments since the beginning of fiscal year 1974.

The civil service adjustment process could be regularized by providing for annual adjustments. Such a policy would be consistent with the process used under social security and the processes used for adjusting the pay of Federal employees.

Initial Adjustment for New Retirees

The law permits retiring employees to benefit from CPI increases which occurred while they were still employed. They can receive a higher starting annuity which reflects the preceding general annuity cost-of-living adjustment, and they can receive an additional adjustment immediately upon retirement. Such increases tend to (1) inflate the

basic annuity upon which succeeding adjustments are applied, (2) encourage experienced employees to retire rather than to continue working, and (3) escalate the costs of retirement.

The amount of a civil service retirement annuity is determined by a formula which considers an employee's average salary during his 3 consecutive highest paid years and his years and months of service, including unused sick leave. The earned annuity is a direct function of the average salary and length of service and usually increases proportionately to those two factors.

But an anomaly was introduced into the retirement system along with the periodic CPI-related adjustment provision. The 1965 law provides that cost-of-living adjustments are applicable to all annuities payable on the effective date of the increase. That provision permits an employee who retires on that date to receive a higher starting annuity than an employee who retires the following day.

Historically, pay increases have exceeded increases in the CPI, but this is no longer true. Beginning with 1973, the high rate of inflation and the provision permitting immediate annuity increases for new retirees created an inversion problem for employees who were eligible to retire. For the most part, a decision to remain on the job resulted in lower future annuity payments. This problem was particularly significant for those employees whose pay rates were frozen.

To correct this anomaly, the law was changed in 1973 to guarantee a retiring employee a basic annuity at least equal to the annuity he could have earned at

the time of the last cost-of-living increase, plus that increase. That amendment, which was designed to deter mass retirements immediately before a scheduled cost-of-living increase, actually serves to encourage retirement. It allows employees who retire immediately *before* a cost-of-living increase to receive that increase and to have the preceding cost-of-living increase considered in their basic annuity calculation.

In fiscal years 1972, 1973, and 1974, most eligible employees timed their retirements to coincide with scheduled annuity increases, enabling them to receive higher starting annuities. It would seem logical that Federal employees should earn a higher basic annuity by continuing to work rather than by retiring early. We believe that the annuity adjustment policy should be changed by requiring proration of each retiree's first annuity adjustment to reflect CPI increases after the date of retirement. This would insure higher basic annuities for continued Federal service and encourage valuable employees who are considering retirement to remain. Additionally, it would eliminate the need for the annuity guarantee provision of the 1973 amendment.

Disability Retirement Policies

Another drain on the retirement fund is the increasing number of disability retirements. From fiscal year 1970 to 1974 the number of employees who retired because of disabilities increased from almost 17,000 to more than 30,000. Other types of retirement also increased during that time, so the per-

centage of disabled annuitants actually decreased from 26 to 23 percent. But they total more than 238,000, and during fiscal year 1974 the Civil Service Commission paid them benefits totaling \$870 million.

Under the civil service system, total disability means the employee cannot satisfactorily and efficiently perform his current duties or the duties of a similar position because of disease or injury. No provision exists for partial disability. An employee who cannot perform one essential function of his current job qualifies for total disability. The employee is not necessarily disabled for all types of work.

A Presidential policy statement and Commission regulations stress that disability retirement should be given ample weight only after efforts at reassignment have been made. Quite frequently, disabled employees are able to perform meaningful and productive work, but many disincentives prevent their continued Government employment. Employees are not obligated to accept reassignment; those who do lose their basis for disability retirement—inability to perform the previous position. By refusing reassignment, a disabled employee can receive an annuity for life, a substantial tax break, and earn additional money if he obtains outside employment. In some States an annuitant can also qualify for unemployment compensation.

Many employees now on the disability rolls perform productive work outside the Government and continue to receive disability benefits. If carried out, job modification or reassignment could provide meaningful employment to these

employees and retain valuable skills in the Government.

As previously stated, these are only three facets of many retirement issues we have been reviewing. But all three are very significant in adequately recognizing and funding retirement costs.

In summary, the authors believe the Government should recognize all costs, allocate them to agency operations, eliminate the overcompensating effect of cost-of-living adjustments, and retain employees when possible instead of retiring them on disability.

Why Are We?

Why is the United States of America? What are we trying, through our government, to be and to do? Surely a central theme of our national experience is that incandescent phrase from the Declaration of Independence, that all men—they didn't mean women too, but we do—are born equal, with "unalienable" and equitable rights.

And the most durable American idea about our institutions is that equity can only be assured by checks and balances that prevent any one person or group from gaining too much yardage at the expense of others.

Harlan Cleveland
"We Took Our Eye Off the Ball"
in *The Virginia Quarterly Review*
Autumn 1975

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THOMAS F. WILLIAMSON

GAO Goes to Court: The Impoundment Case

A review of the background and issues in the first lawsuit ever initiated by the Comptroller General in his own right.

On April 15, 1975, the Comptroller General of the United States filed in the United States District Court for the District of Columbia a lawsuit that attracted widespread attention both within and outside the Government.

The suit was unique in several respects. It was the first time the Comptroller General had ever initiated a lawsuit in his own right, primarily using attorneys of the General Accounting Office. It was the first action brought under the Impoundment Control Act of 1974 (31 U.S.C. 1401, *et seq.*). Finally, it was one of the few times a lawsuit has been brought by one officer of the Federal Government against another in their official capacities.

Named as defendants in the suit were Gerald Ford, President of the United States; James T. Lynn, Director of the Office of Management and Budget; and Carla A. Hills, Secretary of Housing and Urban Development.

This article discusses the origins of the lawsuit, the issues raised by the suit, and its disposition. Due to the complexity and technical nature of many aspects of the litigation, the article does not attempt to present a definitive or complete discussion, but rather a narrative outline of some of the suit's highlights.

Background of the Suit

The case had its genesis in January 1973, when the Secretary of Housing and Urban Development ordered a suspension of the section 235 housing program. This program was designed to assist lower income families to buy homes by subsidizing interest on mortgage payments of single-family units. The suspension was ordered, after reports of widespread abuses and scandal in the program surfaced, allegedly to determine whether the program should be continued, terminated, or modified. It

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was but one of a long series of impoundments ordered by the Nixon administration.

Impoundment—the deliberate withholding from obligation and expenditure of funds appropriated by the Congress—had been ordered occasionally for various reasons by numerous Presidents almost from the beginning of the Republic. Because these impoundments generally were infrequent, the Congress, while often vigorously contesting the actions and never conceding the President's power to impound without congressional sanction, had never taken general legislative action to control or end the practice. Congressional restraint came to an end with the numerous impoundments ordered by the Nixon administration. The result was the Impoundment Control Act.

Procedures of the Impoundment Control Act

The act, approved on July 12, 1974, has a somewhat complex mechanism. Briefly, under the act there are two kinds of impoundments—rescissions and deferrals. A rescission is a congressional action that *cancel*s previously granted budget authority that is still unused and available for obligation. By contrast, a deferral is an executive branch action or inaction that effectively *delays* the obligation or expenditure of budget authority. Rescissions and deferrals are governed by different procedures under the act.

Whenever the President determines that budget authority provided by the Congress for a particular program will not be required to carry out the full objectives or scope of the program, or that

such budget authority should be rescinded for fiscal policy or other reasons, he must transmit a special message to the Congress requesting a rescission of the budget authority. Unless both the House and the Senate pass a bill rescinding the budget authority within 45 days of continuous session after receiving the President's message, the funds proposed for rescission must be made available for obligation.

Whenever the President proposes to defer (i.e., temporarily withhold) budget authority provided by the Congress, he must transmit a special deferral message to the Congress. If either House of Congress passes a simple resolution disapproving this deferral of budget authority, the funds must be made available for obligation. If neither House disapproves, the deferral may remain in effect until the end of the fiscal year, when it must be released or a new message sent to the Congress.

The Comptroller General plays a central role in these procedures. Copies of all deferral and rescission messages from the President must be transmitted to him. The Comptroller General must review each message and inform both Houses of Congress of his findings, including whether he judges proposed deferrals to be "in accordance with existing statutory authority."

If the Comptroller General determines that the President, the Director of OMB, or the head of any Government department or agency has withheld budget authority without the required special message having been transmitted to the Congress, the Comptroller General is required to report this action to the Congress; his report is then

treated for all purposes, including the act's procedures, as though it were a deferral or rescission message transmitted by the President.

Similarly, if the Comptroller General determines that a deferral proposed by the President should have been classified as a rescission, the Comptroller General is required to report this finding to the Congress. Finally, the act authorizes the Comptroller General, when all else fails, to bring a civil action in court "to require [the withheld] budget authority to be made available for obligation. . . ."

The President's Deferral Message and Resulting Action

The Comptroller General's lawsuit had its real beginnings on October 4, 1974, when President Ford transmitted to the Congress, pursuant to the act, a package of proposals for deferrals and rescissions for fiscal year 1975. One of his messages proposed to defer approximately \$264 million¹ in annual contract authority of the section 235 housing program, suspended since January 1973. The President proposed to defer these funds through June 30, 1975.

The so-called deferral of section 235 contract authority was clearly suspect, since the contract authority was due to lapse on August 22, 1975, only 52 days after the earliest date the President would release the contract authority—July 1, 1975. GAO analysts considered 52 days far too short a period within

¹ The amount can be misleading. What was involved was up to \$264 million *a year* for the term of the mortgages. Thus, the total amount of the program ultimately could run into billions of dollars.

which the contract authority could be prudently obligated, if indeed it could be obligated at all. This opinion was reinforced by discussions with HUD program officials.

Subsequently, on November 6, 1974, the Comptroller General reported to the Congress that the proposed deferral should have been classified as a rescission. With this report came a critical legal determination. The law clearly provides that, if he determines that an impoundment is in existence that has not been reported by the President, the Comptroller General must report it to the Congress, and his report is treated for all purposes as if it were a message transmitted by the President.

But what is the status of the messages if the Comptroller General reports that a deferral is improperly labeled, and is, in reality, a rescission? The Comptroller General determined that, in that instance also, his report is to be treated for all purposes as if it were a message transmitted by the President, and that the President's deferral message is nullified. Although this procedure was not explicitly provided for by the act, it is implicit, since the effect of identifying a proposed deferral as a *de facto* rescission is to identify an unreported rescission.

The stage for the lawsuit thus was set. The Comptroller General had sent a rescission message to the Congress, and the Congress now had 45 days of continuous session in which to pass a rescission bill, or else the President would have to release the contract authority at the end of that period.

The 45-day period, due to congressional recesses and the end of the 93d

Congress, was not completed until February 28, 1975. During that period, the Congress did not act to approve the proposed rescission or any part of it. Notwithstanding this refusal by the Congress, the President did not move to make the budget authority available.

The Comptroller then filed with the Congress on March 6, 1975, a notice of his intention to initiate a lawsuit for release of the section 235 budget authority, together with an explanatory statement. The act requires that this notice be filed at least 25 days of continuous congressional session before a lawsuit can be filed.

While awaiting the expiration of the 25-day period, the Senate considered and passed Senate Resolution 61, which read as follows:

Resolved, *That the Senate disapproves the proposed deferral of budget authority to carry out the homeownership assistance program under Section 235 of the National Housing Act (numbered D75-48), set forth in the special message transmitted by the President to the Congress on October 4, 1974, under section 1013 of the Impoundment Control Act of 1974. (121 Cong. Rec. S3839 (daily ed. March 13, 1975).)*

The reasons for Senate Resolution 61, which disapproved the deferral after it had been converted to a rescission by the Comptroller General, were explained in an accompanying report of the Senate Appropriations Committee:

Because of the unique circumstances surrounding the recent implementation of the Section 235 program, the Committee recommends that S. Res. 61, a resolution disapproving the deferral, be passed in addition to our recommendation set

forth below refusing to ratify the proposed rescission of these funds.

By taking both actions, and thus denying both rescission and deferral, the Congress will be sending an unmistakable message to the Executive that these funds must be made immediately available and that no further legal justification now exists for delay.

The Committee has delayed action on this deferral resolution until March 5 so as to permit the 45 day rescission period to expire in accordance with the recommendations of the Committee on the Budget. This preserves the Comptroller General's standing to proceed in court under his rescission reclassification. . . .

Thus, even if the conversion of the deferral to a rescission were struck down by the courts, the lawsuit could still proceed, since the Congress had rejected the impoundment as both a deferral and a rescission.²

Issues in the Lawsuit

Due again to congressional recesses, the 25-day period of continuous session following the Comptroller General's notification to the Congress was not complete until April 12, 1975. On April 15, the lawsuit was initiated with a complaint filed with the United States District Court for the District of Columbia.

The Constitutional Questions

Under district court rules, the defendants in the suit, represented by Jus-

² Predictably, the defendants never recognized the validity of the Comptroller General's reclassification of the deferral as a rescission. Because of the Senate's action, however, it never became a major issue in the lawsuit.

tice Department attorneys, had 60 days within which to file a response to the complaint. That response came on June 16, 1975, in the form of a motion to dismiss the lawsuit.³

The motion to dismiss, however, did not directly address the issues raised in the complaint—the requirements of the Impoundment Control Act—but rather objected to the lawsuit on the grounds that the provision of the act empowering the Comptroller General to bring suit was unconstitutional. The primary grounds for this contention were twofold.

First, the defendants maintained that the lawsuit was an action to “enforce the law,” which is a power that is assigned to the executive branch by the Constitution. The Comptroller General, the defendants asserted, is an officer of the legislative branch and is therefore prohibited from carrying out this “executive” function.

Second, the defendants asserted that the action did not present a “case or controversy” as required by the Constitution to empower the courts to decide a suit. The “case or controversy” doctrine, although often very difficult to apply, in one interpretation requires that a case before the courts be a “real” controversy, and not a phoney one that should be resolved by the parties themselves. The defendants claimed that the

³ On May 30, 1975, the defendants suggested to the court that President Ford be dropped from the suit as a named defendant. The Comptroller General’s attorneys decided that the President was not a necessary party to the suit and agreed to the suggestion. The President was dropped as a defendant by Order of the Court on June 11, 1975, and the suit was thereafter known as *Staats v. Lynn*.

suit might just as well have been titled “*The Congress v. The President*,” and as such would not constitute a constitutional “case or controversy” since, in essence, the Constitution provided means other than the courts for resolving disputes between the branches of Government.⁴

This assault on the constitutionality of the act itself, and on the Comptroller General’s functions under the act, while not altogether unexpected, was rather startling, since by implication it called into question other functions that the Comptroller General had exercised for decades. For example, countersigning Treasury warrants, adjusting public officers’ accounts, issuing advance decisions on proposed expenditures, settling claims and accounts, issuing regulations prescribing accounting forms and procedure, and supervising the recovery of all debts certified by GAO to be due the United States are all arguably “executive” functions. Suddenly, more than the fate of the Impoundment Control Act appeared to be riding on the outcome of the suit; the court’s decision might cause a major reexamination of the Comptroller General’s role in the Government.⁵

⁴ For example, veto power, appropriations power, the election box, and other constitutional “checks and balances.”

⁵ The emergence of the constitutional issues influenced the Comptroller General to supplement his own General Counsel attorneys with outside legal consultants. Subsequently, the Washington, D.C., law firm of Wilmer, Cutler, and Pickering was retained. They joined Professor Arthur Miller of the George Washington University Law School, who had been retained earlier. Both the law firm and Professor Miller were of immense help as the suit progressed.

The Comptroller General filed his reply to the motion to dismiss on July 28, 1975. His 61-page brief made several points on the constitutional issues.

First, he argued that the Comptroller General is not enforcing the law by suing under the Impoundment Control Act. Rather, he is suing to compel the executive branch officials to execute the law by implementing the section 235 program. Therefore, he cannot be said to be performing an executive function.

Second, he argued that, contrary to the defendants' assertions, the Comptroller General is not a purely legislative officer, but an independent officer of the United States appointed by the President, who is assigned duties that can be characterized as both legislative and executive. The key to this argument was the premise that, in carrying out his duties under the Impoundment Control Act, he was not acting as an "agent" of the Congress. The brief stated:

[We]. . . will show that the Comptroller General is an independent officer of the United States. He performs duties that clearly are an adjunct of the legislative process, such as the conduct of investigations and the submission of reports. However, the examination also will demonstrate the fact that while the Comptroller General may be described in some contexts as acting as an "agent of Congress," and for budget preparation and appropriations purposes the Office he heads is regarded as affiliated with the legislature, those characterizations are not at all dispositive of the constitutional issue raised by defendants. We will show he is in no sense an agent when performing his duties under Section 1016 of the Impoundment Control Act, for there, as

*in other instances, the Comptroller General acts as an independent officer who performs non-legislative functions.*⁶

Third, the Comptroller General argued in his brief that, even if he were to be characterized as an agent of the Congress for the purpose of bringing the suit, the suit could still be maintained since the case would be similar to other cases in which Committees and Members of Congress have been allowed to maintain lawsuits to protect their legitimate "legislative interests." Clearly, the brief argued, the Congress has a legitimate legislative interest in insuring that its disapproval of deferrals and its decisions not to rescind appropriations are not nullified by executive officers.

Finally, the Comptroller General took issue with the defendants' argument that the suit did not involve a real "case or controversy" cognizable by the courts. The Comptroller's brief pointed out that this was not a suit by the Congress as an institution against the Presidency as an institution. Rather, it was a suit by an independent officer of the United States against two Government officers who were solely executive, and thereby presented a live, concrete controversy of the type that courts traditionally resolve. And, contrary to the defendants' assertion, the brief pointed out that there is ample precedent for suits between independent officers and executive officers.⁷

⁶ It should be stressed here that "independent" in this sense does not mean that the Comptroller General constitutes some fourth branch of Government, but rather that he exercises independence, in the sense of being fair and objective, in carrying out his functions.

⁷ Suits between two executive officers normally could not be maintained because, since both of-

The Order Preventing the Lapsing of the Budget Authority

The Comptroller General's response to the motion to dismiss was filed on July 28, 1975. However, the time required by the parties to brief the constitutional issues in the case made it clear that the court would not decide the case before the section 235 budget authority lapsed on August 22, 1975. An interim court order was thus necessary to prevent the budget authority from lapsing before the case could be decided.

Accordingly, on August 7, 1975, the Comptroller General asked the court to order the defendants to record the section 235 budget authority as an obligation of the United States. This motion rested on two bases.

First, the Impoundment Control Act itself empowered the court to enter "any . . . order which may be necessary or appropriate to make such budget authority available for obligation." Clearly, unless the court acted to grant the Comptroller General's motion, the budget authority would lapse, thereby making final redress for the Comptroller virtually impossible. On the other hand, if the defendants won the suit, the court's order could be ended and the budget authority allowed to lapse, with no harm to the defendants' cause. Thus, the Comptroller General argued that the interim order requested was entirely appropriate within the intent of the act.

Second, in the alternative, the Com-

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 ficers would be answerable to the President, the court would expect the President to resolve the dispute. Since the President has no such power over an independent officer, the courts must decide the matter.

troller General argued that the court should issue an injunction requiring the budget authority to be recorded as obligated, pending the outcome of the suit. This injunction could have been issued pursuant to title 31, subsection 200(a), of the U.S. Code, which allows budget authority to be recorded as obligated under certain circumstances, including a liability resulting from pending litigation.

On August 20, 1975, the defendants filed a lengthy brief in opposition to the Comptroller's motion, arguing that, for technical reasons, the court lacked the authority to issue the requested order. Notwithstanding this and other points discussed below which were raised in that opposition brief, on the same day the Court granted the Comptroller's motion and ordered the defendants to record the section 235 budget authority as obligated until further order of the court. This Order was appealed by the defendants on August 29, 1975.

Thus, at the end of August 1975, over 4 months after the suit had been filed, important constitutional issues had been raised and briefed but not decided by the court, and the court had ordered that the budget authority in question be preserved pending the outcome of the suit. In addition, the defendants' August 20 opposition brief had raised issues beyond the constitutional ones concerning the Impoundment Control Act.

The Impoundment Control Act Issues

The issues raised in the defendants' August 20 opposition brief not only elaborated on the constitutional issues

raised earlier, but also raised new defenses concerned with the operation of the Impoundment Control Act itself.⁸

The primary new argument raised by the defendants was that the Impoundment Control Act did not apply to impoundments that were initiated before the act was passed. This position would, if sustained, exclude the section 235 budget authority from the jurisdiction of the act, since this authority was originally impounded in January 1973, 18 months before the act was passed.⁹

In support of their argument, the defendants chiefly relied upon the legislative history of a provision of the act (sec. 1001(3)) that provided that nothing in the act "shall be construed as . . . affecting in any way the claims or defenses of any party to litigation concerning any impoundment." They maintained that the legislative history showed that this provision was intended to apply to impoundments in effect at the time of passage. While their argument is too complicated and technical to detail here, it was not wholly without merit.

A second argument advanced by the defendants in their opposition brief was based on language in the act (sec. 1001(2)) that provided that nothing in the act shall be construed as "ratifying

⁸ On August 29, 1975, the defendants filed a "supplement" to their earlier motion to dismiss, which incorporated in that motion by reference the new issues raised in their August 20 opposition brief. Thus, the Court had before it in the defendants' motion to dismiss all the points raised by them in the case to date.

⁹ The defendants contended that the President's deferral message on the section 235 budget authority, which was submitted pursuant to the act, was "informational only."

or approving any impoundments *heretofore* or hereafter *executed* or approved" by federal officials, "except insofar as pursuant to statutory authorization then in effect." (Emphasis supplied.) In fact, the legality of the January 1973 suspension of the section 235 program had been upheld by the U.S. Court of Appeals for the District of Columbia in July 1974, in an action that did not consider the impact of the Impoundment Control Act, (*Pennsylvania v. Lynn*, 501 F.2d 848 (1974)). In the 1974 case, the Court held that the Secretary of HUD could suspend the section 235 program pending a review of its effectiveness. The defendants thus argued that this provision in the act exempted impoundments for which there was statutory authorization, and that the prior court case proved that statutory authority existed for impounding the section 235 budget authority. This argument is also too complex and technical to explain fully here, but again it was not totally without merit.

The Comptroller General responded to these new issues in a motion for summary judgment, which was filed on October 6, 1975.

The Comptroller's position on the first argument that the act did not apply to pre-act impoundments was two-fold. First, he asserted that any impoundment is of a continuing nature, that the act intended impoundments to be considered as such, and that therefore the "pre-act" or "post-act" rationale has no meaning. Second, he argued that, in any event, the legislative history of the act showed that the language that the defendants relied upon to support their argument did not exclude all pre-act im-

poundments, but rather that the Congress intended to exclude only those impoundment cases *in litigation* at the time the act was passed. The Comptroller's suit was therefore unaffected.

On the second point that the earlier case had shown that the impoundment was authorized by law and therefore not subject to the act, the Comptroller also had two arguments. First, the Comptroller maintained that the provision in question was intended merely to insure that the mere enactment of the Impoundment Control Act could not be read to imply that the Congress "ratified or approved" any otherwise unlawful impoundments existing before the passage of the act. More important, however, only 1 month after the earlier case involving the section 235 budget authority was decided, the Congress and the President reaffirmed the validity of the program by extending its life for 1 year and amending it in some respects—all in legislation that in effect overturned whatever Presidential impoundment authority the earlier case had upheld.

The Resolution of the Case

With the filing of the Comptroller General's motion for summary judgment on October 6, the issues in the case were essentially joined, although further supplemental briefing and oral argument before the court was expected. However, the case was destined to come to an abrupt end without a court resolution of the issues when, in a surprise move on October 17, 1975, Carla Hills, Secretary of HUD, announced that the section 235 program would be reactivated in a slightly revised form.

In a news conference explaining the

move, she said that the primary reason for the reactivation was that the Ford Administration was now convinced that the program, in modified form, was needed and would now work. However, she admitted, in response to a question, that the lawsuit had been a "factor" in the decision to revive the program.

With this action, neither party saw any need for continuing the suit, and on October 29, 1975, the parties jointly stipulated that, based on Secretary Hills' action, the suit was moot and should be dismissed. The dismissal was approved by the Court on November 25, 1975, thus ending an historic suit in GAO's history, and, in many ways, in the history of the U.S. Courts.¹⁰

Epilogue

While the issues in the case were never decided finally by the Court, the lawsuit was particularly instructive in several ways.

The pre-act impoundment issue is unlikely ever to arise again, since few, if any, impoundments remain that were initiated before the act was passed. Similarly, the situation of an impoundment being upheld by the Court outside the scope of the Impoundment Control Act is not likely to arise again.

On the other hand, the reclassification of a deferral to a rescission may be the subject of future litigation, as well as another point raised only briefly in the section 235 suit—whether or not a

¹⁰ The defendants' appeal of the Court's August 20, 1975, Order preserving the budget authority was also dismissed on November 25. Ironically, it was the August 20 order that maintained the budget authority so that defendants were able to reactivate the program when they did.

single House of Congress, by simple resolution, can disapprove a proposed deferral if the President has statutory authority to defer other than under the Impoundment Control Act.

The constitutional issues will most certainly arise again. In this respect, the lawsuit was particularly important, because it brought GAO to reconsider and rethink its place and function in Government. The complexity of GAO's role that became apparent in that reexamination surprised many of us.

Since the suit was dismissed, some support for GAO's position on the constitutional issues has been generated by the Supreme Court in the Federal Elections Commission case, *Buckley et al. v. Valeo*, ___U.S. ___, (Jan. 30, 1976). In that case, the Supreme Court struck down certain Commission functions, characterized as "executive," on the basis that the Commission was a legislative body. The court suggested that this conflict could be resolved if all members were appointed by the Presi-

dent. The point was raised in this case that the Comptroller General had previously performed duties similar to the Commission's and the Court noted in a footnote that:

Appellee Commission has relied for analogous support on the existence of the Comptroller General, who as a 'legislative officer' had significant duties under the 1971 Act. Pub. L. No. 92-225, § 308, 86 Stat. 3. But irrespective of Congress' designation, cf. 31 U.S.C. § 65(d), the Comptroller General is appointed by the President in conformity with the Appointments Clause. 31 U.S.C. § 42.

This lends support to the idea that, since the Comptroller General is appointed by the President, he may perform "executive" functions. This conception would validate his role under the Impoundment Control Act, as well as several other laws. In time, the full implication of the Supreme Court's decision will be revealed.

An Auditor for the Seventies

On January 19, 1976, the Washington Chapter of the Institute of Internal Auditors presented its 1975 Person of the Year Award to the Comptroller General of the United States, Elmer B. Staats. The guest speaker on this occasion was Marshall S. Armstrong, Chairman of the Financial Accounting Standards Board, whose remarks follow.

It is indeed a great pleasure to join with you this evening in honoring my friend and colleague, the Honorable Elmer B. Staats. No one is more deserving of your Person of the Year Award, for the contribution he has made to the accounting profession and to government is matched by few, and, I am confident, exceeded by none.

As Chairman of the Cost Accounting Standards Board, and more recently as a member of our Advisory Council, I have had the pleasure of working with him, and have developed a deep respect and appreciation for this man: as an accountant, as a professional, as a manager, and as a man. As Comptroller General of the United States, I feel that Mr. Staats has made a contribution to the development of internal auditing that is probably without parallel. And, his contribution is timely, for this is an era of revolution in internal auditing; an era of unmatched development.

In years past, the internal auditor has had a strong accounting orientation, rooted in the traditions of the financial audit. His primary concerns have been with the integrity of the system of inter-

nal control, and the adequacy of the accounting system to record transactions and report accurately and consistently. This aspect of the function obviously is closely tied to financial accounting, and requires an individual schooled in those skills.

The traditional role of the internal auditor has been almost clerical, the verification of the existence or non-existence of assets, and has presented the internal auditor with limited opportunity for the exercise of professional judgment.

But, that role is changing, and changing rapidly. The 70s presage a new era: an era of increased access to information and increased individual responsibility. The national economy has grown at a rate that was unthinkable a few years ago. New laws, new regulations, and more complex forms of organization have brought into being a multitude of new reporting obligations, both internal and external, portending vastly increased responsibilities and challenges to the internal auditor. And, not to be overlooked is the new sense of public responsibility and morality that charac-

terizes the post-Watergate era, necessitating new types of inquiries and new approaches to auditing by the internal auditor of the 70s—for new types of information are demanded by management, by government, and by the investor. Determining the validity of much of this data will depend upon the internal audit function—causing growth of your profession and probably requiring careful evaluation of the personal characteristics needed to meet these new responsibilities.

A new type of man may be required to meet the challenges of the internal auditor for the 70s. A Renaissance man of sorts, this new auditor will need broad skills, diversified experience, a profound sense of curiosity, and relentless tenacity. He will serve not only as the eyes and ears of management, but will bring judgment, training, experience and discretion to the management team, for these times are bringing to the internal audit function an entirely new dimension.

Let us examine some of the ways in which the new internal auditor will function.

The role of the new internal auditor is nicely summed up by Lawrence Sawyer, a renowned audit supervisor with Lockheed, and a prolific writer on the subject. Sawyer stated, "Modern internal auditing is simply doing what the company president would do if he had the time and if he knew how." This often quoted statement is precise and to the point, and, in my view, suggests clearly a new role available to the internal auditor.

Most importantly, he must have a management orientation. That is, he

must see the problem with the eyes of management and report the information which management itself would have sought. Discussing this subject generally, Elmer Staats once said:

*The General Accounting Office, of which the Comptroller General is the head, carries an important responsibility in assisting the Congress to obtain the facts to assess the efficiency of management and to advise the Congress on whether the programs which it authorizes are achieving their objective.*¹

This auditor clearly sees his responsibilities; he sees his orientation as to the Congress.

In addition, the modern internal auditor has a new type of relationship with management. He works with management in determining the information needed to make decisions, assists in organizing this information so that it will be useful in the decision process and frequently develops specific action-oriented recommendations. No longer does he simply report on existing conditions. Let me illustrate this.

In discussing improved government reporting, Mr. Staats told of a situation where the GAO found that six copies of a 9,000-page report were prepared and distributed six times annually. There was, the GAO found, no documentation as to why the report was developed, what it was to be used for, or who authorized it. On discussion with the recipients of the report, the GAO auditors discovered that one copy was stored away in the event of disaster, two were used as back-up data, two were used occasionally, and one had no use whatsoever. The annual cost of this report was \$10,000. Here was an excellent in-

stance of the internal auditor reviewing management's information needs, analyzing information used, and making a recommendation regarding this information directly to the user.² It is obvious what recommendation was made.

The modern internal auditor must take clear responsibility for information flow—both to and from management. He must be attentive to the information that management needs for decisions and be certain that management receives no more than is necessary. In meeting this responsibility, Elmer Staats once said: *GAO has done, and is continuing to do, a substantial amount of work in identifying Congressional information needs.*³ You will note he sees his responsibility not as passively providing the Legislature that which it requests, but rather as identifying management information needs. This, again, is an excellent illustration of progressive internal auditing: recognizing need and meeting it.

Further, in my judgment, the modern internal auditor has the responsibility to review systems and initiate improvement. The accounting system is essentially an information system and as the internal auditor works within this system, he is in an excellent position to note deficiencies, to recognize problems, and to identify opportunities for improvement. The internal auditor of yore would have accepted this system as it was, feeling that the quality of the reporting system was a controllership matter; this is no longer the case. On this subject, Comptroller General Staats said recently:

GAO is responsible for improving accounting systems in the executive agencies. As we review the systems, we are

*increasingly concerned, not only that the systems produce accurate data in accordance with prescribed principles and standards, but also that the information produced is accepted and used by operating managers. Ultimate actual use is the test.*⁴

Here, is another example of progressive internal audit thinking: reaching for new responsibilities.

Another role which the modern internal auditor must assume is that of controlling the costs of reporting through the elimination of duplication. The internal auditor has an opportunity to identify these problems and to solve them. But to do so—to make this vital contribution to management information needs—he must divorce himself from a pure verification process and expand his horizons. His overall goal must be improved reporting with reduced paperwork.

In addition to having a new orientation, a new type of thinking—seeing himself as the eyes, the ears, *and the arms* of management—the modern internal auditor must broaden his horizons to encompass new functions. Foremost among the new functions demanded of today's internal auditor is program evaluation.

This type of auditing is of relatively recent genesis, its development being principally the product of the Department of Defense, in connection with evaluation of major new weapon systems, and of the cost/benefit ratio studies which have been employed in connection with natural resource decisions.

Program evaluation is now beginning to reach into other segments of govern-

ment, into private health and welfare organizations, and is now being employed in arriving at sound business decisions.

The problems in program evaluation are formidable, and they will pose a real challenge to the modern internal auditor, upon whom this responsibility ultimately must fall. The first of the inherent problems is the frequent absence of clearly stated and identifiable program goals and objectives. In this area the internal auditor can assist program and general management in achieving a clear understanding of program objectives, and reducing this understanding to a concise written statement.

The second of the problems incident to program evaluation is the absence of usable performance data, which in turn is generally attributable to the absence of standards of measurement for performance.

In the area of program evaluation, the GAO clearly has been a leader. Some years ago, Elmer Staats had this to say: *Agency managers have the first line of responsibility for assessing how useful their programs are and for reporting . . . on their operations. In this country's system of checks and balances, independent scrutiny also is essential such as provided by GAO. The Legislative Reorganization Act of 1970 provided additional significance to this aspect of GAO's audit operations. The law directed GAO to review and analyze the results of Federal programs and activities. About 30% of GAO's staff time is spent on this kind of work. Evaluation of government programs' results is an art in the process of accountability about which we all have much to learn. There are many difficul-*

*ties, but we are learning by doing how to make these evaluations more useful.*⁵

Here again, one is able to look to the leadership of GAO for guidance in an all too obvious opportunity/responsibility of internal auditing: evaluation.

I earlier mentioned my concept of the modern internal auditor as a Renaissance man, a man of many skills. With the complexities of modern business and of modern government, the auditor can no longer deliver all of the skills necessary for some audit functions, particularly those such as program evaluation. He must, nevertheless, have sufficient skill/understanding to recognize the circumstances in which he must engage the service of others with specialized skills; and he must be prepared to supervise and assume responsibility for those with such skills. This will require a man of broad experience and understanding.

On this subject, Elmer again has shown himself in the forefront of audit thinking:

*. . . the accountant must be familiar with the techniques of those other disciplines (referring to statisticians, economists, systems analysts, and individuals with skills directly related to program performance). The tradition of accountants has been to strive for the right numbers whereas the tradition of systems analysts, for example, has been to strive for methods of estimating the amount of uncertainty in the numbers available. Systems analysis has made use of statistical techniques and other methods of measuring uncertainty in risk. This difference in tradition and approach may be hard for the accountant to surmount but he must do so if a successful team is to be forged.*⁶

Closely related to the problems of program evaluation will be new methods of research that must be undertaken by internal auditors to obtain relevant information. That is, the modern internal auditor will no longer rely solely upon books of account to develop the information required to fulfill his responsibility to management; he will be compelled to employ new research techniques, methods such as statistical sampling, in order to develop the information necessary for sound management decisions.

In order to develop the impact of a program for Aid to Dependent Children, for which measurement standards did not exist, the GAO employed statistical inference to determine what happened to people who "got off" of welfare.⁷ From this study they were able to arrive at broad generalizations about the program itself.

Similarly, in an effort to determine the information needs of the various congressional committees for an automated government-wide information system, the GAO surveyed nearly 300 people from the Legislature and was able to develop a sound understanding of the problem, and the apparent solution.⁸

Again, we see the General Accounting Office employing new methods and undertaking new functions in connection with its general audit responsibilities.

In December 1972, the Board of Directors of your fine organization launched the "Certified Internal Auditor" program, the latest step forward in your progressive program for upgrading internal auditing to the professional status it deserves. This, I believe, is a

milestone in the development of internal auditing, but a step which follows quite logically, given the progress which is being made by your profession.

And, increasingly I hear discussions about the development of standards: standards for government audits, standards for commercial internal audits, and standards for reporting. Not surprisingly, the GAO has been in the forefront of programs to develop standards, and has been leading the Federal government in this direction for nearly 5 years. The Institute, of course, has been closely associated with this effort.

My purpose has been to highlight what I perceive to be the tradition of internal auditing and the changes that are springing up about us today: the new management orientation of internal auditing, with new and broadened responsibilities to determine the information needs of management, recommendations made *directly* to the top; the trends to analyze and improve accounting systems, and to control reporting costs and eliminate duplication; and a new kind of assistance to management in establishing operating priorities.

I have identified some of the new functions that I see evolving for internal auditors in the areas of program evaluation, supervision of other disciplines and new approaches to auditing research: the development of new kinds of managerial information. And, I have alluded to a new and exciting professionalism which I see arising in internal auditing.

Most importantly of all, I have repeatedly looked to the work of Elmer Staats, truly a leader in the development of your profession.

It is not at all surprising to me that you have selected him as your Person-of-the-Year, for it has become increasingly apparent to me that he is one of the outstanding leaders of our time—imaginative and innovative, a man of undiminished brilliance. The reward which you have bestowed upon him is justly deserved; but I am pleased to tell you that it is not the only reward that he has received for this excellence; he has also received the highest reward—the reward from within.

In discussing public service, several years ago, Mr. Staats said:

*. . . all of us in Government have an opportunity to serve the nation. At the end of the day, the end of the week, the end of the year, or perhaps at the end of a career we should be able to look back and say: I am proud to have been a public servant, to have dealt with the problems of our time and to have had a part, however small, in contributing to their solution.*⁹

I am proud to be a friend of Elmer Staats.

Footnotes

1. "Public Confidence in Government," *The Conference Board Record*, January 1973.
2. Taken from "Why a Higher Priority Is Needed For Improved Government Reporting," *The GAO Review*, Summer 1974.
3. "The Information Needs of Congress," *The Federal Accountant*, September 1973.
4. "Why a Higher Priority Is Needed For Improved Government Reporting," *supra*.
5. "Challenges and Problems in the Evaluation of Governmental Programs," *Interfaces*, November 1974.
6. "The Role of the Accountant in the 70s," *Management Accounting*, April 1972.
7. "Challenges and Problems in the Evaluation of Governmental Programs," *supra*.
8. "The Information Needs of Congress," *supra*.
9. "The Public Service—90 Years Later," *The GAO Review*, Spring 1973.

**Person of the Year Citation
of the Comptroller General**

For the leadership he has given to progressive internal auditing in both the public and private sectors and for his strong support of the important concept of accountability for the use of scarce resources available to society.

*Washington Chapter
The Institute of Internal Auditors
January 19, 1976*

An Episode in GAO's History

This heart-warming story was originally published in the June 1965 issue of The Watchdog, the monthly newspaper of the GAO Employees Association, on the occasion of GAO's 35th anniversary. The facts of the story were related to the editors of The Watchdog by Albert H. Rajotte, Chief of the Current Files Section of the former Reconciliation and Clearance Division. The Review is privileged to publish the story again during the Bicentennial as a tribute to the many dedicated but unnamed GAO employees of an earlier day who were involved in the affair.

It was back in 1942—a time when parents throughout the country were wondering and worrying when the war would be over and would their sons come back safely to them.

That October, Indian summer was lingering on even though Thanksgiving—the first Thanksgiving of World War II—would soon be observed. At a time of such a cataclysm is it any wonder that the man and woman in the street paid little or no attention to one family's tragedy—the possible death of the father in a gas chamber in North Carolina?

The facts were simple—but contradictory. A laborer in North Carolina had been convicted of a crime punishable by death. Though he denied committing the crime, an ominous line of witnesses testified that the prisoner was at the scene when the crime was committed. The sheer bulk of their evidence

drowned out the testimony of the one defense witness who swore that the victim had been working on a government project at Fort Belvoir, Va., on the day of the crime.

How did he know this? Simple. The witness was a foreman on the project. Defense attorneys tried everything to win freedom for the man—carrying the case right up to the Supreme Court. Result? The man was moved to Raleigh—to the death house—to await execution.

The prisoner—his family—continued to maintain his innocence. His half-articulate utterances kindled a doubt in the mind of a minister who visited the laborer. With doubt, came a troubled mind as the minister became convinced of the man's innocence.

The man of God went to see the Governor of the state, who had already refused clemency to the prisoner. And why not—with such crushing evidence.

Yet, touched by either the minister's story—or with the thought that there is no return from death—he ordered William Dunn, Jr., the acting state Commissioner of Paroles to continue investigating the facts.

And here, what is usually considered a cold and efficient organization entered the picture—the General Accounting Office. Comptroller General Lindsay C. Warren, himself a North Carolinian, was requested to furnish the federal payroll from Fort Belvoir for the period when the crime was committed. If the payroll were found, and the man was telling the truth, then his signature and payroll number would be on record.

The voucher couldn't be located. For a good reason: the section in charge of the records was in the midst of a tremendous move from one building to another and records were in many places—old building, new building, on trucks, on elevators.

Mr. Warren directed that all effort be made to locate the missing document. But for the man in the death house there was no stopping the hands of the clock. And folks at the GAO seemed to look at the clock nervously and with a prayer: "Give us time, time."

Not only regular searchers and supervisors looked for the missing papers, but hundreds of GAO employees volunteered their help, giving up their lunch

periods because a man said he was innocent; and though they didn't say much, they felt he should have a chance to prove it.

Hundreds of thousands of documents were scanned; and the nightmare that haunted some was that because of a momentary lapse they might not see the right paper when they did find it.

The day of execution arrived; the search still went on, with little hope that the payroll voucher would be found. Another truckload of vouchers was standing on the incoming elevators. More papers to go through, and maybe nothing to be found. But still a few hours remained. "Let's tackle it."

The rest is anti-climactic. In that elevator the right voucher was found two hours before the time of execution. From Mr. Warren's own office Mr. Dunn called the governor in Raleigh for a stay of execution.

Ten days later, a man who would have been dead except for hundreds of strangers' hands that worked to prove him innocent, walked into free sunshine again and thought of Thanksgiving just days away now.

It must have been a wonderful Thanksgiving in that laborer's home in 1942. It must have been a gently magnificent one in the homes of hundreds of General Accounting Office employees.



The Watchdog Reports

The following items from past issues of The Watchdog, the monthly newspaper of the GAO Employees Association, Carl C. Berger, editor, are republished for the benefit of GAO's present staff.

Gutmann Named Associate Director

January 1963

Joseph Campbell, Comptroller General of the United States, recently announced the designation of Richard W. Gutmann as associate director of the Defense Accounting and Auditing Division.

Mr. Gutmann attended Rutgers University and George Washington University where he received a B.A. degree in Business Administration. He also attended the Advanced Management Program, Harvard University, Graduate School of Business Administration. He served in the U.S. Navy from 1942 to 1945 as a Lieutenant (jg).

He joined the staff of GAO in 1954. Previously, he was a partner in a certified public accounting firm in Dodge City, Kansas. Mr. Gutmann is a certified public accountant in Kansas and is a member of the American Institute of Certified Public Accountants.

In 1959 he was promoted to assistant director, DAAD. As associate director,

Mr. Gutmann will have responsibility for the auditing, accounting, and investigative work conducted by the Office in the Department of the Army, and for certain defense-wide audit activities.

J. Fasick To Be Associate Director

January 1963

J. Kenneth Fasick has been designated as associate director of DAAD of GAO in a recent announcement by Joseph Campbell, Comptroller General of the United States.

Mr. Fasick attended the University of Maryland where he received a B.A. degree in Business Administration. He also attended the Advanced Management Program, Harvard University, Graduate School of Business Administration. Mr. Fasick served with the U.S. Army during World War II.

Mr. Fasick joined the staff of GAO in 1954. He was previously associated with a national firm of certified public accountants. He is a certified public ac-

countant in the District of Columbia and has had broad experience with GAO in conducting accounting and auditing assignments both in the United States and Europe.

As associate director, Mr. Fasick will have responsibility for directing the auditing, accounting and investigation functions of the Office in all areas within the Department of Defense involving the Military Assistance Program.

**J. Eder,
Manager, Boston Office**

February 1963

Joseph Campbell, Comptroller General of the United States, has announced the designation of Joseph Eder as manager of the Boston regional office of GAO.

Mr. Eder was graduated cum laude from Ohio State University with a B.S. degree in Business Administration and recently completed the Advanced Management Program at Harvard University. He is a CPA in Ohio and a member of the Ohio Society of Certified Public Accountants and the National Association of Accountants. He served in the Air Force during World War II as well as during the Korean conflict.

Mr. Eder has had diversified experience in accounting and auditing since joining GAO in 1953. His service includes 3 years with the former Dayton, Ohio, regional office and 6 years with the European Branch at Paris, France, where for the past year he has been assistant director. Prior to his coming with GAO he was associated with public accounting firms in Canton, Ohio, and

New York City.

**I. M. Crawford
Is Assistant Director**

February 1963

Irvine M. Crawford has been designated to be assistant director of CAAD, according to a recent announcement by Joseph Campbell, the Comptroller General of the United States.

Mr. Crawford was employed by GAO in March 1951 as a junior accountant following his graduation from Bucknell University with a B.S. degree in Accounting. During World War II, Mr. Crawford served in the U.S. Army as an instructor in the Army Signal Corps.

His assignments included, among others, the Bureau of Reclamation, Bureau of Indian Affairs, Corps of Engineers (Civil Functions), Saint Lawrence Seaway Development Corporation, Commodity Credit Corporation, and Housing and Home Finance Agency. More recently he has been supervisor in charge of GAO audit work at NASA.

**Mahoney Is
Associate Director**

May 1963

Edward J. Mahoney has been designated as associate director for Automatic Data Processing of the A & A Policy Staff of GAO by Joseph Campbell, Comptroller General of the United States.

Mr. Mahoney has been on the staff of GAO since 1948 and has broad experience in conducting accounting and auditing assignments in the civil and de-

fense agencies. He was appointed assistant director of the policy staff in 1956.

Since 1953, he has been responsible for carrying out the automatic data processing program of GAO. He was a member of the Joint Government Committee that developed the Government's electronic system for the United States Treasury check operations. He was also a member of the Hoover Commission Task Force that studied electronic data processing systems and punched card processes in the Federal Government. In 1957, he received the Distinguished Service Award, the highest award of GAO.

Mr. Mahoney is a member of the faculty of American University Advisory Committee for Automatic Data Processing System Programs.

**S.S. Warren is
Assistant Director**

June 1963

Joseph Campbell, Comptroller General of the United States, recently announced the designation of Stanley S. Warren as assistant director of DAAD.

Mr. Warren joined the staff of GAO in 1952 upon his graduation from the Wharton School of Finance and Commerce, University of Pennsylvania, where he received a B.S. degree in Economics. From 1953 to 1955 he was on military leave and served in the U.S. Army.

He is a certified public accountant in Virginia, having received the Virginia Gold Medal for achieving the highest grade in the State in the May 1954 examination.

**W. Sheley,
Manager in New Orleans**

July 1963

Walton H. Sheley, Jr., has been designated by Joseph Campbell, Comptroller General, to be the manager of the New Orleans regional office.

Mr. Sheley was graduated from Memphis State University with a B.S. degree in accounting and recently completed the Executive Development Program at the Graduate School of Business at Stanford University. He is a certified public accountant in the State of Tennessee and a member of the Texas Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

He served in the Army during World War II. Mr. Sheley has had diversified experience in accounting and auditing since joining GAO in Dallas in 1954. Prior to coming with the Office, he was associated with public accounting firms in Memphis, Tennessee.

**H. Eschwege is
Assistant Director**

July 1963

Henry Eschwege has been designated to be assistant director of CAAD, according to a recent announcement from Joseph Campbell, Comptroller General of the United States.

Mr. Eschwege received a B.S. degree from New York University in 1949, graduating magna cum laude. He served in the U.S. Army from April 1944 to June 1946. He is a certified public accountant in the State of New York, and is a member of the New York State Society of Certified Public Accountants, and of Beta Gamma Sigma, national honorary society.

Mr. Eschwege attended the Program for Management Development at the Harvard University Graduate School of Business Administration in 1962.

Prior to joining the staff of GAO in July 1956, he was associated with a public accounting firm in New York City.

As assistant director, he will have responsibility for audit activities in a number of agencies within the Department of Agriculture.

**Arthur Litke is
Associate Director**

August 1963

Arthur L. Litke is designated to be associate director of CAAD in a recent announcement by Joseph Campbell, Comptroller General of the United States.

Mr. Litke received a Bachelor of Science degree from Trinity College and a Master of Business Administration degree from the Wharton School of the University of Pennsylvania. He is a certified public accountant of North Carolina and is a member of the American Institute of Certified Public Accountants. He attended the 39th Session of the Advanced Management Program of Harvard Graduate School of Business Administration in 1961.

Mr. Litke joined the staff of GAO upon graduation from college in 1946 and has had broad experience in both corporation and agency accounting and auditing assignments. Mr. Litke has assumed positions of increasing responsibility and was appointed assistant director of the CAAD in 1959 in charge of the accounting and auditing work of the Office in the Atomic Energy Commission.

**J. Utley to be
Assistant Director**

September 1963

Joseph Campbell, Comptroller General of the United States, recently announced the designation of John F. Utley as assistant director of the CAAD.

Mr. Utley received a B.S. degree from Fordham University in 1952, majoring in accounting. He is a certified public accountant of Virginia. He attended the Program for Management Development at the Harvard Graduate School of Business Administration. He served with the United States Air Force from July 1943 to February 1946.

Mr. Utley joined the staff of GAO upon graduation from college in 1952 and has had broad experience in both corporation and agency accounting and auditing assignments.

As assistant director of the CAAD, Mr. Utley will be responsible for the work of GAO at the Veterans Administration.

**L. Drennan is
Assistant Director**

September 1963

Lorin H. Drennan, Jr., was recently designated as assistant director of the CAAD.

Mr. Drennan received a B.S. degree with a major in accounting from the University of Maryland in 1951. He attended the Program for Management Development at the Harvard Graduate School of Business Administration. He served in the United States Navy from August 1945 to August 1946.

Mr. Drennan joined the staff of GAO upon graduation from college in 1951.

He has had broad and progressive experience in a wide variety of corporation and agency audit assignments.

**J. Hall, Jr., Is
Assistant Director**

October 1963

James T. Hall, Jr., has been designated to be assistant director of CAAD by Joseph Campbell, Comptroller General of the United States.

Mr. Hall served with the U.S. Army from April 1945 to January 1947. He then attended the University of Southern California where he received his B.S. degree in Accounting. Mr. Hall is a cer-

tified public accountant of California and a member of the California Society of CPAs. He also attended the Executive Development Program at the Stanford University Graduate School of Business Administration in 1962.

He came to the Office upon graduation from USC in 1952 and has had diversified accounting, auditing and management experience in the San Francisco regional office.

As assistant director of CAAD, Mr. Hall will be responsible for all accounting, auditing and investigative work of the Office in the water and power agencies.

America Is Great

I have heard many inspiring Presidential speeches, but the words I remember best were spoken by Dwight D. Eisenhower. "America is not good because it is great," the President said. "America is great because it is good."

President Gerald R. Ford
The State of the Union Address
January 19, 1976



Bicentennial Wish

The *Toronto Star* led off the year 1976 with a thought-provoking but friendly editorial on the U.S. Bicentennial. Entitled "A Year to Regain Self-Confidence," the editorial in the January 3, 1976, edition of the paper described some of the current disillusionment growing out of what it called the "shocks of the past dozen years." It then went on in the vein of "what's right with America." Some excerpts:

The great experiment in liberty and democracy has not failed. In the fundamentals, it is an enduring and manifest success. The U.S. has probably the freest and most open society on earth.

A president who gravely abused the powers of his office was forced out of it and replaced, without violence or disorder, by strictly constitutional means. When a 200-year-old political system can do that, there's ground for believing it was rightly built in the first place.

The legacy of black slavery and racial discrimination is being painfully, but surely, liquidated. On any historical time scale, American blacks in the past 20 years have made remarkably rapid progress toward equal rights and opportunities.

American science and technology still lead the way toward an easing of the

burdens and poverty of mankind. At the same time, Americans have pioneered movements to save the environment and to make business accountable to consumers.

Despite the demoralizing blunder of the Viet Nam war, American leadership in world affairs has been by no means as bad as its detractors make out. Considerable wisdom, as well as enormous amounts of energy, treasure and goodwill, went into it.

The present freedom and prosperity of Western Europe would not have been possible without Marshall Plan aid. West Germany's and Japan's presence in the democratic camp, and the survival of Israel, are substantially American accomplishments.

* * *

If contemplation of what's right with America doesn't restore Americans' self-confidence, they should perhaps reflect that the circumstances of their nation's 100th birthday weren't happy either.

The wounds inflicted on the country by the Civil War—a far more traumatic and bloody event for Americans than Viet Nam—were still bleeding. The Union army still occupied the South. The Ku Klux Klan had arisen to put down the blacks after their brief moment of equality. Corruption was rife in government; 1876 was the year of a "stolen" presiden-

tial election. The economy was depressed.

Yet the U.S. soon moved from that low ebb to an era of tremendous economic expansion, technical invention, population growth, political reform and social progress.

It was not the only time in their history that the American people have shown resilience and strong regenerative powers. Franklin Roosevelt's New Deal gave the world hope during the Great Depression of the 1930s, and the U.S. was soon bearing much of the economic, and much of the military, burden of the global struggle against fascism.

The world—or at least that part of it which cherishes freedom—still needs the leadership which the United States can give by example at home and by judicious use of its still-great power abroad.

The best wish that one can have for Americans as they celebrate their 200th birthday is that they rekindle their self-confidence, decency and optimism which has made the world a better place in which to live.

Congressional Use of GAO Work

Ken McLain of the Kansas City regional office provides the following insights into his participation in a congressional hearing:

We in the field sometimes wonder what impact will result from our work and what purpose it serves. Occasionally we get feedback, but it is often piecemeal and comes long after the job is finished. Thus, it was gratifying to attend a series of congressional hearings on the Reserve Forces and get first hand information on

the effect our work can have.

The hearings were held in October 1975 by the Subcommittee on Personnel of the House Committee on Armed Services, to consider the legislative recommendations included in our report entitled "Need to Improve Efficiency of Reserve Training" (FPCD-75-134). Hy Krieger, director, and Cliff Gould, associate director, of the Federal Personnel and Compensation Division and Arnett Burrow, Kansas City assistant regional manager, testified for GAO. Thirteen high ranking officers and civilians testified for the Department of Defense, the military services, and service lobby groups.

It was obvious from the aggressive and informed questioning by Committee members that our report had been given serious consideration and provided the kind of information needed and desired by the Committee. Chairman Nedzi of Michigan commented that GAO had focused on long-time problems of deep concern and that the Committee felt that, as a result, a positive effort would be made to solve the problems.

On several occasions, individual Committee members and their staff informally discussed the report and related testimony with me. These discussions and the hearings provided me with a greater awareness of the catalytic effect our work can and often does have. Overall, attending the hearings was a very eventful, interesting, and informative experience.

About Gratuities and Entertainment

Disclosures in the press in recent months of defense contractor practices in entertaining at hunting lodges and in

other ways military officers and officials who are not supposed to accept any such favors serve to remind us that such behavior tends to persist and that continuous vigilance on the part of top management and oversight bodies is necessary. The following extract from an article written in 1951 by former Comptroller General *Lindsay C. Warren* indicates GAO concern in earlier years with the practice and its possible adverse consequences:

During the war I informed Congress of the dangerous habit of many officers and employees who accepted, or even themselves sought and solicited, wining and dining and expensive entertainment and all kinds of favors from war contractors. Such familiarity gives rise to a feeling of obligation, at the very least, and has a strong tendency to improperly influence those officers in the performance of their official duties for the Government. Heads of agencies issued directives strongly condemning it. But it persisted among the small fringe which is always ready to turn even national peril to personal profit.

(From *Daughters of the American Revolution Magazine*, January 1951)

A View of GAO

From the Hagerstown, Md., *Herald* for January 10, 1976:

Perhaps it is to be expected that in an age of apathy the public will not concern itself overmuch with reports of extravagance and outright waste by those responsible for the husbanding and dispensing of public resources. But between the yawns there must be some taxpayers who every so often have cause to be thank-

ful for the General Accounting Office.

The GAO is unique in government operations. It spends almost all its time investigating the expenditure of public funds by the executive branch of the federal government. But it reports to—and is responsible only to—Congress. It is this feature of responsibility which has brought respect to the GAO by file clerks and department heads alike in the federal establishment.

* * *

Public exposure it generates by reporting to congressional committees on waste and extravagance, and the memories the lawmakers have of these offenses when the next appropriation hearings are held, are strong tonics.

Guidance to Congressional Budget Office

The Conference Report on the supplemental appropriations bill for 1976 contains the following guidance to the Congressional Budget Office as to what it should and should not do:

The conferees believe the principal mission of the Congressional Budget Office should be to provide support for the implementation of the Congressional Budget Act of 1974, particularly to the Budget Committees in their work. Other members should also be able to receive information already prepared concerning the fiscal or budgetary impact of legislative proposals. In the legislative branch, debate over public policy must be conducted by elected officials. Neither the Congressional Budget Office, nor any of its employees, should initiate, or take positions, on individual policy recommendations. While the Congressional

Budget Office must respond to inquiries about its operations, and about individual reports, its public information function should be strictly informational in nature, and not promote the Congressional Budget Office or take a position on any particular policy.

(House Report 94-718, 94th Congress, 1st session)

A Canadian Speaks Out

Speaking before the Canadian Club in Montreal last fall, the former Auditor General of Canada, A. Maxwell Henderson, had some strong words to say about overly sophisticated management systems in the Canadian national government. Among his comments:

Elaborate management systems such as [PPB (program planning and budgeting) extended into costly and sophisticated management systems such as OPMS (operational performance measurement systems) and MBO (management by objective)] abound throughout federal government departments. For the most part they are installed in the first instance by outside consultants then left staffed on the government payroll. It may sound old fashioned but better they just come to grips under less elaborate and costly organization, rooting out waste, overstaffing and inefficiency. (Financial Times of Canada, October 20, 1975)

Methods for Evaluating Government Programs

The Congressional Budget and Impoundment Control Act of 1974 amended the Legislative Reorganization Act of 1970 to require, among other

things, that the Comptroller General develop and recommend to the Congress methods for the review and evaluation of government programs.

On December 9, 1975, a draft of an initial statement on this subject was released by GAO for review and comment by Federal agencies, Members of Congress, congressional committees, and others interested. The exposure draft is entitled "Evaluation and Analysis to Support Decisionmaking."

In releasing the draft, the Comptroller General stated that the document, when completed, will add to the guidance contained in the 1972 statement of *Standards for Audit of Governmental Organizations, Programs, Activities & Functions*. This statement describes the full scope of governmental audits as including reviews to determine whether desired results are effectively achieved.

GAO Responsibilities for Verifying Energy Data

With the enactment of the Energy Policy and Conservation Act in December 1975, GAO acquired some new authority and some heavy related responsibilities.

Title V of the act grants GAO very broad authority to, in effect, determine the accuracy of (1) any piece of energy information submitted by a company to the Federal Government, and (2) any piece of energy information which a Federal agency might obtain from public sources for use in carrying out its official functions.

GAO may use its authority to inspect the books and records of private persons and companies under the following conditions:

- A company is legally required to submit energy information to the Federal Energy Administration, the Federal Power Commission, or the Department of the Interior.
- A company is engaged in the energy business (other than at the retail level) and
 1. Furnishes energy information directly or indirectly to any Federal agency (excluding IRS), and
 2. GAO determines that the Federal agency uses this information in carrying out its official functions.
- The energy information is any financial information pertaining to a vertically integrated petroleum company.

GAO shall conduct such verification examinations if requested to do so by a congressional committee having legislative or oversight responsibilities over energy matters or any laws administered by FEA, FPC, or Interior.

In carrying out these responsibilities, the Comptroller General is authorized to (1) sign and issue subpoenas, (2) require

any person to reply to interrogatories, (3) administer oaths, and (4) assess and collect civil penalties not to exceed \$10,000 for each violation. The Comptroller General is required to submit an annual report to the Congress identifying any deficiencies in energy or financial information and including actions to correct such deficiencies.

The bill also provides that any person, not being a Member of Congress, who knowingly reveals confidential information, such as geophysical data, shall be subject to a penalty of \$40,000 or 1 year in prison for each violation.

GAO's responsibilities under this law have been assigned to the Office of Special Programs, directed by *Monte Canfield, Jr.* *Kevin Boland* has been designated assistant director-in-charge of this work.

To help carry out responsibilities, a new office was established February 16, 1976, in Houston, Texas, as part of the Dallas regional office. *Neil Rutherford*, an assistant director of the Office of Internal Review in Washington, has been designated assistant regional manager to head the Houston office.

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Legislative Developments



BY JUDITH HATTER
Chief, Legislative Digest Section

Energy Policy and Conservation Act

On December 22, 1975, the Energy Policy and Conservation Act, Public Law 94-163, was enacted into law.

Its purpose is to increase domestic energy supplies and availability, to restrain energy demand, and to prepare for energy emergencies, among other things.

Section 501 of the law provides that the Comptroller General is to conduct verification examinations of the records of:

1. Any person who is required to submit energy information to the Federal Energy Administration, the Department of the Interior, or the Federal Power Commission pursuant to any rule, regulation, order, or other legal process of the Administration, Department or Commission.
2. Any person engaged in producing, processing, refining, transporting by pipeline, or distributing (at other than the retail level) energy resources (a) if the person has furnished, directly or indi-

rectly, energy information to any Federal agency and (b) if the Comptroller General determines that the information has been or is being used or taken into consideration, in whole or in part, by a Federal agency in carrying out responsibilities committed to the agency.

3. Any vertically integrated petroleum company with respect to financial information of such company related to energy resource exploration, development, and production and the transportation, refining and marketing of energy resources and energy products.

In connection with these verification examinations, the Comptroller General has the authority to sign and issue subpoenas and to enter and inspect facilities. He is also provided access to energy information within the possession of any Federal agency (other than the Internal Revenue Service) necessary to carry out his responsibilities.

Among the specifically delineated reporting requirements, the Comptroller General is to report annually to the Con-

gress, identifying any deficiencies in energy information or financial information reviewed by the Comptroller General and including a discussion of action taken by the person or company to correct the deficiencies.

In discussing the verification examination requirement on the floor, Senator Howard W. Cannon of Nevada stated:

*This provision will permit independent and objective evaluation of energy data from which realistic projections can be made and on which future energy policy decisions will be based.*¹

Grain

On February 24, 1976, Representative Joseph P. Vigorito of Pennsylvania discussed the provisions of a measure he introduced, H.R. 12036, which would, for the most part, enact recommendations made by GAO in its report on Irregularities in the Marketing of Grain.

Mr. Vigorito explained that his bill deviates from the GAO recommendations on extending direct Federal inspection beyond export points.

** * * The GAO recommended Federal inspection at major interior terminals in addition to export points; whereas H.R. 12036 provides for State-private contracting, not direct Federal inspection, at all interior terminals where official inspection is performed. There is some rationale for the GAO's position in this regard, but in my judgment the extra complexity encountered when one moves beyond export elevators and the greater*

¹ *Congressional Record*, Vol. 121 (Dec. 17, 1975), p. S22501.

*element of public interest involved with export sales warrants restriction to the export elevators, at least for the present time.*²

Following an appearance by the Comptroller General on February 26 before the Senate Subcommittee on Foreign Agriculture Policy chaired by Senator Hubert Humphrey of Minnesota, the Senator introduced S. 3055, popularly titled United States Grain Standards Act, to deal with the problems identified in the investigation and report. The Senator states:

** * * the detailed and thorough amendments of the Grain Standards Act which this measure authorizes would completely overhaul the U.S. grain inspection system, as recommended by the General Accounting Office and demanded by the facts we now have concerning corruption, mismanagement and incompetence.*³

Government Economy and Spending Reform Act of 1976

On February 3, Senator Edmund Muskie of Maine introduced S. 2925, Government Economy and Spending Reform Act of 1976, which requires regular zero-base review and reauthorization of Federal programs and activities.

A one-time procedure under which GAO would identify duplicative and inactive programs so that the Congress and its committees would be encouraged to eliminate or consolidate them is

² *Congressional Record*, Vol. 122 (Feb. 24, 1976), p. H1252.

³ *Congressional Record*, Vol. 122 (Feb. 26, 1976), p. S2443.

established.

There is a requirement that by April 1, 1977, GAO submit to the Congress a list of all provisions of law which establish permanent authorization of Government expenditures.

To assist authorizing committees in conducting zero-base budget review and evaluation, GAO would be required by December 31 of the year preceding to send to those committees the results of audits, reviews and evaluations GAO conducted on the programs to be reviewed.

The Comptroller General is to make follow-up evaluations at least once every 6 months of any program that GAO has reviewed and found to have fallen short of its objectives.

Railroad Revitalization and Regulatory Reform Act of 1976

Public Law 94-210, February 5, 1976, was enacted to improve the quality of rail services in the United States through regulatory reform, coordination of rail services and facilities and re-

habilitation and improvement financing.

A Railroad Rehabilitation and Improvement Fund has been established to provide capital necessary to furnish financial assistance to railroads, to the extent of appropriated funds, for facilities maintenance, rehabilitation, improvement, and acquisition.

The Comptroller General is authorized to audit the operations of the Fund and of the obligation guarantee fund according to rules and regulations he prescribes and report the results of the audit to the Congress.

The Comptroller General is also authorized to report to the Congress on audits of the program activities and financial operations of the Consolidated Rail Corporation for any period during which Federal funds are being used to finance any portion of the operations or Federal funds have been invested.

General Accounting Office audits are also required for local rail service assistance and rail service continuation assistance.

Francis X. Fee



Francis X. Fee was designated manager of the New York regional office, effective March 1, 1976.

Mr. Fee joined GAO after graduating from Villanova University in 1963 where he majored in accounting. He served in the Civil Division and later in the Resources and Economic Development Division on assignments at the Departments of the Interior, Treasury, and Transportation; the National Aeronautics and Space Administration; the National Science Foundation; and Capitol Hill.

In 1972 he was selected for participation in the Presidential Executive Interchange Program and spent a year in the Corporate Planning Organization of the American Telephone and Telegraph Company in New York City.

Since September 1973, he has been an assistant regional manager in the Philadelphia regional office with responsibility for assignments authorized by the General Government and Resources and Economic Development Divisions. He received a superior performance cash award in 1968, a Career Development Award in 1972, and a Special Education Award in 1973.

Mr. Fee is a member of the Presidential Interchange Executives Association and the American Society for Public Administration.



Walter H. Henson

Walter H. Henson was designated deputy director, Field Operations Division, effective March 1, 1976.

Mr. Henson served in the U.S. Army from March 1946 to June 1949 and September 1950 to December 1951. He graduated from the University of Illinois in 1954 and completed the Executive Development Program at the Stanford Graduate School of Business.

Following graduation, Mr. Henson was employed by Price Waterhouse & Co. until joining GAO in 1957. He served as a supervisory auditor in the Seattle regional office until 1964; regional manager of the New Orleans regional office from 1965 to June 1970; and regional manager, Norfolk regional office, from June 1970 to 1976.

He received the Comptroller General's (group) Honor Award in 1973 and the Distinguished Service Award in 1974. He is a CPA (Washington) and a member of the American Institute of Certified Public Accountants, the Virginia State Society of Certified Public Accountants, the National Association of Accountants, the American Accountants Association, and the Association of Government Accountants.

Ronald F. Lauve



Ronald F. Lauve was designated associate director for education and human development in the Manpower and Welfare Division on March 14, 1976. In this position, he is responsible for planning, directing, and reporting on all GAO work involving the Office of the Assistant Secretary for Education, the Office of Education, the National Institute of Education, and the Office of Human Development, Department of Health, Education, and Welfare; the National Science Foundation; and the Corporation for Public Broadcasting.

Mr. Lauve received a Bachelor of Business Administration degree with a major in accounting from Lamar University in 1962. Since joining GAO that year he has had a wide variety of experience in the former Civil Division and the Manpower and Welfare Division.

He received the GAO Meritorious Service Award in 1973 and in 1975.



Joseph P. Normile

Joseph P. Normile was designated an associate director in the Logistics and Communications Division, effective December 22, 1975. He is responsible for audit assignments involving the acquisition, management, and disposal of Government facilities.

Mr. Normile graduated from Cornell University and received an M.A. degree (economics) from Catholic University. He is a CPA (District of Columbia).

In 1953 Mr. Normile joined GAO after 2 years' experience with a public accounting firm. He has had a wide variety of assignments with GAO, including audits of civil and military activities, and has served as deputy director of the former Transportation Division, director of the European Branch, deputy director of the Office of Personnel Management, and assistant director of the Resources and Economic Development Division.

Alfonso J. Strazzullo

Alfonso J. Strazzullo was designated regional manager of the Norfolk regional office, effective April 1, 1976. This is the second time he has served GAO in this position.

Mr. Strazzullo served in the U.S. Navy from 1944 to 1946. He graduated from La Salle College in Philadelphia in 1959 with a Bachelor of Science degree in Accountancy. He attended the Executive Development Program at the University of Michigan Graduate School of Business Administration in 1964.

Before joining GAO in 1954, Mr. Strazzullo was associated with public accounting and industrial firms. He served in the Philadelphia regional office and was appointed regional manager of the Norfolk office in 1965. In July 1970, he became manager of the New York regional office.

Mr. Strazzullo has served on faculty advisory councils for the Roth Graduate School of Business Administration, C.W. Post Center, Long Island, N.Y., and the Department of Public Administration, Baruch College, New York City. He was Chairman of the New York/New Jersey Intergovernmental Audit Forum in 1975. In 1969 he received the GAO Meritorious Service Award.

Other Staff Changes

New Assistant Directors

Office of Program Analysis

Kenneth M. Brown
Clarence L. Jenney

Office of Special Programs

Richard E. Chervenak
Michael E. McCloskey

Claims Division

Orville Coy, Jr.

Financial and General Management Studies Division

Brian Keenan
Robert L. Meyer

Manpower and Welfare Division

Beryce W. MacLennan

Procurement and Systems Acquisition Division

Bernard D. Easton
John R. Henderson

Professional Activities



Office of the Comptroller General

The Comptroller General, *Elmer B. Staats*, addressed the following groups: University of Pennsylvania, Department of Political Science (Wharton School), Philadelphia, on "The Control of the Bureaucracy," December 4, 1975.

Western Conference on Sub-State Regionalism, San Diego, on "The Federal Assistance System, Revenue Sharing and Substate Regionalism," December 11, 1975.

Joint Conference of Intergovernmental Audit Forums, New Orleans, La., on "Governmental Auditing—Yesterday, Today and Tomorrow," January 14 (see p. 1).

Conference on Evaluating Public Programs, Oakland, Calif., on "Exposure Draft—Evaluation and Analysis to Support Decisionmaking," January 30.

The Brookings Institution's Conference for Business Executives on Federal Government Operations, Washington, D.C., on "Functions of the General Accounting Office," February 2.

Western Electronic Manufacturers Association's Executives' Capital

Caucus, Washington, D.C., on "Cost Accounting Standards," February 26.

Financial Executive Institute Alumni Association, Washington, D.C., on "Progress in Evaluation of Public Programs," March 4.

Recently published article of the Comptroller General:

"The Nation's Stake in Congressional Budget Reform" (address presented August 19, 1975, at the 1975 Annual International Conference, National Society of Public Accountants), *The National Public Accountant*, December 1975.

E. H. Morse, Jr., Assistant Comptroller General, addressed the following groups:

Brookings Institution Conference for Business Executives on Federal Government Operations on the functions of the General Accounting Office, Washington, D.C., February 2.

Annual intra-county meeting of the Baltimore County Rotary Clubs on "Getting Your Money's Worth from Government Expenditures," Baltimore, Md., March 8.

Central Pennsylvania Chapter of the National Association of Accountants on "What is Management Auditing,"

Burnham, Pa., March 16.
 Pennsylvania State Accounting Club,
 Beta Alpha Psi, on management au-
 diting, University Park, Pa., March
 17.

Conference sponsored by the Institute
 of Latin American Studies on "The
 Role of the U.S. General Accounting
 Office in the Audit and Evaluation of
 U.S. Programs for Assisting Develop-
 ing Countries in Latin America," at
 the University of Texas at Austin,
 Tex., May 1.

Mr. Morse was the panel moderator at
 a seminar on "Sound Financial Report-
 ing in the Public Sector," sponsored by
 the Washington Chapter of the Associa-
 tion of Government Accountants, Feb-
 ruary 12.

An article by Mr. Morse, entitled
 "How GAO Assists the Congress on
 Budgetary Matters," was published in
 the January 1976 issue of the *Armed
 Forces Comptroller*.

Office of the General Counsel

Paul G. Dembling, general counsel:

Participated in the annual meeting of
 the National Academy of Public Ad-
 ministration, November 20-21.

Spoke on "Some Consideration of
 Professional Ethics" before the As-
 sociation of Government Account-
 ants, December 4, in San Juan,
 Puerto Rico.

Addressed the auditors and attorneys
 of the Office of the Controller, Com-
 monwealth of Puerto Rico, on "The
 United States General Accounting Of-
 fice," December 5, in San Juan.

Addressed the 6th Advanced Pro-

urement Attorneys' Course on "Gov-
 ernment Procurement and the Fu-
 ture," January 16, in Charlottesville,
 Va.

Spoke before the American Institute
 of Industrial Engineers on "GAO and
 Federal ADP Procurement," Feb-
 ruary 20.

Addressed the Brookings Program for
 Business Executives on "The Func-
 tions of GAO," February 23.

Participated in and spoke before a
 National Contract Management As-
 sociation Symposium on "GAO's Re-
 sponsibilities in Government Pro-
 curement," February 25-27, in New
 Orleans.

Paul Shnitzer, associate general
 counsel:

Participated in a conference at the
 University of Illinois on "Alternate
 Processes," November 17, in
 Champaign-Urbana, Ill.

Addressed the St. Louis chapter of the
 National Contract Management As-
 sociation on "Contract Formation,"
 November 19.

Spoke before the Judge Advocate
 General's School, Advanced Pro-
 curement Attorneys' course, on
 "Functions of the GAO," January 13,
 in Charlottesville, Va.

Martin J. Fitzgerald, assistant to the
 general counsel:

Met with a group of students from
 American University to discuss the
 history, functions, and organization
 of GAO as part of the University's
 seminar on "Congress and the Presi-
 dency," November 11.

Addressed a group of Forest Service

employees attending the Civil Service Commission's "Congressional Operations Seminar for Managers" on "The Role of the General Accounting Office in Assisting the Congress," November 13.

Spoke on "The General Accounting Office—the Oversight Function," during the Civil Service Commission course entitled "Introduction to Government Operations for the New Professional," November 18.

John F. Mitchell, deputy assistant general counsel, addressed a Forest Service Workshop for Contracting Officers on "The Role of the Comptroller General in Government Contracts" and "How to Present a Case to GAO," January 2–6, in Reno, Nev.

Ronald Wartow, senior attorney, addressed a meeting of the Denver Chapter of the National Contract Management Association on "Current Developments in Procurement Law at the General Accounting Office," February 24.

Johnnie E. Lupton, attorney-advisor, spoke on "The Comptroller General's Role in Labor Relations Arbitration" before personnel officers of the Public Health Service, January 22.

Office of Program Analysis

Harry S. Havens, director:

Spoke at a seminar on "Doing Business with the Government," sponsored by the Electronic Industries Association, in San Francisco, Calif., October 8. The topic of his discussion was "The Role of GAO in Supporting the Congressional Budget Process."

Participated in a conference on

"Evaluating Public Programs: Concepts, Issues, and Strategies," held in Oakland, Calif., January 30. The topic of his discussion was "Getting More and Better Evaluation in Government."

Addressed a meeting of midcareer students from the Maxwell Training and Development Programs, Syracuse University, on "The Congressional Budget Operation," Washington, D.C., January 7.

Addressed the Comprehensive Program Planning Study Group of the National Capital Area Chapter of the American Society for Public Administration on "GAO's Role on Program Evaluation and Analysis," Washington, D.C., February 25.

Wallace M. Cohen, assistant director, spoke on "Program Evaluation and the General Accounting Office: GAO's Evaluation Information Response under the 1974 Congressional Budget Act" at the Operations Research Society of America and the Joint Institute of Management Sciences joint national meeting in Las Vegas, November 18.

Office of Special Programs

Monte Canfield, Jr., director, addressed the following groups:

The Connecticut Lung Association's Air Conservation Committee on "America's Energy Futures," Hartford, Conn., December 11.

The New York Society of Security Analysts on "Future Energy Demands," New York City, February 17.

The monthly meeting of the Society of

Petroleum Engineers on "GAO's Role Relative to Energy," Washington, D.C., March 16.

John S. Reifsnyder, supervisory auditor, earned an M.A. degree in management and supervision from Central Michigan University, December 1975.

Federal Personnel and Compensation Division

Donald G. Goodyear, assistant director, addressed a meeting of the Atlanta Federal Executive Board held at Georgia State University on February 4. His subject was "Equal Employment Opportunity and Productivity."

Financial and General Management Studies Division

Donald L. Scantlebury, director:

Served as panel discussion leader on "Evaluating the Results of Government Programs" at the AGA National Seminar on Specialized Techniques for Operational Auditing, December 2, Washington, D.C.

Served as moderator of a panel discussion on "Electronic Funds Transfer" at the JFMIP Financial Management Conference, February 2, Washington, D.C.

Participated in a panel on "Sound Financial Reporting in the Federal Sector" sponsored by the Washington Chapter of AGA on February 12, Washington, D.C.

Gave a presentation on "Federal Relationships with State and Local Governments" at AGA's White House

Conference on February 18, Washington, D.C.

Spoke on what GAO has done, is doing, and is planning for in the computer field at an Interagency ADP Planning Seminar on February 23.

Co-authored with *Ronell B. Raaum*, supervisory systems accountant, an article on "Future Directions in Government Accounting" published in the December 1975 issue of the *Federal Accountant*.

Fred D. Layton, deputy director, conducted a seminar on "GAO Audit Standards" for the Interagency Auditor Training Center, November 18-21, San Francisco, Calif.

Walter L. Anderson, associate director:

Was a keynote speaker at the American Institute of Industrial Engineers' conference on "Minicomputers—The Applications Explosion" on November 17 at New Carrollton, Md. The title of Mr. Anderson's speech was "Minis Are Beautiful!"

Was chairman of the Executive-Legislative Relationships working group at the Interagency ADP Planning Seminar, February 22-24.

Participated as a panelist on "Federal Data Systems Procurement" at a joint government-industry conference sponsored by the American Institute of Industrial Engineers on February 18-20, Arlington, Va.

Ernest H. Davenport, assistant director, was an instructor on "Operational Auditing—Basic" for the AGA National Seminar on Specialized Techniques for Operational Auditing,

December 1, 2 and 3, Washington, D.C.

Samuel N. Mento, assistant director: Was a guest lecturer at the University of Missouri-Kansas City on February 18 and 19. He spoke before several classes in the School of Administration, Division of Public Administration, and addressed the accounting club on "Auditing and Research Skills in the Federal Government." Attended the Seminar for Advancing Managers at the Civil Service Commission's Executive Seminar Center, Wilmington, Del., January 25 to February 6.

Robert J. Ryan, assistant director: Participated in a meeting of the National Council on Governmental Accounting as an alternate representative for Donald L. Scantlebury, director, in San Diego, Calif., on October 31 and November 1.

Served as vice chairman of the AGA Task Force on Operational Auditing and as track leader on audit management for the AGA Seminar on Specialized Techniques for Operational Auditing, Washington, D.C., on December 1-3.

Joseph J. Donlon, assistant director: Spoke on "GAO/DOD Relationships" to Department of Defense financial management personnel attending the Professional Military Comptroller course at the Air University, Maxwell Air Force Base, Ala., November 25. Participated in a Federal Financial Management Seminar sponsored by the Chicago Chapter of the Association of Government Accountants on February 2. He described the mission

and functions of GAO in relationship to the development of the Federal budget and the criteria established for managing, accounting, and auditing of Federal funds.

Earl M. Wysong, Jr., assistant director, addressed the EDP Auditors Association, National Capital Area Chapter, in Washington, D.C., January 20. His topic was "The Participatory Approach of Auditors in System Design."

John J. Cronin, Jr., assistant director, spoke on "Motivation for Excellence Through Creative Auditing" at the annual internal audit training session of the Army and Air Force Exchange Service, Dallas, Tex., December 16.

George L. Egan, assistant director, addressed Class 76-A of the Professional Military Comptroller Course at Maxwell Air Force Base, Ala., on February 12. He spoke on "GAO/DOD Relationships."

Richard E. Nygaard, audit manager, participated as an instructor for the "Operational Auditing—Basic" course as part of the AGA National Seminar on Specialized Techniques for Operational Auditing, December 1-3, Washington, D.C.

David E. Bryant, Jr., supervisory auditor:

Was a panel member on "Financial Management Careers in the Federal Government," Washington Chapter of Young Professionals, American Society of Public Administration, November 6.

Conducted an operational auditing course sponsored by the Association of Government Accountants, December 1-3, Washington, D.C.

Was selected as meeting reporter of the Washington Chapter of AGA.

Carl R. Palmer, supervisory auditor, spoke at the First International Meeting of the Computer Measurement Group, San Francisco, Calif., October 10, and at the Association for Computer Machinery Sigmatics Technical Meeting on "Pricing Computer Services," Palm Springs, Calif., November 20. The subject of his speeches was a "Brief Review of the GAO Task Group's Recommendations on Management Guidelines for Pricing Computer Services in the Federal Government."

James Wright, supervisory operations research analyst, and *Herbert Martinson*, *Allen Rogers* and *William Johnston*, operations research analysts, comprised a team of instructors on "Systems Analysis" at AGA's National Seminar on Specialized Techniques for Operational Auditing, December 1-3, Washington, D.C.

J. Russell Wiltshire, supervisory systems analyst:

Was accepted in the Department of the Army's Logistics Career Program. It provides a continuing program of study for persons in active and reserve status to retain and improve their skills in logistics.

Received his certification as a professional manager by the Institute of Certified Professional Managers.

Joint Financial Management Improvement Program

Donald C. Kull, executive director: Participated as a speaker and workshop leader in productivity seminars

for: the Federal Executive Board, Cincinnati, Ohio, November 6; Eglin Air Force Base, Fla., November 17; and the Federal Executive Board, Miami, Fla., November 18.

Presented introductory remarks to attendees of the jointly sponsored AGA/JFMIP Seminar on Electronic Transfer of Funds on November 12 in Baltimore, Md.

Spoke on "Improving Productivity in the Federal Government" as part of a Complex Systems Executive Seminar on November 19, sponsored by IBM in Washington, D.C.

Spoke on "Productivity Measurements—The Total System Approach" at the Department of Health, Education, and Welfare Seminar on Manpower Management Program on December 12.

Presided at the Fifth Financial Management Conference held in Washington, D.C., on February 2.

Mortimer A. Dittenhofer, assistant director:

Spoke to the Tidewater Chapter of the Institute of Internal Auditors on "A New Educational Base for Auditing" in Norfolk, Va., on November 26.

Gave two talks on "Auditing the Management Process" and "Accountability Auditing in Government" to the Army and Air Force Exchange Service Audit in Dallas, Tex., on December 16 and 17.

Met with faculty and students of Northwestern University, Graduate School of Administration, in Evanston, Ill., on February 13. The topic was "Management and Accountability Auditing in Government."

Spoke on the "Institute of Government Financial Management" to a joint meeting of the Institute of Internal Auditors and the Association of Government Accountants in Milwaukee, Wis., on February 18.

Delivered a paper for the DR Scott lecture series at the University of Missouri, School of Accounting, in Columbia, Mo., on February 19.

Spoke on "Current Concepts of Internal Auditing in Government" and on "GAO Audit Standards" to a Joint Committee on Auditing in the Wisconsin State Legislature, Madison, Wis., January 22.

Participated in an open discussion at a graduate seminar at the LBJ School of Public Administration, University of Texas, Austin, Tex., February 20. The subject was "Internal Auditing in Government."

Brian L. Usilaner, assistant director, participated as a panel member at the Second Annual Miami International Conference on "Progress and Prospects in Health Care Distribution Systems," November 23, Miami Beach, Fla.

General Government Division

Victor L. Lowe, director, attended the Brookings Institution Conference for Senior Executives on Public Policy Issues in Williamsburg, Va., January 1976.

William J. Anderson, deputy director, participated as a panelist in the "Report Writing and Presentation Methods" program of the Association of Government Accountants Seminar on Specialized Techniques for Operational Auditing,

December 1975, in Washington, D.C. He also spoke before the Southern New England Chapter of the Institute of Internal Auditors on "The Management Control Plan: Covering the Gaps in Organizational Control" in Hartford, Conn., March 9.

Arthur Goldbeck, assistant director, spoke on "Auditing General Revenue Sharing" at the November 18 meeting of the Madison, Wis., Chapter of the Association of Government Accountants.

James F. Donaghy recently became a member of the bar in Maryland.

Dennis W. Fricke recently received his master's degree in business financial management from George Washington University.

Joel L. Slotsky received his master's degree in business administration from the George Washington University in February 1976.

International Division

Edwin C. Eads, assistant director, participated in a conference arranged by the American Council of Voluntary Agencies for Foreign Service, Inc., on December 11, 1975, at CARE Headquarters in New York City. In addition to representatives from most of the major voluntary agencies, participants were present from the AID Food for Peace Office, the AID Auditor General, State Department's Inspector General for Foreign Assistance, and the International Division of GAO, the latter being represented by Mr. Eads. The voluntary agencies, particularly with respect to food distribution under title II of Public Law 480, were interested in discussing the following issues with respect to both

internal and external audits.

- Interpretation of regulations governing audits.
- Attitudes underlying audit procedures.
- Frequency of audits.
- Cooperation among the various audit agencies.
- Objectives and conduct of auditors' exit conferences.
- Volunteer agency review of and comment on draft audit reports.
- Handling of recommendations in finalized audit reports.

Manpower and Welfare Division

Gregory J. Ahart, director:

Participated in a conference on "Quality Assurance in Hospitals" sponsored by the Boston University Medical Center on November 21-22, 1975.

Participated in the Brookings Institution Program of Conferences for Business Executives, held at GAO in Washington, D.C., on December 8, 1975. Subject: "Role of the General Accounting Office."

Participated in a seminar sponsored by the School of Urban and Public Affairs, Carnegie-Mellon University, Pittsburgh, Pa., on January 14. The subject was "GAO and its View of the Federal Establishment."

Edward A. Densmore, Jr., associate director, was the guest speaker at the Evaluation Management Seminar conducted by the Federal Executive Institute, Charlottesville, Va., on January 21. His subject was "GAO Reviews of

Program Results."

Stephen J. Varholy, associate director, and *Robert V. Farabaugh* and *Ronald F. Lauve*, assistant directors, participated in a seminar on specialized techniques for operational auditing sponsored by the Association of Government Accountants in Washington, D.C., on December 1-3, 1975. Mr. Varholy led a panel discussion on planning and performing quality audits. Mr. Farabaugh presented a case study on GAO's review of the urban rat control program. Mr. Lauve served as a panelist on "Making Effective Use of Other Disciplines" and discussed the use of consultants and experts during a review of fire safety in nursing homes. He was assisted by *Alan Zipp*, supervisory auditor, during the question and answer period.

Patrick E. Daly, supervisory auditor, and *Aurelio P. Simon*, audit manager, Seattle regional office, addressed a doctoral seminar of the University of California's Graduate School of Education, Berkeley, Calif., on November 24, 1975. The topic was GAO's audits of Federal higher education programs.

Thomas J. Schulz, supervisory management analyst:

Addressed the national legislative conference of the Group Health Foundation held in Washington, D.C., January 11 and 12. He discussed recently published GAO reports on health maintenance organizations, as well as GAO's present legislative requirements to evaluate those organizations.

Addressed the Fellows participating

in a Wharton School, University of Pennsylvania, training program for health maintenance organization managers on January 22 in Philadelphia. His topic was the evaluative role of GAO and GAO's recent testimony on the administration of the Federal health maintenance organization program.

Alan S. Zipp, supervisory auditor:

Made a presentation before the Executive Development Institute for State Survey Program Directors in New Orleans, La., on January 27. His topic was fiscal management of the certification process for health care facilities for participation in programs such as Medicare and Medicaid. The presentation was part of a program sponsored by Tulane University.

Served as a panelist in a workshop on the "Economics of Home Health" sponsored by the National Association of Home Health Agencies Legislative Committee in Washington, D.C., on February 24.

Procurement and Systems Acquisition Division

Richard W. Gutmann, director, represented GAO as an invited speaker and panelist at the Air War College, Maxwell AFB, Ala., on December 1. The topic of his discussion was "The Role of Congress and the GAO in Resource Management."

Jerome H. Stolarow, deputy director:

Spoke on the role of GAO in major weapon systems acquisitions at the Navy Logistics Management School,

Washington, D.C., on January 16.

Spoke before students of the Defense Systems Management School's Executive Refresher Course, Ft. Belvoir, Va., on March 11.

Morton A. Myers, deputy director:

Conducted a seminar on "Contemporary Evaluation" for the Federal Executives Institute, Charlottesville, Va., on February 11.

Spoke on "The Role of GAO in Evaluating Federal R&D Programs" at the American Association for the Advancement of Science's Annual Convention in Boston, Mass., on February 23. He also participated in a panel discussion on "Evaluation of R&D."

Was appointed to the program committee for the 1976 National Conference on the Advancement of Research and Chairman of the program committee's Subcommittee on Research Problems Necessitating Government Involvement. The conference will be held in Philadelphia, Pa., September 29 through October 2.

Andrew B. McConnell, associate director, spoke before the Air Capital Chapter of the National Contract Management Association of Wichita, Kans., on February 18. His subject was GAO and its activities involving reviews of Government procurement.

Hyman S. Baras, assistant director, had an article on "The Use of Life-Cycle Cost Estimates in Weapon System Acquisitions" published in *Industrialization Forum* (Vol. 6, 1975), a magazine for architects and construction engineers. The article was so-

licated by the Harvard University Graduate School of Design for inclusion in an issue devoted exclusively to life-cycle costing.

Donald E. Day, assistant director, attended the Brookings Institution's Policy Conference for Science Executives in Williamsburg, Va., November 16 through 21.

Jack S. Heinbaugh, assistant director:

Participated in a panel session on "IR&D and Tomorrow" at the annual meeting of the Electronic Industries Association Government Procurement Relations Council in Key Biscayne, Fla., on November 14.

Spoke and participated in a panel discussion on IR&D and bid and proposal costs at the 1976 WEMA Executives' Capital Caucus in Washington, D.C., on February 26.

Raymond A. Hautala, assistant director, participated in the Pennsylvania State University's "MBA Career Exploration Night" held on the Penn State campus, January 8. He discussed career opportunities in the Federal Government.

Clifford Melby and *Harry Tobin*, supervisory auditors, arranged and presented an orientation briefing on procurement reviews for members of the Oregon State Division of Audits and Auditors of the City of Portland, Oreg.

Frank Willis, supervisory auditor, and *Barry Molnar*, management auditor, were guests at a faculty luncheon at Colorado State University and discussed factors accounting for the success of universities in competing for Federal R&D funds on November 20.

Resources and Economic Development Division

Henry Eschwege, director, participated in deliberations of the Committee for Economic Development pertaining to a study of nuclear energy and national security from October 30, 1975, to March 9, 1976.

Wilbur D. Campbell, associate director, spoke on GAO's oversight responsibilities as a participant in the United States Civil Service Commission's seminar on the Congress for executives within the Environmental Protection Agency on January 29, 1976.

Field Operations Division

Atlanta

Marvin Colbs, regional manager, was named Distinguished Practitioner Lecturer at the University of Georgia School of Business Administration and is presenting one lecture during each of this year's academic quarters on the Athens campus.

A. L. Patterson, assistant manager, addressed the First Annual State of the Art Conference of the Institute of Internal Auditors on "The Allocation of Audit Resources" at Orlando, Fla., on December 9.

Boston

Nicholas Carbone, assistant manager, participated in a workshop on monitoring and evaluation at the Annual Fall Conference of the Connecticut Community Development Association. The conference was held in New Britain, Conn., on December 18 and 19.

Paul M. Foley, assistant manager,

spoke on GAO standards for auditing governmental programs, activities, and functions at the January 22 meeting of the Vermont Society of Certified Public Accountants. On February 10 he addressed members and guests of the New England Chapter of the National Property Management Association on Cost Accounting Standard Number 409—Depreciation of Tangible Capital Assets.

Cincinnati

Harold R. Fine, assistant manager, served on a Federal Executive Board Committee which planned and conducted a productivity seminar for Federal and State executives.

Dale E. Ledman, *Gregory G. Booth*, and *Aleen J. Miller*, supervisory auditors, are serving as officers in local chapters of the Association of Government Accountants.

Gary F. Clark, supervisory auditor, was awarded a certificate on December 19, 1975, as a certified internal auditor by the Institute of Internal Auditors.

Staff members *Jim Press*, *Kay Blake*, *Mike Hazard*, *Shirley Dailey*, *Tom Haas*, and *Deborah McClary* are advisors in the local Junior Achievement Program. This program provides practical business education and experience for high school students.

Denver

Irwin M. D'Addario, regional manager, spoke to a group of Jefferson County (Colorado) CPAs on performance auditing at a breakfast meeting on October 23, 1975. He also spoke to the Denver Chapter of the American Society of Military Comptrollers at a luncheon

meeting on October 24, 1975. His topic was "What Should the Auditee and the Auditor Expect of Each Other?" On this same topic he conducted a seminar for the Denver Chapter of the Association of Government Accountants on October 16. On November 26, 1975, he conducted a seminar on GAO's role for a graduate business class at the University of Colorado.

Monte B. Commons, supervisory accountant, spoke to the Office of Audit and Investigation, Department of the Interior, on December 19. His topic was "GAO Experience With and Coordination of ADP Audit Effort." He also spoke at a technical session of the Association of Government Accountants on "The Role of Management in Computer Systems Development" on January 8.

Kansas City

K. L. Weary, regional manager, and *Kenneth Luecke*, assistant manager, moderated a panel discussion on the "Use of IPA's in Auditing Federally Assisted Programs" at the October 29 meeting of the Iowa Society of CPAs.

David Ashley, supervisory auditor, discussed GAO's responsibilities in governmental accounting at the "Accounting for the Future Day" program of Kansas State College of Pittsburg, Kansas. This program, held on October 21, 1975, acquainted high school seniors, junior college students, and accounting majors at the college with requirements and opportunities in various fields of accounting.

San Francisco

Bill Conrardy, regional manager, and

Jim Grossman, supervisory auditor, participated in a 3-day conference held by the American Society for Public Administration in November 1975. The conference addressed a wide range of public management topics.

Hal D'Ambrogia, assistant manager, and *Kurt Sjoberg*, supervisory auditor, addressed the staff of the California State Auditor General in December 1975 on "The Role of Managers and Supervisors in GAO." Mr. Sjoberg also is serving on the 1975-76 Business Advisory Council for California State University, Chico, Calif.

Charlie Vincent, assistant manager, addressed the Oakland Chapter of the National Association of Accountants on "GAO Oversight Responsibilities" in October 1975. He also lectured at the Civil Service Commission Executive Seminar Center on the same topic in December 1975.

Felix Brunner, audit manager, conducted a seminar for Health Application Systems, Inc., in November 1975. The San Francisco seminar concentrated on GAO and government contractor responsibilities.

Jack Birkholz, audit manager, conducted a seminar on government audit standards for the California State Department of Health in December 1975.

John Moran, audit manager, participated in a conference held by the American Bar Association on "Land Use: Rights of the Regulated." The conference was held in San Diego.

Jeff Eichner, audit manager, spoke to the accounting club at California State Polytechnic College, San Luis Obispo, in December 1975. His topic was "Accounting Opportunities in the Federal Government."

Steve Reed, audit manager, and supervisory auditors *Bob Brown*, *George Lincoln*, *Ann Lundberg*, *George Senn*, *Kurt Sjoberg*, *Kane Wong*, and *Henry Zollner* have been elected to Association of Government Accountants offices in local chapters.

Seattle

Philip A. Bernstein, regional manager, addressed the Eighth Annual Accounting Conference, held at Portland State University, on November 13, 1975. His subject was the "Role of the Cost Accounting Standards Board."

Ray S. Hausler, assistant manager, spoke to the Portland Chapter of the Institute of Internal Auditors on October 27, 1975. His subject was "A Framework for Operational Audits of Federal Programs."

Washington

Joe Brown, *John Converse*, *Cliff Diehl*, *Ed See* and *Greg Ulans*, staff members, participated as registrars at the 1975 Annual Fall Conference of Toastmasters, District 36, on November 22, 1975. The all-day conference was attended by over 250 Toastmasters from the greater Washington area.



The following new professional staff members reported for work during the period of November 16, 1975 through February 15, 1976.

**Office of
Personnel
Management**

Poulard, Grady E.	Department of Housing and Urban Development
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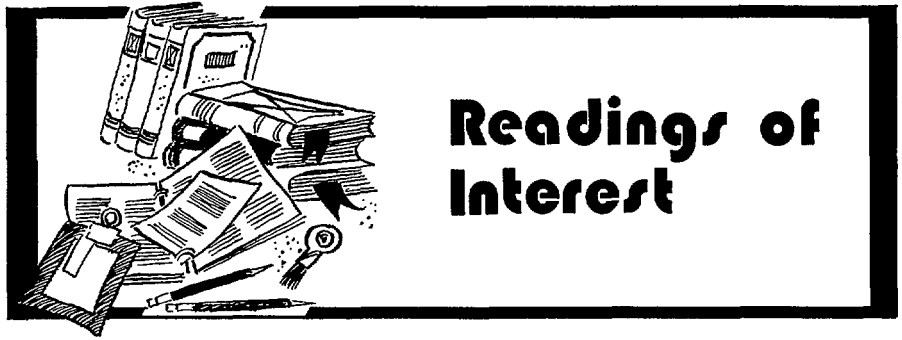
**Office of
Staff Development**

Barsky, Joan K.	Department of Agriculture Hampton Institute
Bittle, Agnes I.	Southern Colorado State College
Callahan, Charles M.	Department of Commerce Michigan State University American Graduate School of International Management
Casas, Lydia M.	Federal Trade Commission
Chapman, Raymond E., Jr.	Syracuse University
Clapp, Eaton C.	Indiana University
Gower, David E.	Pennsylvania State University
Gremier, Ronald L.	Department of the Army
Huck, Robert L.	Department of the Interior
Joseph, Edward G.	National Aeronautics and Space Administration
Kladiva, Susan D.	Oklahoma State University
Lott, Carolyn L.	University of Connecticut
McNair, Darlene M.	Virginia Commonwealth University
May, Carolyn A.	New York Institute of Technology
Mihalek, Paul H.	Department of the Treasury
Owens, Ronald M.	Hood College
Pernick, Robert	University of Baltimore
Ripper, Hugh J.	
Sharer, Ralph C.	
Wolfe, Harry O., Jr.	

Office of the General Counsel	Haubert, William H., II Mosher, J. Dean Parsons, Richard K.	Securities and Exchange Commission Department of the Navy ACTION
Financial and General Management Studies Division	Lemley, Harriett J. Rothwell, James L. Solis, William M.	Department of Commerce Department of the Army Department of Agriculture
Procurement and Systems Acquisition Division	West, William D.	Rockwell International
Manpower and Welfare Division	Carter, David F. Gadsby, John W. Kyle, Willa C. Michael, Mae Wanda L.	Department of Labor General Services Administration District of Columbia Government Civil Service Commission
Resources and Economic Development Division	Comiskey, James J.	Department of the Interior
Office of Special Programs	Boss, Gary R. Milans, Flora H. Paik, Inja K. Shilepsky, Alan P.	Department of Commerce Department of the Interior Georgetown University Environmental Protection Agency
International Division	Lewis, Carl L. Stock, Raymond R.	Office of the Auditor General— State of California Food and Agriculture Organization of the UN
REGIONAL OFFICES		
Atlanta	Bush, Ray B. Godfrey, William R. Hall, Bobby D. Reese, James D.	Veterans Administration Department of the Interior Department of the Treasury Florida Southern College
Boston	Forbes, Kenneth C. Purtell, William B., Jr.	Bentley College Veterans Administration
Chicago	Calhoon, Richard R. Hamm, Karen J.	University of Wisconsin Shippensburg State College

NEW STAFF MEMBERS

Cincinnati	Corrado, Roger S. Edwards, Richard C. Whalen, Timothy T.	University of Cincinnati Fayetteville State University Ohio State University
Dallas	East, Robert T.	Department of the Air Force
Denver	Basso, James H. Smith, Royce D.	Metropolitan State College Department of the Interior
Kansas	Corjay, Michael J. Covington, Velma J. Meyer, Douglas S. White, William B., V	Central State University Department of the Treasury University of Missouri University of Missouri
Los Angeles	Cooley, John B. Johnson, Harry F., Jr. Papin, Darrell W. Scales, Harry E., Jr.	Arizona State University Gannon College Santa Monica College Woodbury University
New York	Maneen, Richard S. Mattine, Robert J. Pezzolo, Walter L. Rankert, David W. Ricci, Luccio R.	Bernard M. Baruch College Queens College Bernard M. Baruch College Syracuse University Rutgers University
Philadelphia	Slaterbeck, James A.	Rutgers University
San Francisco	Christensen, Larry G.	Arizona State University
Washington (Falls Church)	Anderson, Bernard R. Luttrell, Thomas A. Payne, Nelson S., Jr.	Virginia Commonwealth University Atlantic Union College George Washington University



Readings of Interest

The reviews of books, articles, and other documents in this section represent the views and opinions of the individual reviewers, and their publication should not be construed as an endorsement by GAO of either the reviewers' comments or the books, articles, and other documents reviewed.

Business Systems

By Theodore C. Willoughby and James A. Senn, Association for Systems Management, 1975; 656 pp., hardback, \$13.50.

This book is designed as a college text for a beginning course in systems analysis. It is aimed at the student who has already had introductory courses in data processing, computer technology, or management. However, it should also be beneficial and is highly recommended to the GAO professional because its wide range of subjects applies to the auditor as well as to staff members specializing in analysis. The book is easy to read, and the highly technical subject can be understood by the non-technician.

Following is a partial listing of the subjects covered in the book's 30 chapters: analysis of forms and reports, work sampling and time study, information flow analysis, the systems proposal, file and data base design, forms and report design, written procedures and

documentation, hardware/software selection, systems specifications, selection and training of people, space planning and facilities, programing management, system testing, system conversion and evaluation, application of controls, system maintenance, forms control, records management, security, linear programing, statistical analysis, audit software, Project Evaluation and Review Technique (PERT), risk analysis, separation of duties, measurement of benefits, sampling, modeling and simulation, regression techniques, queuing, questionnaires, and internal audit reports.

Interestingly enough, the internal audit report example presented in the book is the result of GAO's examination of Law Enforcement Assistance Administration, Department of Justice, grants for criminal justice information systems and specifically its review of the prototype System for Electronic Analysis and Retrieval of Criminal Histories (Project SEARCH).

The book is organized into six parts

covering the following major topics: information systems in organizations, the systems project, information analysis, systems design, system implementation, and system control and minor maintenance. The parts are subdivided into 30 chapters. Each chapter has a summary, review questions designed to reinforce the text material, and discussion questions which were reviewed or developed by practicing system professionals. Each chapter also contains an excellent bibliography of current works by recognized authorities in the field.

The staff member already familiar with the subject matter will find the book

a handy, up-to-date reference. To the uninitiated, the book will serve as a comprehensive and easy-to-understand introduction to many subjects within the business systems field which the GAO auditor must deal with each day.

Paul S. Benoit

Supervisory Computer Systems

Analyst

Financial and General Management Studies Division

Note: Mr. Benoit is recognized in the book's acknowledgment section as being one of the reviewers who read the manuscript and offered many helpful suggestions.

June Buying

Wasteful purchasing and inventory practices are an affront to the taxpayer and cannot be tolerated.

The ordering of goods and services at the end of the fiscal year to prevent the lapse of available appropriation balances is indefensible at any time.

President Lyndon B. Johnson

May 13, 1966

Annual Awards for Articles Published in The GAO Review

Cash awards are available each year for the best articles written by GAO staff members and published originally in *The GAO Review*. Each award is known as the Award for the Best Article Published in The GAO Review and is presented during the GAO awards program held annually in June in Washington.

One award of \$250 is available to contributing staff members 35 years of age or under at the date of publication. Another award of \$250 is available to staff members over 35 years of age at that date.

Staff members through grade GS-15 at the time of publication are eligible for these awards.

The awards are based on recommendations of a panel of judges designated by the Comptroller General. The judges will evaluate articles from the standpoint of the excellence of their overall contribution to the knowledge and professional development of the GAO staff, with particular concern for:

- Originality of concepts.
- Quality and effectiveness of written expression.
- Evidence of individual research performed.
- Relevancy to GAO operations and performance.

Statement of Editorial Policies

1. This publication is prepared for use by the professional staff members of the General Accounting Office.
2. Except where otherwise indicated, the articles and other submissions generally express the views of the authors, and they do not necessarily reflect an official position of the General Accounting Office.
3. Articles, technical memorandums, and other information may be submitted for publication by any professional staff member. Submission should be made through liaison staff members who are responsible for representing their offices in obtaining and screening contributions to this publication.
4. Articles submitted for publication should be typed (double-spaced) and generally not exceed 14 pages. The subject matter of articles appropriate for publication is not restricted but should be determined on the basis of presumed interest to GAO professional staff members. Articles may be submitted on subjects that are highly technical in nature or on subjects of a more general nature.

THE GAO REVIEW

Editor

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