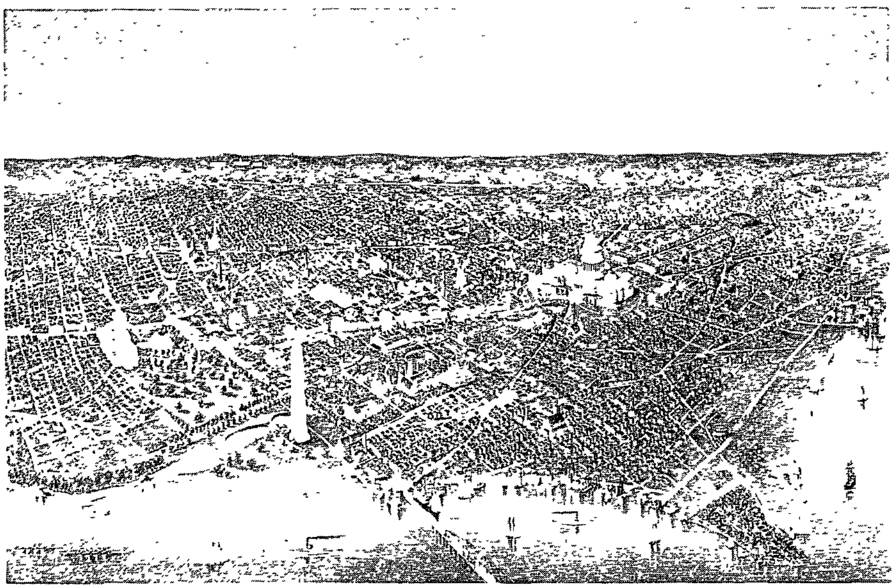
UNITED STATES GENERAL ACCOUNTING OFFICE

THE GAO REVIEW

FALL 1975

THE CITY OF WASHINGTON



An 1892 Currier & Ives lithograph shows a birds-eye view of the city of Washington from the Potomac, looking north. Capitol Hill dominates the view. Besides the Washington Monument, other Government structures shown include the White House; the War, Navy & State Building; the Treasury; the Patent Office; and the Smithsonian Institution. At the foot of Capitol Hill, on the present mall, is shown the B&O Railroad depot.

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News and Notes

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COMPTROLLER GENERAL OF THE UNITED STATES

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The Federal Budget, The Economy, and Inflation

Commentary on the complex interrelationships of the Federal budget and the national economy and on new congressional budget procedures. These comments were presented at the 1975 Annual International Conference of the National Association of Accountants, Anaheim, California, June 23, 1975.

We live in a world where everything is related to and affected by everything else. This is becoming increasingly apparent on domestic and international fronts.

In no area, perhaps, is the existence of interrelationships and interactions more apparent or more important than in our very complex economy. Many have studied these interrelationships and interactions in an attempt to discover useful rules by which to judge the present state of affairs, to predict future events, and to help influence those future events for the overall good of our society. The rules which have been developed are not perfect and their application remains more an art than a science; but they have been useful in helping us to understand the dynamics of the economy and ways to react when unforeseen events cause us particular economic problems.

Importance of Federal Budget

A very powerful influence on our Nation's economy is, of course, the Federal budget—nearly 10 percent of the gross national product. Conversely, the general state of the economy influences the Federal budget in several important ways.

Through changes in revenue and expenditure levels in the Federal budget, substantial changes can be effected in aggregate demand, price levels, and employment. Selective changes in the incidence of taxes, tax expenditures, and spending can be used to significantly affect various sectors of the economy vis-a-vis the others. That the Federal budget constitutes an important tool for influencing the economy—a proposition popularized by John Maynard Keynes—is not in doubt. The controversy that remains is over measurement of the effects and judgmental questions relating to the appropriate types, magnitude, and timing of budgetary actions to stimulate or stabilize the economy.

The total performance of the economy, on the other hand, significantly affects both Federal revenues and spending. Rising production and employment bring increased revenues to the Treasury and automatically tend to reduce Federal spending in some areas. These tend to restrain rapid expansion and its inflationary effects. Alternatively, if the economy slumps and levels of business and employment fall, so do Federal revenues. At the same time, the burden of unemployment increases demands on the Treasury for unemployment insurance benefits; public assistance in various forms, including food stamps; and public service employment, as well as other types of spending and tax expenditures to bolster the economy. Hopefully, the deficit these cause will provide impetus to the economy, leading to its recovery.

Our present recession will lead us this coming year to a deficit larger by far than any on record.

The current situation is complicated rather markedly by our recent experience with double-digit inflation and continuing rising price levels at rates with which we are not very comfortable. Let me review some of the events that led up to our present problems in this regard.

In the early 1960s inflation was in the neighborhood of 1 to 2 percent per year. In general, the "creeping inflation" of those years appeared to be of little concern to policymakers. Later in the decade, the inflation pace increased under the impetus of Vietnam war spending. The big jump in Government spending would have been bad enough, but the inflationary impact was heightened by an underestimation of the budgetary costs of the war, a reluctance to increase taxes to cover these costs, and strong consumer demands for goods and services in the private sector.

The second big jolt to prices occurred during 1973 and 1974. A considerable part of the jolt was due to cost-push factors—commodity shortages and the emergence of the oil-producing export countries cartel. The higher oil prices, incidentally, had a peculiar economic impact. Not only did the higher prices act to increase the cost of living but also, because the extra billions of dollars spent on oil were sent abroad, the effect was very much like a tax whose revenues were set aside and not returned to the economy. This was a very definite contributing factor to the current recession.

These events have left us in a situation where the Consumer Price Index has increased by 58 percent since 1967, and by about 28 percent in the past 2 years. Inflation, by itself, has led to large increases in the cost of Government purchases of goods and services in recent years and to large increases in transfer payments which are indexed to the Consumer Price Index.

We currently face something of a dilemma in that the demands for deficit spending to bolster the economy generally and provide income for the unemployed will tend to exert continued upward pressures on price levels.

Budgetary Reform

The vast and complex set of interrelationships between the Federal budget and the economy, generally coupled with the equally complex set of political processes through which this Nation assesses national needs and priorities and devises means for meeting them, makes the job of fashioning an overall Federal budget in a fiscally responsible way a complex and difficult one indeed. And it is a job which becomes more complex and difficult as our economy becomes more complex.

Until 1921 the formulation of the Federal budget was carried out largely on a piecemeal basis, with each department and agency submitting its budget requests and legislative proposals directly to the Congress for consideration and action without any central overview within the executive branch on behalf of the President.

The Budget and Accounting Act of 1921 changed this by creating the Bureau of the Budget—first located in the Treasury Department and later in the Executive Office of the President—to assist the President in formulating an overall budget consistent with his views of national needs and priorities, including those relevant to the economy. Incidentally, that same act created the General Accounting Office, which I head and about which I will say a few things later.

The machinery created by this legislation, and now managed by the Office of Management and Budget in the Executive Office of the President, greatly facilitated the Government's ability to "look at the big picture," so to speak, and to set objectives and priorities within an overall framework and constraints deemed, at least by the President and some of his advisors, to be fiscally responsible.

This budget set a baseline for congressional consideration and action, during which executive branch judgments and recommendations were examined and questioned. Changes were recommended through a system of committees and subcommittees, and ultimately a budget was enacted.

This system worked relatively well for a long time. Congressional action on the budget, however, was still accomplished on a piecemeal basis with numerous revenue, authorization, and appropriation bills being considered by separate subcommittees and committees of both Houses and finally coming up for floor action in the two Houses.

As the budget grew larger and more complex, with room for greater divergence of judgment on national objectives and priorities and the means to achieve them, the system became more and more cumbersome and less and less likely to produce a budget which was properly balanced with the functioning of the overall economy.

One concern was that over the past 25 years the appropriations committees gradually lost jurisdiction over a large portion of total outlays. This happened because more and more legislation was enacted which resulted in entitlements such as veterans' pensions, welfare payments, subsidies, and a host of other activities which were largely removed from effective control through the appropriations committees. About all that the appropriations committees could do was to ratify obligations already made. The result was that each of the legislative committees became appropriations committees to the point where the House and Senate appropriations committees' jurisdiction covered less than half of total Federal outlays.

Long delays occurred in the enactment of many parts of the budget. Often appropriations were not enacted before the start of the fiscal year, requiring resort to the expedient of continuing resolutions to keep major parts of the Government functioning.

Appropriation bills submitted for the President's approval were often vetoed because he did not consider them to be in reasonable consonance with his overall budget and the needs of the economy. Vetoes resulted in further delay and controversy; in at least one case, as a result of delays and vetoes, the huge Department of Health, Education, and Welfare ran on continuing resolutions throughout a full fiscal year and well into the next without any appropriation act becoming law.

Even when the President signed appropriation acts, it did not always end the matter. Where he deemed it prudent, the President deferred or prohibited the use of appropriated funds—the so-called impoundments—raising constitutional questions concerning the separation of powers and generating considerable litigation.

This process not only was disrupting to the functioning of the Federal Government—the delays and uncertainties in a sector which is so central to the Nation—but was disconcerting to the whole Nation in a social and economic sense as well as a political one.

The situation prompted the Congress to recognize that it must update and modernize its process for enacting the Federal budget into law and to do so in a way which insures that each part of the budget is considered an integral part of the whole. It needed a mechanism through which each part of the budget could be justified, not only on its own merits but in its relationships to the overall impact of the budget on our social and economic well-being.

New Congressional Budget Procedures

Such a process, established by the Congressional Budget and Impoundment Control Act and enacted in July 1974, is relatively simple.

It lays down a strict and rather tight timetable for the completion of all legislative actions required for formulating and enacting the overall budget before the start of a fiscal year.

It requires that the Congress, early in each session, reach a judgment, articulated through a concurrent resolution, on the overall budgetary picture, including both revenues and outlays with allocations by revenue source and major functional categories of the budget.

It also requires that all legislative actions either be consistent with the overall constraints spelled out in the first concurrent resolution or that the concurrent resolution be revised to accommodate judgments on the overall budget.

The legislation created a budget committee in each house of the Congress to serve as the focal point for looking at the budget in its entirety. Also created was a Congressional Budget Office to assist not only the budget committees but the Appropriations, Ways and Means, and Finance Committees, and other committees as well.

The new legislation requires 5-year forecasts of revenues, cost estimates for proposed legislation that is reported to the floor, and cost projections for all existing legislation. The Budget Committees must set an overall spending level dictated by stabilization goals, and spending on the various programs must be reconciled under this limit.

The fiscal year will be changed to October through September, with a transitional budget to cover the 3 months between June 30 of that year when fiscal year 1976 closes and October 1, 1976, when, under the new system, fiscal year 1977 starts.

As I mentioned earlier, the timetable for the steps leading to the enactment of the overall budget is very tight. The key steps and the dates by which they must be taken are:

November 10 of preceding year–President submits a "current services budget" which is essentially a budget carrying forward all current activities without change.

15th day after Congress meets–President submits his budget.

March 15–Committees and joint committees report to the Budget Committees their views and recommendations on matters falling within their respective jurisdictions.

April 1–Congressional Budget Office submits its overall report to the Budget Committees, providing analyses of various alternatives.

April 15–Budget Committees report the first concurrent resolution to their respective Houses.

May 15–Other committees report bills and resolutions authorizing new budget authority.

May 15–Congress completes action on the first concurrent resolution.

7th day after Labor Day–Congress completes action on all bills and resolutions providing new budget authority.

Sept. 15–Congress completes action on second required concurrent resolution.

Sept. 25–Congress completes action on a reconciliation bill or resolution implementing the second concurrent resolution. This bill or resolution adjusts the details of the budget to conform to the second concurrent resolution.

Oct. 1–Fiscal year begins.

Implementation

The process is simple in concept, but it will take the concerted efforts of many to implement the process effectively. With such a major change in the process of handling the budget, it should be no great surprise that the machinery will not work entirely smoothly the first time around, or perhaps even the second time around. The concern is whether there will be sufficient patience with the new process to enable this readjustment to take place and to give the new process a full opportunity to test itself. But I am personally encouraged by the prospects.

This year the Congress is making kind of a dry run of the process so that full implementation next year will be facilitated. So far it has gone quite well. The first concurrent resolution, passed last month, calls for a deficit of about $69 billion, up $17 billion from that shown in the President's budget submitted in February.

You may, of course, choose to agree or disagree with the level of the budget deficit, either the one proposed by the President, the one incorporated into the first concurrent resolution last month, or the one which will finally emerge at the completion of the budget formulation process. There is no perfect answer. But for the first time there is a target, set by the Congress, against which it may judge the aggregate of its legislative actions.

The new process is one which hopefully will let the best judgments on budget priorities rise to the surface within a framework which deals with the budget and the relationship of it and its various components to the overall economy in a cohesive and comprehensive manner.

I have already alluded to the complex set of political processes through which this Nation assesses national needs and priorities and devises means for meeting them. Unfortunately, but necessarily, the new congressional budget process adds to this. It not only adds the budget committees, each having a jurisdiction as broad as that of the Government itself, but adds new actors or expands the role of old actors on the scene.

Congressional Budget Office

Besides the budget committees and their staffs, the one principal new actor is the Congressional Budget Office. It has a major role to play in the system, principally by providing analyses of the effects of alternative levels of budget authority and revenues and alternative allocations of these among various governmental purposes on our societal condition, including the economy. The law specifically states that this new office, in its report to the Budget Committees due on or before each April 1st, discuss "national budget priorities, including alternative ways of allocating budget authority and budget outlays among major programs or functional categories, taking into account how such alternative allocations will meet major national needs and affect balanced growth and development of the United States."

This function—offering clear choices, together with their implications for the Nation's welfare, to the Budget Committees as well as others—is an extremely important one.

Other Congressional Agencies

Other parts of the act enlarge upon the role of other congressional agencies, including the General Accounting Office. In essence, each of these agencies, with its own focus, is to act cooperatively with the others to produce for the Congress the best information base possible for its decisionmaking.

The Congressional Research Service of the Library of Congress draws mainly upon published literature to provide informational needs of the Congress. The new law makes it clear that the Service should support the informational needs of the Congressional Budget Office as well as the new Budget Committees and the other congressional committees.

The relatively new Office of Technology Assessment is likewise expected to serve these needs. This Office is charged with considering principally the long-term effects and implications of the development and implementation of new and emerging technologies as well as considering the effects of technology already in use. It was intended to serve as an "early warning" tool against possible ill effects of scientific advances—in both the hard and soft sciences.

GAO's Role

GAO was given both these general responsibilities—to support the budget committees and cooperate with the Congressional Budget Office—and certain specific responsibilities under the act.

From its inception in 1921, our charter has been extremely broad. We were told to "investigate at the seat of Government and elsewhere, all matters relating to the receipt, disbursement, and application of public funds," and to make recommendations for the greater economy and efficiency of Government.

Our activities under this broad charter have evolved steadily over time, and at an increasing rate in more recent years.

From a modest beginning of being concerned principally with the fiscal accountability of the Federal Government—that is, that funds and property were prudently safeguarded and used only for purposes authorized by law—we have developed and pursued at least two additional types of accountability—management accountability, concerned with whether resources are used efficiently toward their intended purpose, and program accountability, concerned with the extent to which programs achieved their intended objectives and with whether alternatives are available to meet these objectives more effectively or efficiently.

Each one of these is, of course, important for the proper and effective functioning of the Federal establishment. The studies undertaken in each area can be drawn upon by each of the congressional committees and agencies in the performance of their particular function.

In addition, the new law expands upon the responsibilities of GAO, both as laid down in its initial 1921 charter and in subsequent legislation, particularly the Legislative Reorganization Act of 1970.

Under this legislation, we are responsible for assisting congressional committees in developing statements of legislative goals and methods of assessing program performance against such goals. We are charged with cooperating with the Office of Management and Budget and the Treasury Department in developing, establishing, and maintaining a standardized information system which will meet the needs not only of the Congress but also of the executive branch generally and, insofar as practicable, of the State and local levels of government.

We are also responsible for developing standard terminology definitions, classifications, and codes for Federal fiscal, budgetary, and program-related data and information.

Finally, we are responsible for reviewing and for advising the Congress, and related activities, when the President chooses to either defer or rescind the use of budget authority enacted in legislation.

We will continue our traditional efforts to improve the effectiveness of Government in general and we will embrace our new responsibilities under the new legislation to the same end.

Some Issues To Be Analyzed

Before closing, I will mention just a couple of examples of issues which will be subject to specific analyses in an effort to gain a better understanding of the relationship of the Federal budget to the overall economy.

First, let's consider the *relationship between inflation and income taxes*. Personal income taxes, which are the largest single source of Federal revenue, are influenced dramatically by inflation. A person whose income increases right along with inflation naturally has to pay higher taxes. But if he compares his current tax *rate* to what it was a few years ago, he will be in for an unpleasant surprise—his taxes as a percentage of total income will have increased because of our progressive tax system. The person's higher income pushes him into a higher tax bracket. Even if, by our assumption, his income increased enough to offset inflation, his real disposable income will have fallen because taxes are taking a bigger piece of it.

What is the actual magnitude of this effect? According to an estimate by the Joint Committee on Internal Revenue Taxation, income tax revenues increased by $7 billion because inflation pushed people into higher tax brackets.

Inflation also distorts the corporate income tax. If a firm uses the first-in, first-out method of accounting, then inflation makes it appear that the real value of the firm's inventories has increased whereas, in fact, it may only have kept pace with inflation. Also, depreciation costs are understated because they are calculated against the original cost, rather than the inflated replacement cost, of the capital equipment. For both of these reasons, profits are overstated and the firm winds up paying higher corporate profit taxes, even though the value of its profits in real terms may not have increased. In order to compensate for this effect, among other things, quite a number of firms are switching from first-in, first-out to last-in, first-out. There are several other ways in which inflation affects the corporate profit and loss statements, and very little is known about the magnitude of the resulting changes in tax liabilities.

Next, let's consider the *relationship between inflation and Federal spending levels*. As inflation proceeds, the Government naturally has to spend more on the goods and services that it purchases. In addition, transfer payments, such as social security, inevitably grow.

Most of these transfer payments grow automatically because, by law, they are linked to the Consumer Price Index or to some other indicator of the cost of living. This is called "indexing."

The list of indexed retirement programs now includes social security, civil service, railroad workers, armed forces, and the foreign service. In addition, food stamps, school lunch and breakfast, and aid to the aged, blind, and disabled are all tied to a price index.

The point of indexing is to keep the value of these benefits constant despite inflation, without the Congress constantly having to revise the legislation. Whether indexing results in higher or lower spending is a debatable point. Some, looking at the effect that inflation has had, would say that spending on these programs is "out of control." Others would say that the indexing has preserved the original intent of the Congress and that, if the Congress were to constantly revise the legislation, spending might be even higher than it is now.

Whatever the pros and cons of indexing, it is certainly true that inflation has greatly increased the budgetary cost of these programs. More than 70 million people benefit from some type of indexed program, and in the 1976 budget indexing alone will lead to an increase in spending of $3.8 billion.

Incidentally, the portion of wage earners and pensioners in the private sector whose income is indexed to the CPI is considerably smaller, although it is growing and will probably grow still further in the future as long as the high rates of inflation continue.

With consequences of this magnitude, indexing becomes as important in the budget as many specific programs. Therefore, it is important to gain as good an understanding as possible of the effects of indexing on the overall economy: it may be that indexing, if practiced too widely, may itself exert inflationary pressure on the economy.

These and other issues will be pursued by us as well as by others in an effort to improve the understanding of the implications of alternative courses of action in the overall budgetary process.

A Note of Optimism

To conclude on a somewhat more optimistic note, there are signs that the current recession has run its course. At least there seems to be an emerging consensus among forecasters that recovery will begin in the next several months.

Most recoveries in the postwar era involve growth in the 8 to 9 percent range during the first five quarters following the trough of a recession. Most econometric forecasters have concluded that recovery this time will progress more slowly, perhaps at a 6 to 7 percent growth rate. Two weeks ago, for example, the administration issued its Mid-Session Review of the 1976 budget. In this report, they assume that the recovery from the current recession will begin shortly and that real growth in the economy will be close to 6 percent for 1976.

The forecast that appeared in the Mid-Session Review offers a dramatically different scenario for the recovery than was presented in the President's budget only last February. There he forecast a continuation of high rates of both unemployment and inflation. Unemployment was projected at an average of 8.1 percent for 1975 and the rate of inflation was predicted to be in excess of 11 percent. (The current unemployment rate is 9.2 percent and the inflation rate is approximately 8 percent.)

The original projections by the administration were, we believe, based on two crucial assumptions: (1) that the phenomena of *stagflation*, with relatively high levels of unemployment and double-digit inflation, would continue to haunt the economy and (2) that the President's energy bill would be enacted early in the 94th Congress. Later events have demonstrated that those assumptions were not valid. Therefore, it appears that the higher unemployment now being experienced will lower the rate of inflation more than was expected several months ago.

Recent economic events indicate that the current recession has taken on some of the characteristics of a "normal" recession; that is, the rate at which prices increase slows down as the unemployment rate increases. Stagflation may not be totally and permanently gone, but the unemployment-inflation tradeoff analysis is more applicable now than it was during 1974, when a large portion of the inflation was due to higher energy prices.

Although there is a consensus that recovery will begin in the next several months, there is a great deal of uncertainty as to its trend. This uncertainty is based upon analysis of the major sectors of the economy. None of these sectors appears to be shaping up as the "Moses sector"; that is, the one that will lead the economy out of the recession. Traditionally, the housing and auto industries have had this role, but prospects in this area are still most uncertain despite the recent positive signals in housing permits and starts. During the course of the summer, more data will become available that will provide some insights as to the shape of the anticipated recovery. This data will also provide, hopefully, an indication of the fiscal impact of the Tax Reduction Act of 1975 and whether the tax rebates have provided a major stimulus to the economy.

Our present economic situation, and I am certain those which will emerge in the future, and the well-being of our society in general, challenge each of us, in Government and out, to do our best to make our Government as effective as possible in articulating, as rationally and effectively as possible, a budgetary policy which meets national needs and priorities in the best possible way. The answers will never be perfect, but with all our best efforts, and with the better mechanism for congressional decisionmaking on the budget and its relationships with our economy, the answers arrived at will be better answers and will improve in the years ahead.

Priorities Should Be Minimized

Dependence on a budget allocation militates against setting priorities and concentrating efforts. Yet nothing is ever accomplished unless resources are concentrated on a small number of priorities.

Peter F. Drucker
"Managing the Public Service Institution"
The McKinsey Quarterly
Spring 1974

ELLSWORTH H. MORSE, JR.
ASSISTANT COMPTROLLER GENERAL

721549

The Government Corporation Control Legislation of 1945

The year 1975 marks the 30th anniversary of the legislation which provided for strengthened congressional control over Federal corporations. The significance of this legislation to current GAO operations and some of the historical background are reviewed in this article.

Thirty years ago the Congress enacted two laws to bring about stronger and more systematic congressional control over the large number of incorporated agencies of the Federal Government.

- *The act of February 24, 1945*–This was the so-called George Act, one section of which provided for an annual GAO audit of the financial transactions of all Government corporations.
- *The Government Corporation Control Act, which became law on December 6, 1945*–This act picked up the audit provisions of the George Act but added additional control measures such as requiring the submission of business type budgets by wholly owned corporations and generally providing for the Treasury Department to exercise control over the corporations' use of depositaries, their financing, and any transactions in Government securities. It also required that all Federal corporations be chartered by the Congress by June 30, 1948.

The audit provisions of the George Act were applicable only for fiscal year 1945, after which the more comprehensive Government Corporation Control Act became applicable. This act is still operative with respect to most Federal corporations and provides the primary source of GAO audit authority over them.

The 1945 act identified 101 corporations subject to the act, including the numerous banks in the Farm Credit and Home Loan Bank Systems. A few new corporations have been added, plus some unincorporated enterprises. But today, as a result of such changes as reorganizations, dissolutions, and payoff of Federal investments, this number has been greatly reduced.

The audit work performed by GAO today under the act is still important. But, proportionately, it is not a large part of GAO's total audit activity.

The great significance of this legislation in GAO's history is the fact that it provided a very important stimulus to the Office to accelerate the modernization of its auditing concepts and procedures and to build up a truly professional staff of accountants and auditors.

Some Major Developments

With the passage of 30 years since this legislation was enacted, a brief review of some of the major developments in GAO that grew out of these laws is warranted:

- The creation of a new audit division in GAO—the Corporation Audits Division—to carry out the new and heavy responsibilities placed on the Office.
- The selection of the leadership and most of the staff for this division from outside GAO.
- The use of audit concepts and techniques developed by the public accounting profession rather than the traditional centralized methods of audit and settlement of accountable officers' accounts that had characterized GAO auditing and that of its predecessors from the very beginning of the Government's financial system in 1789.
- The gradual extension of comprehensive auditing at the site of Federal Government activities, applying the basic concept of review and testing of agency control systems rather than detailed examination of fiscal documents irrespective of agency procedures.
- The extension of governmental auditing objectives beyond financial transactions, accounts, and reports and compliance with laws and regulations to problems of efficiency and economy of operations and effectiveness of results of activities carried out.

The Corporation Audits Division

This division was officially established on July 10, 1945, for the specific purpose of auditing the Federal corporations as required by the George Act. The creation of a new operating unit to carry out these responsibilities made it easier for GAO to attract qualified accountants and auditors of the caliber needed to carry out the Comptroller General's new responsibilities.

One of the best published records of the operations of the Corporation Audits Division was written by *John C. Fenton* and published in the 50th Anniversary edition of *The GAO Review* (Summer 1971). Mr. Fenton was an Assistant Director in GAO's former Civil Division. His article, entitled "The Corporation Audits Division—Its Legacy to the Seventies," traces the growth and performance of the new Division in terms of the specific individuals who were involved as well as the conduct of specific audit assignments and the broad scope applied to those assignments.

This Division existed until January 18, 1952, when it was consolidated—along with the former Audit Division, Postal Audit Division, and Reconciliation and Clearance Division—into a newly created Division of Audits.

Leadership and Staffing

The Corporation Audits Division was staffed mainly with people experienced in the practice of public accounting. This was most important because the 1945 legislation directed that the audits of the Federal corporations be carried out "in accordance with the principles and procedures applicable to commercial corporate transactions."

The first director of the Division was *T. Coleman Andrews* and his deputy was *Howard Bordner*. Both were experienced in the profession and practice of public accounting. They were succeeded in 1947 by *Stephen B. Ives*, director, and *Irwin S. Decker*, deputy director, who headed the division until its consolidation into the new Division of Audits in 1952.

These men were all certified public accountants, as were many others on the staff who were engaged from outside GAO to help launch and carry out the commercial-type audit.

Audit Concepts and Techniques

One major impact of the "new" type of audit approach in GAO, brought about by the corporation control legislation, was the application of the concepts and techniques developed and used by public accountants in their audits of private business enterprises. They had recognized much earlier that detailed auditing of all transactions was not only excessively costly but was unnecessary if the organization audited had any kind of a system of internal checks and controls. The system could be analyzed and tested, thereby making it possible to audit specific financial transactions on a selective basis rather than examining all of them.

This approach was not entirely unknown in GAO prior to 1945, but it was not extensively practiced. The traditional GAO audit approach up to that time was to establish individual accountability for Federal funds used and then make detailed checks at a central point—not at agency sites—to see whether such accountability was properly and legally discharged.

In considering the corporation control legislation in 1945, the Congress had available to it an explanation of the difference between the governmental type of audit and the commercial type of audit, which was being proposed for Federal corporations. The governmental type of audit, as carried out by GAO up to that time for all Federal agencies other than corporations, was described as involving these seven steps.

1. Establishing the accountability of disbursing officers as a result of advancing appropriated funds to them and by reason of collections received by them.

2. The submission by disbursing officers to GAO for audit and settlement of accounts supported by certified vouchers and other papers evidencing payments made from funds advanced to them.

3. Examination by GAO of these vouchers and papers to determine whether the payments were properly authorized and whether the expenditures represented valid obligations of the government under the appropriations charged.

4. Settlement by GAO of the disbursing officers' accounts and the determination of any liability to the United States.

5. The determination of any liability to the United States of the officers certifying for payment improper items included in the disbursing officers' accounts.
6. Issuance of certificates of settlement listing all unexplained or unadjusted differences identified in the examination of the accounts.
7. The institution of collection proceedings for balances found to be due.

This pattern of auditing had been followed for many years but was completely inappropriate for Federal corporations which did not operate with annual appropriated funds and did not render accounts to GAO at some central point where they could be examined and settled. Controversy raged with varying degrees of heat over this state of affairs for many years after GAO was founded in 1921.

Under Comptroller General *Lindsay Warren*, GAO supported the corporation control legislation and gave the committees involved much help in making their studies and developing the appropriate legislation. By enacting these laws, the Congress made it clear that the methods of operation of the corporations were substantially different from those of the unincorporated Federal agencies and warranted a different type of audit approach which the law characterized as the same as applicable to commercial corporate transactions.

Extension of Comprehensive Auditing

The centralized voucher type of audit continued unabated with respect to unincorporated Federal agencies for several years, but the experience gained in GAO in auditing the corporations helped pave the way for a major change in the type of auditing carried out.

In 1949 the Comptroller General adopted a comprehensive audit program for all such agencies which called for audits at the site with due regard to agency systems of accounting and internal control. This action was closely associated with the operations of the Joint Accounting Improvement Program which had adopted as its philosophy from its beginning in 1948 that the basic responsibility for accounting and internal control rested in the heads of the Federal agencies themselves and not elsewhere.

Walter F. Frese, former head of GAO's Accounting Systems Division, played a key role in the operations of the Joint Program in its early years. He has stated many times that the success with which the Corporation Audits Division carried out the commercial-type audit for Government corporations was a key factor in persuading Comptroller General *Lindsay Warren* to approve the discontinuance of the hundreds of thousands of accountability ledger accounts in GAO—which were being maintained in carrying out GAO audit responsibilities—and moving toward auditing at the site of agency operations.

This procedure is now accepted and taken for granted, but in the late 1940s and early 1950s it was a bold, revolutionary step to adopt. Without the Corporation Audits Division experience—and its core of experienced site auditors—this step would not have been taken as early as it was.

Expansion of Governmental Audit Objectives

In 1972 the Comptroller General published the now well-known statement of standards for audit of governmental organizations, programs, activities, and functions. This statement brings out very clearly that governmental auditing should not be limited to checking financial transactions and accounts and evaluating the adequacy of financial reports and compliance with laws and regulations. It also brings out that the full scope of such auditing includes examinations into problems of efficiency and economy of operations and effectiveness of results of programs and activities being carried out.

This concept evolved gradually but steadily over the past 30 years within GAO. The extension of the auditor's concern did not evolve entirely from the work and concepts developed in the Corporation Audits Division. It was really the result of a melding of viewpoints of top officials and operating staffs not only in that division but also in other GAO audit divisions which were operating at the same time and in the former Office of Investigations.

An early bone of contention was identification of the scope of the GAO audit. During the early years of the Corporation Audits Division, the arguments ran from urging no limitation on what the auditor should be concerned with to the opposite extreme of confining his activity to examining accounts and financial transactions for the purpose of arriving at an audit opinion on the financial statements of the corporation or agency and determining whether there were any violations of law or regulations.

From the very outset, however, the interpretation of the leadership of the Corporation Audits Division as to what was contemplated by an audit made "in accordance with the principles and procedures applicable to commercial corporate transactions" was a broad one.

The 10-volume report on the audit of the former Reconstruction Finance Corporation and its numerous subsidiary companies for fiscal year 1945 provides a leading example of the advanced scope of audit work performed in GAO 30 years ago. This assignment was carried out under the immediate direction of *Ted Herz*, an assistant director, with the assistance of a staff of about 75 people. This was the first GAO audit of this mammoth corporate complex, and it was a tough one for a new division in an old organization to start on.

A review of this report even now can be refreshing reading for GAO staff members. While a summarization is not the purpose of this paper—the RFC audit is a long story in itself—it may be noted that this audit concerned itself not only with major accounting deficiencies but also with problems encountered or observed with respect to RFC's general methods of operation, relationships with other Federal agencies, organizational structure, inadequacy of internal audit system, management of lending operations, management of trading and subsidy programs, and a host of other subjects.

The experience in this audit and others had a longlasting impact on the evolution of GAO's audit policies and practices as the comprehensive site audit pattern was extended to all other agencies of the Government.

Why the George Act?

A point of some historical interest concerns the inclusion in the George Act of a corporation audit provision. This provision came in as an amendment introduced by Senator Harry F. Byrd of Virginia providing for annual audits of Government corporations by GAO. Senator Byrd was chairing the Joint Committee on Reduction of Nonessential Federal Expenditures, which had been engaged for several years in studying the operations of Government corporations and the general lack of congressional control over them.

The George Act itself, as introduced, had nothing to do with audit control over Federal corporations. This bill had been introduced by Senator Walter F. George of Georgia to reactivate the Federal Loan Agency as an independent agency. This Agency had been set up in 1939 by Reorganization Plan No. 1 under the Reorganization Act of 1939 to supervise and coordinate the activities of a large group of Federal lending agencies—the Reconstruction Finance Corporation, Electric Home and Farm Authority, RFC Mortgage Company, Disaster Loan Corporation, Federal National Mortgage Association, Federal Home Loan Bank Board, Home Owners' Loan Corporation, Federal Savings and Loan Insurance Corporation, Federal Housing Administration, and Export-Import Bank of Washington.

In 1942 President Roosevelt issued Executive Orders 9070 and 9071 which transferred the functions of the Agency in part to the Department of Commerce and in part to the National Housing Administration.

Jesse Jones, long-time head of RFC and the Federal Loan Administrator, became Secretary of Commerce in 1939. As a result of the above transfers of functions, his responsibilities as Secretary of Commerce also embraced supervision and coordination of those corporations and agencies not transferred to the National Housing Administration. By this time the list of organizations subject to Secretary Jones' control included RFC, the Electric Home and Farm Authority, RFC Mortgage Company, Federal National Mortgage Association, Disaster Loan Corporation, Export-Import Bank of Washington, Defense Plants Corporation, Rubber Reserve Company, Defense Supplies Corporation, and War Insurance Corporation.

After the 1944 elections, President Roosevelt nominated Henry A. Wallace (who had been the Vice President during Roosevelt's third term) to be Secretary of Commerce, replacing Jesse Jones. This impending change in who was going to be Secretary of Commerce led to the conclusion in the Congress that too much economic power was vested in that officer. The George bill was introduced to split the Federal Loan Administrator's functions off from the Commerce post and reestablish the independent status of the Federal Loan Administrator.

Consideration of Corporation Audits

During the hearings on the George bill, there was relatively little discussion of independent audit controls over the various component corporations in the Federal Loan Agency. Senator Claude Pepper of Florida was about the only member of the Senate Committee on Commerce (which held the hearings) who made inquiries along this line. For example, he asked Senator George at one point:

> Well, does the Senator happen to know the legislative history or the congressional past of whether or not the present encumbent of the Federal Loan Agency has submitted or has agreed to or made possible the auditing of his agency by the auditing agency of the Government which is responsible to Congress, for example, the Comptroller General's office?

Senator George's response was that he did not recall.

Senator Pepper's questioning of Jesse Jones on the audit arrangements brought out the fact that GAO did not audit RFC but that the corporation engaged CPA firms to audit its accounts. Mr. Jones also introduced into the Committee's hearing record an exchange of correspondence between him and the Comptroller General in May 1943 by which agreement on a GAO audit of RFC was reached, provided appropriate statutory authority were enacted.

Senator Pepper also raised the question on auditing with Mr. Wallace when he appeared before the Committee. He asked whether Mr. Wallace felt that "the Federal Loan Administrator's office and all the lending agencies under that office, should be subject to the regular auditing procedures of the Government through the Comptroller General, who answers to the Congress?" Mr. Wallace stated that he did and that it would be "a very great safeguard."

He then referred to the comprehensive list of recommendations submitted to the President of the Senate on February 10, 1940, by the Secretary of the Treasury in response to a Senate resolution concerning Government corporations. Committee members apparently weren't interested in pursuing this particular kind of information at the time, and details of the Treasury's suggestions were not developed during the hearing. As a matter of history, it may be noted that the Treasury's report was in response to Senate Resolution 150 in the 76th Congress. As to auditing arrangements, the Treasury had recommended that the Comptroller General be authorized to employ public accountants to audit Government corporations.

The Committee's report on the bill, which favored enactment, did not discuss auditing arrangements. The minority report, signed by four members including Senator Pepper, opposing the bill, did mention that Mr. Wallace "thought the lending agencies should be subject to the audit of the Comptroller General."

Audit Provisions

The bill was taken up in the Senate on February 1, 1945, at which time Senator Byrd introduced his amendment providing GAO audit authority over all Government corporations. The amendment was accepted in the Senate, which passed the bill on the same day. The House passed it on February 16, and it was approved by President Roosevelt on February 24.

As enacted, section 5 of the George Act provided that:

- The financial transactions of all Government corporations be audited by GAO "in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General . . . "

- The audits "shall be conducted at the place or places where the accounts of the corporations are normally kept."
- GAO representatives were to have "access to all books, accounts, financial records, reports, files, and other papers, things, or property belonging to or in use by the respective corporations and necessary to facilitate the audit."
- GAO representatives were to be "afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians."

The audits were to be made for each fiscal year ending on June 30 and reports submitted to the Congress by the following January 15. The law also specified the kinds of information to be included in the audit reports.

The specified beginning date of this new audit authority gave the Comptroller and GAO considerable concern at the time. The act provided that the corporation audits were to begin with fiscal year 1945. This year was nearly 7 months gone by the time the act became law. Even though GAO had previous audit authority over some of the corporations, which it exercised, the across-the-board requirement for commercial-type audits of all of the corporations emphasized the need for a separate organization with an experienced staff to effectively carry it out.

In appearing before the Senate Appropriations Committee on March 12, 1945, to discuss the need for appropriate authority to obtain competent staff for the job, Comptroller General Warren described the requirement placed on GAO by the George Act as "a stupendous, mammoth undertaking," particularly in the light of the fact that the first fiscal year to be covered was nearly two-thirds over.

Need For More Comprehensive Law Recognized

During the floor discussion of the George bill in both the Senate and House, reference was made to more comprehensive corporation control legislation that was being developed. Senator Byrd, in particular, called attention to this work after questions were raised that audit requirements did not go far enough in providing controls over the Government corporations and that provisions should also be made for additional controls, such as budgetary review and congressional (rather than State) chartering of new corporations. Senator Robert Taft of Ohio specifically raised these questions, but he and others accepted the corporation audit amendment to the George bill on the basis that more comprehensive corporation control legislation would be introduced shortly.

Even before the George Act became law, Senators Byrd and Butler introduced, on February 5, 1945, their more comprehensive bill "to provide for financial control of Government corporations."

Hearings were held on the bill by the Senate Banking and Currency Committee in April and May 1945, and on similar bills by the House Committee on Expenditures in the Executive Departments shortly after.

Senator Byrd was the first witness before the Senate Committee. He cited his longstanding concern about the lack of congressional control over the numerous corporations acting as instrumentalities of the Federal Government. He observed:

> By the operation of these. . .corporations, Congress has lost specific control over the expenditures of vast sums of funds for which, under the Constitution, it is responsible to the citizens of America.

He also called attention to the studies of the subject by the Joint Committee on Reduction of Nonessential Federal Expenditures which he chaired. The Committee had submitted a comprehensive report to the Senate on August 1, 1944, based on a 2-year study of Government corporations.

Its major conclusion was that there was "no effective over-all control over the corporations and that this lack of control by the Congress, the Bureau of the Budget, the Treasury, and the GAO" should have immediate attention. It recommended that the corporations prepare business-type budgets, to go to the Bureau of the Budget and then to the Congress, and that the corporations be audited by GAO.

In commenting on the auditing, the Committee stated:

> But most important is that all corporations be brought under review by the General Accounting Office through audit or audit and settlement. Reports of such audits should be made directly to Congress. . .
>
> . . . the General Accounting Office, the agency of Congress to enforce the legislative will, should be brought into this picture.
>
> There has been a growing independence on the part of corporations to resist attempts of the General Accounting Office to audit their accounts; on the other hand, this Office has neglected to press its rights in this matter.

Relationships between GAO and the Government corporation community up to the time of the 1945 legislation is a long story in itself and need not be reviewed here in any detail. Annual reports of the Comptroller General, *e.g.*, for 1928, 1929, and 1932, had called attention to the growing problem from time to time without much effect. The work of Senator Byrd's Joint Committee stimulated more concentrated effort in GAO, particularly in the form of getting the facts on the organization, financing, and powers of the numerous corporations. *Frank H. Weitzel*, then Assistant to the Comptroller General, played a leading part in the work of assisting the Committee in its study. In the process, he acquired the distinction of being GAO's expert on the subject.

Comptroller General Warren, when he appeared before the Senate Appropriations Committee in March 1945 to discuss his needs for hiring authority as a result of the George Act, stated that Frank Weitzel was "the foremost authority I know of on Government corporations. He is the man who has made the very exhaustive study that our Office has furnished the Byrd committee and others on that subject." He added that, "He knows, in my opinion, more about these Government corporations and their structural set-ups than any other man I know of in the Government today."

Mr. Warren made similar statements in testifying on the more comprehensive corporation control legislation before the Senate Banking and Currency Committee. He informed the Committee about the exhaustive and up-to-date (that is, as of June 30, 1944) *Reference Manual of Government Corporations,* which GAO had just completed under Mr. Weitzel's direction.

Following the issuance of the Byrd Committee report in 1944, staff members of the Committee, GAO, the Bureau of the Budget, and the Treasury worked together to develop proposals on the best way to give effect to the Committee's recommendations.

Commodity Credit Corporation Audit Arrangement

Another major Government corporation in operation in the 1940s was the Commodity Credit Corporation. It came under GAO audit of a commercial type a year before the George Act was passed. *Richard W. Maycock,* now deputy director for financial management in the Financial and General Management Studies Division but in 1945 Treasurer of the Commodity Credit Corporation, called the earlier legislation providing for GAO audit of that corporation to the Senate Committee's attention. The audit provision was a part of Public Law 240, approved February 28, 1944, and worked out jointly by the corporation and GAO.

In commenting on the new comprehensive corporation control bill, Mr. Maycock stated:

> We are glad to have this independent commercial type audit of the Corporation by the General Accounting Office. We feel that Congress and the public should have a report on our operations from the public auditor.

Enactment of Government Corporation Control Act

The Byrd-Butler bill—later to be known as the Byrd-Butler-Whittington bill—was passed by the House in September and the Senate in November, and was approved by President Truman on December 6, 1945.

Comptroller General Warren called the bill "the most forward-looking and outstanding piece of legislation of its kind in the last 25 years" and, in endorsing it, he expressed his opinion that it was "one of the first great steps to financial stability of the Government."

When he signed the bill into law, President Truman stated that he found much satisfaction in doing so since he had "long believed in the principle it embodies." He called the act "a forward step in furthering the businesslike management of Government" and noted that it increased "the orderly control by the Executive and the Congress of the Government corporations without impairing their usefulness."

Required Financial Statements

As finally enacted, the Government Corporation Control Act specifically required that each audit report of the Comptroller General contain statements of assets and liabilities; capital and surplus or deficit; surplus or deficit analysis; income and expense; and sources and application of funds.

The requirement for the funds statement was not included in the bill as originally introduced, and it is of some interest to identify where this requirement came from.

One of the two witnesses representing the American Institute of Accountants (now the American Institute of Certified Public Accountants) who appeared before the Senate Banking and Currency Committee in support of the legislation was Henry P. Seidemann. Mr. Seidemann was on the staff of the Brookings Institution, but he also was chairman of the American Institute committee which had the descriptive but cumbersome label of Subcommittee on Control of Federal Corporations of the Unofficial Committee to Consider Problems of Federal Governmental Accounting and Auditing. One of Mr. Seidemann's suggestions for amending the bill, which was adopted, was to insert the requirement that the Comptroller General's audit report include a statement of sources and application of funds.

The statutory requirement for this very useful statement placed the financial reporting practices of the Federal corporations well in advance of those in private industry, where such a statement was not, at the time, a regular part of the financial statements which public accountants audited and expressed opinions on. It was many years later—in 1971 in fact—before the Accounting Principles Board of the AICPA adopted the reporting standard that the funds statement was a basic financial statement for profit-oriented business enterprises. (APB Opinion No. 19)

Congressional Review

The Senate Committee on Government Operations reviewed GAO's performance in auditing the corporations on at least two occasions after the law had been in operation for several years. The Committee's observations were presented in the following reports:

- "Audits of Government Corporations" (Senate Report No. 2685, 81st Cong.—December 1950). (The Committee was then known as the Committee on Expenditures in the Executive Departments.)
- "Audit Reports of Government Corporations and Agencies" (Senate Report No. 861, 83rd Congress—January 1954).

The Committee's conclusion in its 1954 report on the effectiveness of the 1945 corporation control legislation is of interest.

> It is clear that the Government Corporation Control Act has afforded the legislative branch a valuable and indispensable independent review of operations, and has made available sound recommendations for legislative action which fully justify the wisdom of its enactment. The reports and recommendations of the General Accounting Office, made under the provisions of the Government Corporation Control Act, have contributed to the enactment of better and more comprehensive legislation, and have been of great assistance to the Congress in considering the extension or curtailment of corporate activities.

Since the publication of the above report, congressional committees apparently have seen little need to review audit operations under the Government

Corporation Control Act. This can be attributed to (1) the improved degree of congressional control that resulted from the 1945 legislation, (2) the decline in the relative importance of the operations of Federal corporations to total Government operations, and (3) the emergence of other problems demanding congressional attention.

Concluding Remarks

Thirty years later, it seems clear that the Government corporation control legislation of 1945 was a very significant development that played a large part in paving the way for the modernization of GAO's audit operations. And it is also evident that the type of audit work performed in the first years after the legislation became effective was the principal forerunner of the expanded scope of auditing that characterizes GAO auditing today.

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Productivity Note

Short of either increasing taxes or cutting out programs, productivity seems about the only way Government can bail itself out of an impossible quandary—having too-few dollars to do the too-many things it is being pressured to do.

C. W. Borkland
Government Executive
March 1975

SHIRLEY WARD

Assignment on Capitol Hill

A GAO auditor assigned to a congressional committee describes the work she did and relates her observations about the job of a committee staffer.

GAO helps the Congress directly in several ways—one of which is assigning personnel to congressional committees. During the past year one of my assignments was with the Subcommittee on Defense of the House Appropriations Committee. Regarding that work, I have been asked (1) what I did, (2) how I got the job, and (3) how such an assignment affects promotion. I'll answer these questions and relate some of my impressions on the inner workings of a congressional committee.

The Assignment

My principal assignment was to help the Subcommittee evaluate the Department of Defense budget justification for funds to pay increased fuel costs. The Subcommittee Chairman was concerned not only because the Department and the military services had submitted varying estimates of amounts needed to pay the fuel bill but also because the amounts, ranging between $3 billion and $4 billion, were about 120 percent greater than the fiscal year 1974 fuel costs.

When I reported to the job in mid-May of 1974, the Subcommittee already was holding hearings on the fiscal year 1975 budget and therefore could give only limited direction to my audit efforts. Basically I was told to find out why the Department needed so much money for petroleum, oil, and lubricants and to finish the work by July 15, the date for submitting the Defense appropriation bill to the full Committee.

Needless to say, I was apprehensive about the assignment. Two months surely was not enough time to round up and evaluate facts about the vast quantities of fuel needed by the Department of Defense. (Although Parkinson's Law probably wouldn't apply, I was not so certain about the Peter Principle.) I'll admit I had hoped to have a chance some day to work on the Hill, but these were not exactly the circumstances I had in mind. Fortunately, however, the

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review requirements were so general that I could approach the work as I thought best. And the best approach, in my opinion, was to decide which facts would be needed to give an overall view of the subject and then learn as much as possible about those topics in the time allowed.

The first step was to become better acquainted with the subject area. Most of the background information about the Department's fuel management and usage I learned from talking with the Subcommittee staff member who monitors this segment of the Defense budget and from a reading file of documents he had compiled. The staff member also suggested Department officials who could provide information and answer questions, or who could at least designate someone to do so. (I had the opportunity to meet most of these officials because they were the primary witnesses at the hearings which the Subcommittee was then holding.) I also had copies of prior hearings of the House Appropriations Committee and of reports prepared by other congressional committees dealing with the fuel situation.

After a few days of orientation, I began to get down to basics: deciding not only what facts the final report should include but also the best way of obtaining and verifying those facts. Some of the topics I felt needed attention are listed below.

—Quantity and value of inventories for the seven major categories of fuel.
—Purchases and sales in each category.
—Status of war reserve stocks.
—Description of the standard price computation used by fuel stock fund mangers in setting the price to be paid by the military services.
—Analysis of financial statements of the fuel stock fund and the defense stock fund to assess projected stock fund operations.
—Reasons for tariff (rate) increases charged by the military airlift and sealift commands.
—Basis for establishing jet fuel requirements for Air Force and Navy planes.
—Level of flying and steaming hours.
—Provision of contracts entered into by DOD for the purchase of fuel.
—Price paid for fuel by commercial airlines and ships.
—Federal Energy Administration cost-reporting requirements for petroleum products.
—Conservation efforts of the Department of Defense.

I spent the next 6 weeks gathering facts about these topics. At my request the military services and the Defense Supply Agency submitted specific statistical data to augment information in the budget presentation. I analyzed the data and the budgets and prepared questions for interviews with Department managers. I also contacted people outside the Department who dealt with related aspects of the problem and followed up on as many ideas as possible.

This job was a solo effort except for discussions with the Subcommittee staff member. He helped resolve matters of priority and evidence because I was concerned about slighting areas that seemed to need auditing. Most of the topics I had set out to learn about should have required many staff-days of study . . . but the July 15 deadline simply did not allow for extensive investigation.

As a result of the review, the Subcommittee held a special hearing in which Defense officials were asked about programs and plans directly affecting fuel usage and pricing. This hearing was their opportunity to explain and support the budget request in response to the additional information I had gathered.

After the hearing, the full Committee met in closed session to determine the funds to be appropriated to the Department of Defense. The facts I had obtained, plus testimony presented during the hearing, were considered, and the Committee recommended a reduction of $148 million in the request for fuel funds. The recommended reduction was concurred in by the House and sustained by the Senate.

The summary I wrote stated facts and conclusions about those issues which most directly affected the funding request: too-high price of jet fuel; overstated effect of fuel prices on airlift and sealift tariff rates; inappropriate surcharge increase for the fuel stock fund; inadequacy of fuel conservation programs; and inefficient use of aircraft. The summary was printed as part of House Appropriations Committee Report 93-1255.

Selection of Staff

The standard procedure in making these assignments is for the chairman of a committee to ask the Comptroller General, through GAO's Office of Congressional Relations, for staff assistance. That office, in turn, requests the operating division with audit jurisdiction to detail one or more auditors to the committee. The procedure was altered slightly for this assignment because I had worked with another committee on a similar project and the experience gained there was expected to shorten the learning curve for the Defense job.

Effect on Promotion

The consensus of GAO auditors I questioned on the subject is that working with a committee is valuable experience. Also, because assignments are for no longer than 1 year, the auditor is not away from GAO too long. Although the committee staff member who supervises the work does not fill out GAO performance and promotion forms, the committee chairman can send a letter to GAO describing the specific work done by the auditor. This letter can influence the rating, especially if the job was done particularly well. Further, I think the insights gained and the contacts made during a committee assignment can, at least indirectly, favorably affect promotion ratings.

The Committee

The Defense Subcommittee (1 of 13 subcommittees of the House Appropriations Committee) has the responsibility for reviewing the Department of Defense budget and recommending a funding level to the full Committee. The

Subcommittee has 12 congressional members, 5 staff members (I worked for one of the staff men), and 3 administrative assistants. The Chairman of the full Committee has held that position for 10 years and has headed the Defense Subcommittee for 25 years. His recommendations on Defense budget matters are rarely challenged.

Subcommittee staff members handle most of the behind-the-scenes review and analysis work. Although I did not read a formal job description (if, indeed, one exists) for these positions, I observed staff members analyze budgets of the Defense agencies and the three military services; draw up questions about activities of programs which need further clarification; arrange and participate in Subcommittee hearings; answer questions from Congressmen who have received allegations from constituents or who read about allegations concerning Defense activities; explain congressional action to constituents, journalists, and other groups; help Members prepare for floor debate; and line up speakers for group meetings in the Congressmen's districts. The job is demanding and staff members spend long hours getting the work done.

A staff job on the Hill is exciting and rewarding. These people are where the action is. They are in the right spot to know what's happening as well as to actually influence the Federal bureaucratic apparatus. But, it seems to me that staff members need a high tolerance for frustration. Their recommended response to a situation or problem is not necessarily the one which becomes public law, and it is difficult at times to accept or understand the elements of compromise. Staff members work in a political atmosphere. To retain their composure and effectiveness they must be aware of the constraints imposed by that factor.

One element of the committee environment that particularly impressed me was the seemingly unlimited sources of information available to Congressmen and committee staffs:

- —Hearings and briefings give Government and non-Government witnesses opportunities to present their views on governmental action and to respond to queries from Congressmen.
- —The Congressional Research Service provides historical data on practically any subject requested.
- —The House Appropriations Committee's Surveys and Investigations staff makes special studies and reports on governmental programs and activities.
- —The various agencies, offices, and bureaus in the Government assign personnel to reply to requests for information from legislators and committees.
- —The General Accounting Office recommends improvements in financial and program management.

Informal communication, such as letters from constituents and articles in periodicals and newspapers, is also important. And these are just a few examples. One difficulty, of course, is finding the time to analyze and understand all that is read, seen, and heard. The other enormous difficulty is converting this information into beneficial legislation.

I noted that GAO's reports are considered first-class products. A particular congressional viewpoint supported by a GAO report is not easily discounted. Although staff members commented about the length of time required to issue a report, they recognized the effort GAO makes to brief Congressmen, committees, and staff; to prepare questions for hearings; and to have representatives appear as witnesses at the hearings.

One other point concerning GAO: my understanding about action taken as a result of GAO reviews has been revised. Before the Committee assignment, I assumed that GAO findings and recommendations were sure to lead to positive congressional response to bring about changes. I found this is not always the case. And, because it is not possible to predict which reports will directly affect legislative action, it is essential that the agencies involved be convinced the findings are valid and the recommendations appropriate to bring about more effective program mangement.

Working on Capital Hill was exciting—just the kind of political science course I needed. Watching Government in action is more interesting than just reading about it, and a committee assignment is one of the best "places" for watching. Like most real learning experiences, the value of the assignment continues after the job is completed. GAO benefits from having a better informed auditor, and the auditor benefits by being a better informed employee and citizen.

Basis of Good Writing

It takes a logical and disciplined mind to produce a logical and disciplined communication. Unsound, uninformed or hasty thinking stand forth for what they are in the merciless glare of words. Indecision makes its presence known in ambiguity and circularity of sense.

Professor Mary C. Bromage
University of Michigan
Dividend, Fall 1974

STANLEY S. SARGOL

How to Run (Or Not Run) A Railroad

Rail passenger service should be a viable alternative means of transportation in the United States, but how do we make it so? Here are recollections of some of the practical problems, solutions, and experiences encountered in GAO's first attempt to grapple with this issue.

In recent years, the question of how to run a railroad has emerged as a major economic consideration in the Nation. In the 1960s, most railroads were losing money on their passenger operations, facilities had deteriorated, tracks were in bad condition, and passenger service was being cut back further and further in an effort to minimize a losing operation. The Government's answer to this dilemma was to enact the Rail Passenger Service Act of 1970 and to create a for-profit private corporation to operate and revitalize U.S. intercity rail passenger service. The corporation was formally named the National Railroad Passenger Corporation, but it is better known as AMTRAK.

About 9 months after AMTRAK started operations in May 1971, the Subcommittee on Transportation and Aeronautics of the House Committee on Interstate and Foreign Commerce asked GAO to make a comprehensive review of AMTRAK's operations. At the time of our review, 13 railroads[1] had entered into contractual arrangements to provide AMTRAK with the necessary services, personnel, equipment, and facilities to operate rail passenger service on 21 basic routes. Under these arrangements, the railroads were to be reimbursed for any related operating costs in excess of revenue. Ever since, costs have always exceeded revenues—a net deficit of over $300 million has been projected for fiscal year 1975.

Getting Started

We started our work in somewhat of a

[1]Atchison, Topeka and Sante Fe; Baltimore and Ohio; Burlington Northern; Chesapeake and Ohio; Chicago, Milwaukee, St. Paul and Pacific; Illinois Central Gulf; Louisville & Nashville; Missouri Pacific; Penn Central; Richmond, Fredericksburg and Potomac; Seaboard Coast Line; Southern Pacific; and Union Pacific.

Mr. Sargol is an assistant director in the Resources and Economic Development Division. While assigned at the Department of Transportation, he was directly responsible for the AMTRAK audit. A graduate of King's College (Pennsylvania) and a CPA (Virginia), he is now assigned to audit work at the Department of Agriculture.

quandary—how do you audit a railroad? A special task force was put together and, after some long hard thought, we identified what we thought should be the essential features of a good passenger railroad operation:

—Good equipment adequately maintained.
—Convenient schedules and train make-up (consists) offering needed customer accommodations (sleepers, dining facilities, etc.).
—Clean trains and terminals, courteous personnel, and high on-time performance.
—Fast and efficient reservation, train information, and ticketing systems.
—Aggressive and innovative marketing techniques to attract increased patronage.

We figured our work in these areas should follow the normal GAO approach of evaluating actions taken and progress made and of zeroing in on situations where further actions or improvements were needed. The problem was that we didn't have a good fix on how to go about doing this. So we tried a lot of things on a trial-and-error basis. Despite all the "errors," our work resulted in four pretty good congressional reports and some unusual and good experiences.

Almost from the outset, it became apparent that we would need a lot of help from many different sources of special talent to augment the work of our staff and meet the special needs of the job.

- The services of a GAO attorney were obtained on priority call for special legal research and analyses.
- A contract for special studies was negotiated with a firm of transportation specialists.
- Arrangements were made with the General Services Administration to computerize audit data that was too difficult for us to handle manually.
- Programs to process the data and to print out the needed reports were defined, specified, and obtained from our automatic data processing group.
- Our systems analysis group helped to evaluate transportation study methods.
- Our administrative services people helped meet special printing and supply needs.
- Regional staffs in Chicago, Los Angeles, and New York were given responsibility for reviewing designated railroad operations.
- Finally, arrangements were made to obtain the assistance of teams of auditors from 13 GAO field offices. The teams were deployed in a nationwide onboard survey of passenger train service and conditions.

Clearing the Air

Two major problems were encountered early in our relations with AMTRAK. The official designated as AMTRAK's liaison with GAO was somewhat unfamiliar with GAO's role and mission in the Federal scheme of things and viewed us in the same light as a CPA firm making strictly a financial, balance sheet type audit. He resisted our attempts to obtain records dealing with management plans and decisions, railroad operating activities, and anything else that he thought went beyond historical financial records.

After several discussions of our broad audit "charter" from the Subcommittee (which had been endorsed by the Chairman of the full Committee), we finally eased over this hurdle. Even then, our broad-scope authority was viewed as stemming solely from the Subcommittee's request—not from any inherent authority of our own. It was not until some clarification was made in the AMTRAK legislation that this point finally was resolved.

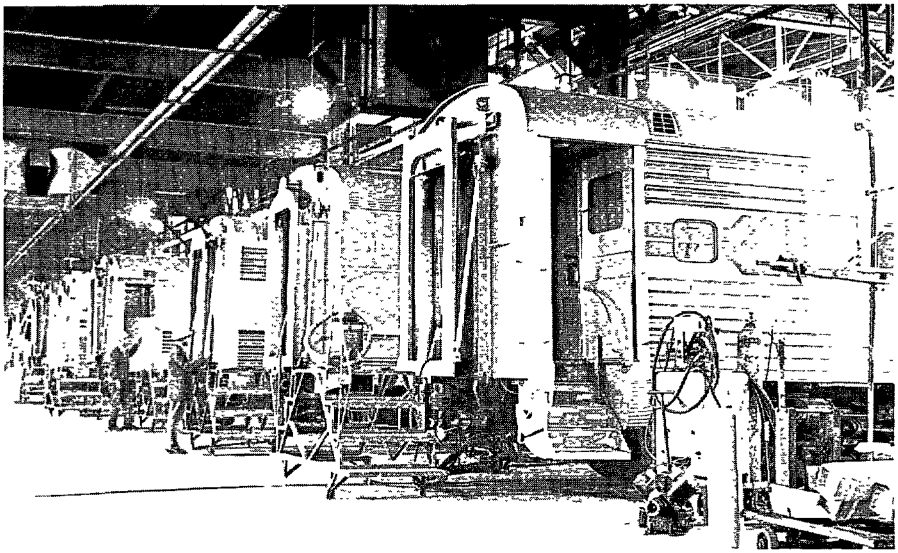
The second problem concerned a procedure established by AMTRAK to require advance clearance of documents we wanted to see or obtain a copy of, and advance arrangements for any discussions we wanted to have with AMTRAK personnel. We could not discuss AMTRAK matters with anyone without an AMTRAK liaison representative being present. Because clearances and interviews sometime took weeks to arrange, we soon got to the point where our work began grinding to a standstill. Again, we held meetings to try to resolve this problem. Slowly, as the liaison official came to know our staff a little better, he became more aware of GAO's professionalism and objectivity and came to realize that we had no special ax to grind. His attitude of protecting AMTRAK's vital interests became a little more compatible with what we were trying to do and the problem began easing a little.

We progressed to the point where only the initial meeting with an AMTRAK official had to be arranged by the liaison; we were on our own regarding any subsequent meetings. Soon afterwards, all liaison arrangements were dropped and we were free to meet and talk with anyone at any time. The document clearance problem was resolved for the most part by limiting its applicaton to certain kinds of documents and providing speedy clearance service. We received excellent cooperation from that point on. We had informally alerted the Subcommittee staff about these problems but, as the situation started to improve, we felt no need to pursue this avenue any further.

Condition of Equipment

The AMTRAK task force initially was organized into four groups of one to four people; each group was given an area to review. The largest group was put on the equipment area because that seemed to be AMTRAK's major problem at the time. AMTRAK had bought about 1,425 used rail cars from the railroads—more than it thought would be needed to meet route schedules. However, the age and generally poor condition of the cars was such that many could not be used in train consists without major repair work. Consequently, AMTRAK had to lease additional cars to meet its needs. AMTRAK also bought about 260 locomotives—these too were old and generally in poor condition. A flood of complaints poured in about AMTRAK's service and equipment and staggering maintenance and repair costs—$76 million for the first 14 months of operations—were being incurred.

The Washington staff kicked off this review phase by compiling operating



AMTRAK photo

Maintenance facility at Beech Grove, Indiana, where our Chicago staff did some looking and checking.

statistics and reviewing equipment records and car assignments at AMTRAK headquarters in Washington. After some exploratory probes and a conference with the Washington task force, our three field offices deployed their staffs to look into actual equipment conditions and operations in the eastern, central, and western sections of the country. This involved on-the-spot reviews of (1) passenger car maintenance and repair at seven facilities operated by four railroad companies, (2) locomotive maintenance and repair at several facilities operated by three railroads, and (3) car refurbishment work at centers operated by two railroads and a rail car manufacturer.

This work, plus our train rides and interviews which are discussed later, resulted in a report to the Subcommittee on the need to improve train conditions through better repair and maintenance. We found that, on average, about 500 cars—one-third of AMTRAK's entire fleet—were out of service on any given day for maintenance, repair, or refurbishment. Car shortages were common, requests for reservations could not be filled, and revenue was being lost. We also found that AMTRAK did not have direct control over the maintenance and repair of its equipment, the cleanliness and condition of many passenger cars was unsatisfactory, and AMTRAK just did not have effective systems for handling a number of related management and operating needs in the equipment area.

A particular problem was the lack of spare parts for the old cars. A "diary" of one of AMTRAK's diner cars illustrates this beautifully.

—June 6, a car was removed from service because of a defective generator.

—June 9, the generator was removed for repair.

—June 25, the repaired generator was installed.
—June 26, the generator became defective before the car was returned to service.
—July 1, the generator was again removed for repair.
—August 1, an electrical component was removed for use on another car.
—August 12, a kitchen fan was removed for repair.
—August 27, a replacement electrical component was installed.
—September 12, a range fan was removed for repair.
—September 27, the repaired generator was installed.
—October 2 (118 days later), the car was put back in service without its kitchen and range fans.

On-Time Performance

A second group from the task force was assigned to check out the on-time performance of trains and to look into AMTRAK's marketing plans and actions. Our work on the marketing phase was rather limited. AMTRAK was not doing much in this area but it seemed to us that AMTRAK really had little to work with. Substantial service improvements seemed to be a necessary prerequisite to any all-out aggressive marketing program. The quality of service being what it was, we could not see our way clear to spending much time fussing with AMTRAK's small marketing operation.

On-time performance was another story. Our analysis of reports submitted to AMTRAK by the railroads on passenger train arrivals, coupled with the observations reported by GAO staffers riding AMTRAK trains, showed a dismal picture. During one 6-month stretch, one of every three AMTRAK trains was late. GAO staff members reported that some of the delays were caused by such things as "Slowed down to accommodate a coal train" or "Sidetracked to let a freight train pass." Trains between New York and Kansas City were late 83 percent of the time. A passenger on this route had to be very flexible regarding his time of arrival. Even the famed Metroliners, for which customers pay a premium, were having problems. During one quarter, 40 percent arrived late. We furnished the Subcommittee with a report describing how and why fewer and fewer AMTRAK trains were arriving on time.

Making Travel Arrangements

Another area we focused on was AMTRAK's reservation, information, and ticketing services. GAO staff members, acting as regular customers, telephoned and/or visited 24 AMTRAK reservation and ticket offices and one travel agency to obtain information, make reservations, obtain tickets, or do any combination of these things. They also interviewed 1,900 train passengers to learn what difficulties they had encountered in making travel arrangements. They found that most of the passengers interviewed had experienced the same problems that our people did:

Slow service—On some occasions, GAOers had to stand in line 1½ hours before being waited on by ticket agents. The average waiting time was a half hour.

Duplicate reservation and ticket

sales—On many trips GAOers and other passengers found that their reserved seats or sleeping accommodations had also been reserved for several other customers. Compromises were necessary—some good, some not so good.

Communication problems—In one extreme case, a GAOer made 13 attempts over a period of 4½ hours to call a Chicago reservation office. When they finally answered, he was placed on "hold." After a 5-minute delay, an agent responded and took another 15 minutes to provide information on, and make reservations for, a trip from Chicago to Seattle.

Other communication problems had to do with AMTRAK's failing to notify reservation and ticketing offices that unserviceable passenger cars and sleepers had been removed and replaced by cars with different capacities. A number of improvements, including an automated reservation service, were being planned and made, but their actual effectiveness was difficult to gauge at the time of the review.

Hiring Consultants and Riding the Trains

The most interesting and unusual phase of the review involved riding the trains. Here's how it all came about.

AMTRAK photo

Waiting to get train information and tickets—AMTRAK ticket counters in Union Station, Washington, D.C.

We hired a firm of transportation consultants, associated with Northwestern University and experts in the field, to help us analyze AMTRAK's schedules (timetables), consists (train make-up), and ridership to determine whether AMTRAK's service was scheduled optimally and whether train consists were adapted appropriately to actual passenger demand. The firm was to plan, design, and organize the study; analyze the information obtained; draw conclusions and develop recommendations; and furnish us with a report on the results. GAO was to help with the data-gathering phase.

The consultants devised a questionnaire which GAO survey workers were to pass out to passengers on specific trains, on specific dates, and at specific times of the day or night. Once completed, the questionnaires were to be collected, certain summaries prepared, and the questionnaires and summaries forwarded to the consultants (through our Chicago office) for machine tabulating and analysis. Also, passenger counts were to be made at specific geographical points and at specific times.

What started out as a fairly simple assist turned into a complicated undertaking. First off, we saw some problems with the consultants' questionnaire and had to work with them to clarify the questions and make sure the passengers' responses would give us clear answers to what we really wanted to know. Secondly, we decided that this would be a golden opportunity to collect other types of data that could be used in other phases of our overall review. Thus we went ahead and devised a series of pro forma reports for our train riders to use in inspecting train cars and other railroad facilities and operations.

Planning and organizing the train rides took several weeks. AMTRAK cooperated beautifully and provided us with free passes that could be exchanged for regular first-class train tickets. These passes covered more than 300 individual train trips all over the country and helped us avoid any hassle over GAO travel budgets and costs. We promised AMTRAK that special controls would be established to safeguard the passes and insure their use for official business only.

Staff members had to be gathered from all around the country to do the actual train riding and data gathering. The response from our field offices and other Washington audit groups was great. On rather short notice, staff members were made available from 13 field offices to help in this undertaking. Nobody gave us any problems, and the enthusiasm and dedication of the staff members was really great.

Although our consultants provided schedules and other essential criteria and instructions for the onboard train survey, it was up to us to assign individual staff members to specific train runs on specific days. Particular attention had to be given to minimizing layover time and, on certain runs, deciding whether one individual could handle the job or whether two would be needed. Since some of the trips started or ended at crazy hours of the morning or night, and covered weekends and a holiday as well as regular working days, special consideration had to be given to the hardships this would cause our survey workers. An illustration of one of the detailed schedules that had to be worked out is shown in exhibit 1.

An unexpected complication was Hurricane Agnes. Our train trips spanned the months of June, July, and August 1972, and right in the middle of this came the hurricane. Tracks were washed out, service was discontinued or slowed almost to a halt, and entire trains were isolated and cut off from "civilization." Some of our people had to spend nights in towns they never heard of before or had to complete the trip on their own—by bus, plane, or whatever means was available. One of our survey workers lucked out—his train was forced to stop near his home town in West Virginia and he was able to catch a ride home and wait it out there.

The logistical problems involved in the train survey phase were unusual, to say the least. About 40,000 questionnaires had to be printed, on rather short notice, and distributed to our field offices. And pencils—we needed thousands of pencils—quickly. Our administrative services people gave us great support. The questionnaires (and the pro forma inspection reports) were printed in a matter of a few days. The pencils (the short, golf-score-keeping kind) were purchased from Washington commercial sources.

By the time we got everything together—the detailed schedules; the questionnaires, instructions, and other papers; the pencils and envelopes; and the passes—the scheduled start of the survey was only a few days away. There could be no delay. The overall survey design and its statistical implications, the detailed schedules of train runs that we developed, and the expiration dates of the train passes all required that we start on time. Mailing everything to the field was out of the question. The solution? Personal delivery service and on-the-spot oral briefings.

We selected some staff members from our audit group at the Department of Transportation, gave them an intensive and detailed indoctrination in what we wanted done, and had them load up their suitcases and board an early flight the next day to the field offices involved. Where possible, we arranged to have representatives from participating suboffices meet our people at the regional offices to pick up their survey material, get briefed, and get answers to any questions they had on the operation of the survey. Although some of our "couriers" had never made a field trip before, all did a good job of delivering and briefing and the on-board train survey started on time.

There were a lot of hitches and difficulties, which were to be expected in an operation like this. Nevertheless, the survey was a great success and provided us with a wealth of first-hand information on what was going on in AMTRAK's world. Our people made 340 trips on 56 different trains operating on 20 routes all over the country. To make these travel arrangements, they made 128 visits to AMTRAK reservation and ticketing offices. They personally interviewed 1,900 onboard passengers; distributed, collected, and turned in 32,000 questionnaires filled out by passengers; made hundreds of passenger counts; and personally inspected and turned in reports on the condition of about 900 train cars and dozens of train terminals.

Exhibit 1

TRAIN TRIPS BY WASHINGTON STAFF MEMBERS

1st Week — *Washington-Chicago*

Lv. Washington	Thurs.	6/15	5:50 p.m.	Ar. Chicago	Fri.	6/15	2:55 p.m.
Lv. Chicago	Wed.	6/21	1:50 p.m.	Ar. Washington	Thurs.	6/22	1:20 p.m.

Passenger: *D. Brooks*

Washington-Boston

Lv. Washington	Sun.	6/11	2:00 p.m.	Ar. Boston	Sun.	6/11	9:35 p.m.
Lv. Boston	Wed.	6/14	6:51 a.m.	Ar. Washington	Wed.	6/14	1:29 p.m.
Lv. Washington	Thurs.	6/15	1:00 p.m.	Ar. Boston	Thurs.	6/15	8:00 p.m.
Lv. Boston	Fri.	6/16	6:15 a.m.	Ar. Washington	Fri.	6/16	1:29 p.m.

Passengers: *B. Williams, E. Sampson*

Lv. Washington	Thurs.	6/15	2:00 p.m.	Ar. Boston	Thurs.	6/15	9:35 p.m.
Lv. Boston	Fri.	6/16	5:00 p.m.	Ar. Washington	Sat.	6/17	1:30 a.m.

Passengers: *E. Tomchick, C. Culkin*

2nd Week — *Washington-Chicago*

Lv. Washington	Thurs.	6/22	5:50 p.m.	Ar. Chicago	Fri.	6/23	2.55 p.m.
Lv. Chicago	Tues.	6/27	1:50 p.m.	Ar. Washington	Wed.	6/28	1:20 p.m.

Passenger: *R. Busen*

Washington-Boston

Lv. Washington	Sun.	6/18	2:00 p.m.	Ar. Boston	Sun.	6/18	9:35 p.m.
Lv. Boston	Wed.	6/21	6:51 a.m.	Ar. Washington	Wed.	6/21	1:29 p.m.
Lv. Washington	Thurs.	6/15	1:00 p.m.	Ar. Boston	Thurs.	6/22	8:00 p.m.
Lv. Boston	Fri.	6/23	6:15 a.m.	Ar. Washington	Fri.	6/23	1:29 p.m.

Passengers: *C. Culkin, R. Berteotti*

Lv. Washington	Thurs.	6/22	2:00 p.m.	Ar. Boston	Thurs.	6/22	9:35 p.m.
Lv. Boston	Fri.	6/23	5:00 p.m.	Ar. Washington	Sat.	6/24	1:30 p.m.

Passengers: *E. Tomchick, E. Sampson*

Exhibit 1 (continued)

3d Week — *Washington-Chicago*

Lv. Washington	Thurs.	6/29	5:50 p.m.	Ar. Chicago	Fri.	6/30	2:55 p.m.
Lv. Chicago	Tues.	7/4	1:50 p.m.	Ar. Washington	Wed.	7/5	1:20 p.m.

Passenger: *D. Brooks*

Washington-Boston

Lv. Washington	Sun.	6/25	2:00 p.m.	Ar. Boston	Sun.	6/25	9:35 p.m.
Lv. Boston	Wed.	6/28	6:51 a.m.	Ar. Washington	Wed.	6/28	1:29 p.m.
Lv. Washington	Thurs.	6/29	1:00 p.m.	Ar. Boston	Thurs.	6/29	8:00 p.m.
Lv. Boston	Fri.	6/30	6:15 a.m.	Ar. Washington	Fri.	6/30	1:29 p.m.

Passengers: *C. Culkin, R. Berteotti*

Lv. Washington	Thurs.	6/29	2:00 p.m.	Ar. Boston	Thurs.	6/29	9:35 p.m.
Lv. Boston	Fri.	6/30	5:00 p.m.	Ar. Washington	Sat.	7/1	1:30 a.m.

Passengers: *C. Culkin, R. Berteotti*

4th Week — *Washington-Chicago*

Lv. Washington	Thurs.	7/6	5:50 p.m.	Ar. Chicago	Fri.	7/7	2:55 p.m.
Lv. Chicago	Wed.	7/12	1:50 p.m.	Ar. Washington	Thurs.	7/13	1:20 p.m.

Passenger: *R. Busen*

Washington-Boston

Lv. Washington	Sun.	7/2	2:00 p.m.	Ar. Boston	Sun.	7/2	9:35 p.m.
Lv. Boston	Wed.	7/7	6:51 a.m.	Ar. Washington	Wed.	7/7	1:29 p.m.
Lv. Washington	Thurs	7/8	1:00 p.m.	Ar. Boston	Thurs.	7/8	8:00 p.m.
Lv. Boston	Fri.	7/9	6:15 a.m.	Ar. Washington	Fri.	7/9	1:29 p.m.

Passenger: *R. Busen*

Lv. Washington	Thurs.	7/8	2:00 p.m.	Ar. Boston	Thurs.	7/8	9:35 p.m.
Lv. Boston	Fri.	7/9	5:00 p.m.	Ar. Washington	Fri.	7/9	1:30 a.m.

Reports on the National Railroad Passenger Corporation (AMTRAK) issued to the Subcommittee on Transportation and Aeronautics, House Committee on Interstate and Foreign Commerce:

- AMTRAK Needs to Improve Train Conditions Through Better Repair And Maintenance (B-175155, June 21, 1973)
- Fewer and Fewer AMTRAK Trains Arrive On Time—Causes of Delays (B-175155, Dec. 28, 1973)
- Railroad Reservation, Information, And Ticketing Services Being Improved (B-175155, Aug. 22, 1973)
- Railroad Passenger Service—Analysis Of Train Scheduling And Operations, February 22, 1973. Prepared for the General Accounting Office as part of its review of the operations of the National Railroad Passenger Corporation. Richard M. Michaels, Transportation Consultants.

On the basis of the information collected through the questionnaires, plus other inputs, our consultants developed a comprehensive report and a series of recommendations dealing with AMTRAK's train scheduling and operations. We reviewed this report with the assistance of our systems analysis group, had some changes made, and forwarded it to the Subcommittee. The report recommended that AMTRAK

—better match train consists to traffic requirements,
—maximize use of coaches rather than special-type cars,
—consider using alternate-type equipment (such as rail diesel cars) on some routes,
—experiment with differential fares to minimize traffic peaks and low points,
—study the location and frequency of train stops,
—try to tap the growing market of recreational travel, and
—collect and analyze market data as a basis for operational planning.

The additional data collected by our train riders (beyond that needed by our consultants) was sent to Washington where one of our talented staff members developed a coding system that enabled us to machine-process the collected information. Our automatic data processing group developed programs for tabulating the collected data in various formats and the General Services Administration card-punched and machine-processed the information for us under a simple purchase-order type contract. We used the tabulated information in all phases of our work, and it helped to give our reports the sense of reality that comes from being an eyewitness to fact.

With the issuance of the four reports described above, our AMTRAK assignment ended.

GAO is maintaining a continuing presence in AMTRAK to keep on top of what is going on and to keep the Congress and congressional committees informed of AMTRAK's progress and problems. AMTRAK is now becoming "old hat" and is viewed and treated essentially like any Federal agency subject to continuing GAO audit. It was that first time around that was really a unique experience for all who became involved.

Subsequent to our request work, the Congress passed the AMTRAK Improvement Act of 1974, making GAO responsible for conducting an annual management audit of AMTRAK's operations.

I would like to pay special tribute to the people most involved in the audit end of this job:

Dick Kelley, who put up with our floundering and finally saw some results.

Bobby Hoover, who kept the whole thing together and moving.

Charlie Bonanno, who kept the Washington end of the equipment review under good direction and control.

Mike Gryszkowiec, who gave us a good fix on reservation and ticketing problems and contributed significantly in a number of other areas.

Bob Williams and *Mort Solomon*, who wrapped up our work on on-time performance and helped out where needed.

Carl Edmondson, Arnie Hackett, Bill Jacobs, Jim Bell, Sam Oliver, George Poindexter, Bob Chambers, Sam Walsh, Jim Derstine, and *Chip Foster*, who worked and helped in various areas for various periods of time.

Lee Stevens, Mel Koenigs, and their Chicago staff; *Dick Gannon, Rick Herrera*, and their Los Angeles staff; and *Bob Barbieri* and his New York staff, who did the field work, nailed down the facts, and gave us the stuff that reports are made of.

A couple dozen other Washington and field people, who rode the trains and made this unique experience pay off.

The Function of Internal Audit

In evaluating an internal audit department, do not assume all is well because the organization chart indicates the existence of internal audit. All too often internal audit becomes a special projects department or a group of nice guys. The function of internal audit is to act as the corporate watchdog. Departments should be uneasy when they are around.

W. Donald Georgen
Partner, Touche Ross & Co.,
in "Rating Internal Controls"
Financial Executive, April 1975

A.T. SAMUELSON
ASSISTANT COMPTROLLER GENERAL

72/550

Average Rate and Repayment Studies For Federal Power Systems—A Reporting Enigma

A proposal for improving the reporting on the status of the repayment of the vast Federal investment in electric power systems.

Water and power staff members of the General Accounting Office have for many years wrestled with the problem of reporting on the status of the repayment of the investment in power facilities of the Federal power systems, for which the Department of the Interior is the marketing agent. The facilities for generating hydroelectric power are often included in multiple-purpose water resource projects constructed and operated by the Corps of Engineers and the Bureau of Reclamation, with the power marketed by agencies of Interior—Bonneville Power Administration, Southwestern Power Administration, Southeastern Power Administration, Alaska Power Administration, and Bureau of Reclamation.

By law or administrative policy, the investments in these facilities—about $13 billion—are to be repaid from commercial power revenues usually within 50 years, a time frame that is much shorter than the facilities' average service lives. Because the conventional cost accounting processes use service lives as the criterion for amortization (depreciation), they do not provide information through the usual reporting techniques on the adequacy of the established power rates to amortize the power investment within the stated repayment periods.

Interior has developed a document, referred to as the "Average Rate and Repayment Study," that is presumed to show the adequacy of present-day power rates for each system. This document presents historical data for preceding years and forecasts for succeeding years of the repayment period on revenues, expenses, investments, replacements, repaid investment, and unrepaid in-

Mr. Samuelson, who served nearly 29 years in the General Accounting Office, retired at the end of June 1975. During his GAO career, he had many years of direct experience with the accounting and financial reporting problems of the water resource projects of the Federal Government. Further biographical information appears on page 100.

vestment. It purports to show, on the basis of the criteria used for its preparation, that the investment in power facilities will be fully repaid within the stated repayment period or that a shortfall exists requiring a rate increase. These criteria do not require that any specific amount of the investment be amortized in any particular year; generally, the power rates are considered adequate so long as the study shows that each increment of the investment will be repaid by the last year of the 50-year period after its in-service date.

The document does not show, nor does it purport to show, what should have been repaid on the power investment through the reporting date under a system of annually scheduled repayments established on an orderly basis: any overages or shortages on investment repayment are merged into the forecasts of the future. These studies, therefore, inherently lack the integrity of milestones that provide interim demonstration of the adequacy of the power rates to repay the power investment by comparing the estimates and projections with the actual results as an ongoing process.

Also under the criteria applied by Interior, revenues from power projects within the power system for which the Federal investment is shown to have been fully repaid are used to repay the unrepaid Federal investment in other projects within that power system. Since Interior's average rate and repayment study is based on a power system in which new power projects may be and generally are added from time to time, each with its own 50-year repayment cycle, the total repayment period and the related forecasts for the system as a whole are projected over a period of more than 50 years. Thus, through (1) the addition of new power projects to the system, (2) the retention of the revenues of old and paid up projects within the system for an overall repayment period of more than 50 years and up to 100 years or more, and (3) the arbitrary allocation to projects of the amounts available for investment repayment, the stated policy of investment repayment within a 50-year period for any component project becomes, in effect, inapplicable.

A detailed discussion of the problems and deficiencies of Interior's average rate and repayment studies is beyond the concept of this paper. Rather, this paper proposes a change in methodology which compares current power revenues with current power costs as the system for measuring the adequacy of the power rates to repay the Federal investment in power facilities within the stated repayment period. To be discussed also is the problem posed by Bureau of Reclamation projects that provide for assistance from power revenues for repayment of those irrigation construction costs that are beyond the ability of irrigators to repay.

Statutory Requirements and Repayment Criteria

The Reclamation Project Act of 1937 and the Flood Control Act of 1944 provide statutory requirements for setting power rates and repayment criteria for most of the Federal power marketed by

Interior. Certain other legislation relating to specific power systems or projects also provides statutory requirements and repayment criteria; among this legislation is the Bonneville Act of 1937 and the Grand Coulee Dam Third Powerplant Authorization of 1966 applicable to the Federal Columbia River Power System.

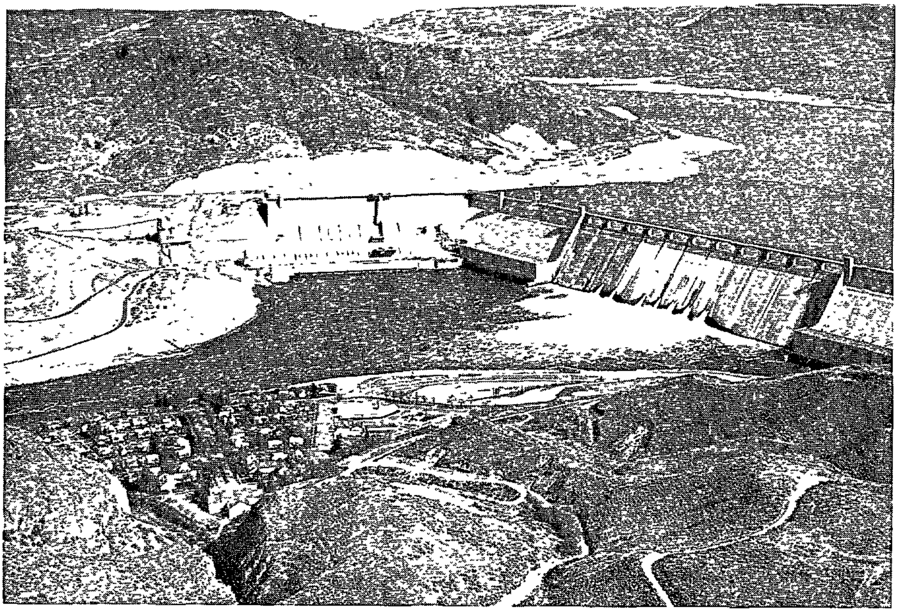
Section 9(c) of the Reclamation Project Act of 1939 provides that the power from Bureau of Reclamation projects be sold at rates which, in the judgment of the Secretary of the Interior, will produce power revenues at least sufficient to cover an appropriate share of the annual operation and maintenance cost, interest on an appropriate share of the construction investment at not less than 3 percent per annum, and such other fixed charges as the Secretary deems proper.

The precise intentions of the Congress in the language on power rates in this act have been a matter of contention over the years, but it seems now to be generally agreed in both the legislative and executive branches that the power rates should produce revenues at least equal to the operation and maintenance costs, interest at the rate of not less than 3 percent on the unrepaid investment, and amortization of the investment over a period of not more than 50 years, the latter being an administrative policy determination accepted by the Congress.

Section 5 of the Flood Control Act of 1944 provides a clearer direction of congressional intent regarding amortization of the investment. It provides that rate schedules for the sale of power by Interior from reservoir projects under the control of the Department of the Army be drawn up with regard for the recovery of the cost of producing and transmitting such energy, including the amortization of the capital investment allocated to power over a reasonable period of years. Here again, 50 years for amortization of the capital investment has become the standard through administrative policy determination accepted by the Congress.

Perhaps the most important other legislation on rates for Interior-marketed power relates to the Pacific Northwest. Section 7 of the Bonneville Project Act of 1937 contains language almost identical to that in section 5 of the Flood Control Act of 1944. By Public Law 89-448, the Congress authorized the construction, operation, and maintenance of a third powerplant at the Grand Coulee Dam, Columbia Basin Project. This legislation specifically provides that the construction costs of this plant be repaid with interest within 50 years, and the committee reports on this legislation set forth the principal criteria and procedures which are now used by Interior in preparing rate and repayment studies.

Throughout the long period involved in the legislative process covering construction, operation, and maintenance of power facilities at reservoir projects of Interior and the Corps of Engineers (civil functions), the Congress seems to have, for purposes of setting rates, emphasized amortization of the construction costs rather than a depreciation concept relating to service lives of the facilities.



U.S. Bureau of Reclamation photo
Aerial view of the Grand Coulee Dam and the new Third Powerplant and Forebay Dam, Washington.

Supplemental Statement on Repayment Status— A GAO Innovation

Interior prepares the rate and repayment studies on the assumption that no specific annual payment on the Federal investment is required on any project within the system and that, in fact, no payment on the investment in any project need be made until that project's 50th year. To the extent that system revenues are available for repayment of investment, they may be applied to any specific project or projects within the power system. The repayment requirements are assumed to be met if the studies show that each increment of investment can be repaid within the required 50-year period, even though revenues have been insufficient to repay any portion of the Federal investment at any interim date. This concept does not provide any predetermined milestones or annual repayment goals permitting an evaluation of the status of repayment. The results, based on projections over periods up to 100 years or more, are speculative at best.

GAO has believed that Interior should develop and publish supplemental statements comparing the annual and cumulative repayments of the Federal investment with scheduled repayments established on some orderly basis for repaying the investment in the individual projects within the required periods. These comparisons would show whether the scheduled repayments are being met, and, if not, the extent of the deficiencies.

Supplemental statements of this kind have been developed by GAO and included in several reports to the Congress on Interior's power operations.[1] These supplemental statements have not given recognition to the fact that revenues from repaid projects in a system are considered by Interior as being available to repay investments in other unpaid projects in the system.

Interior is not required by law to prepare and publish this kind of supplemental information and does not consider it desirable or necessary to supply it. The Department holds that it is not in the public interest or in keeping with the intent of the Congress in authorizing federally financed power facilities to base power rates on arbitrary accounting procedures.

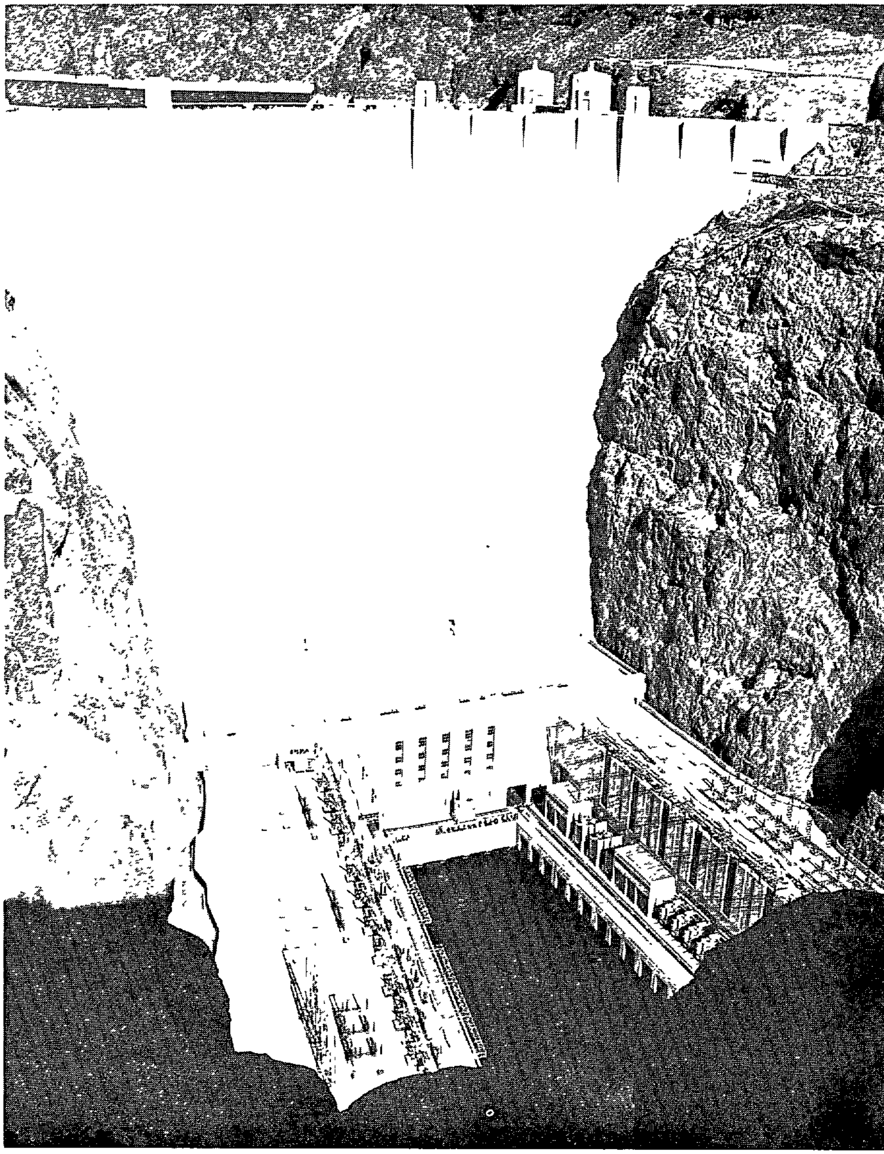
The General Accounting Office has contended only that the supplemental data would be useful in appraising the status of repayment and that such supplemental data, considered alone, is not intended to form a basis for concluding whether the rates are too low or too high. The supplemental data would show the extent to which the power system is relying on future revenues to meet repayment requirements.

Cost Measurement on Basis of Investment Amortization

Power marketing agencies of Interior prepare commercial-type financial statements on an accrued cost accounting basis—including depreciation based on economic service lives—and prepare separate rate and repayment studies to show the status of repayment of the Federal investment. The commercial-type accounting and reporting on power operations could be modified to show amortization of the total costs over the repayment periods of the respective power projects and thus could be used in lieu of rate and repayment studies for rate-making purposes and to show the status of repayment of the Federal investment. This method departs from the conventional cost accounting processes, which are based on service lives—and these service lives in the case of hydro-power projects are much longer than 50 years. Moreover, the amounts of repayment include the costs of assets usually excluded from the depreciation base, such as land owned in fee simple. Such a method, however, has the virtue of permitting a comparison of current revenues with current costs in terms of repayment requirements.

Accounting purists may suffer intellectual anguish in classifying amortization in excess of depreciation based on service lives and amortization of the cost of nondepreciable assets as a current cost of power operations. They may

[1] For example, "Improvements Needed in Financial Activity of the Federal Hydroelectric System in the Missouri River Basin" (B-125042, Feb. 28, 1972); "Southwestern Federal Power Program—Financial Progress and Problems" (B-125031, Nov. 22, 1972).



U.S. Bureau of Reclamation photo

Hoover Dam–Boulder Canyon Project, Nevada-Arizona.

find satisfaction in structuring the Statement of Revenues and Expenses to show separate amounts for the depreciation based on service lives and the amortization of the allocated power investment in excess of depreciation based on the repayment period, and for the separate subtotaling of net operating revenues from power operations (based on use of depreciation) and excess (or deficit) of revenues from commercial power operations (including the amortization). Such a pro forma statement of revenues and expenses is shown in exhibit 1.

This method of accounting for and reporting on Interior's power operations would seem to totally conform with the statutory requirements of the legislation authorizing the power projects. To establish this method of accounting and reporting, Interior would have to recede from its longstanding position that no amounts of the power investment need be allocated for repayment of investment of individual projects within a power system to any specific year and that repayment of all costs is assured through acceptance of its estimates for system revenues and costs, stretching in most cases to 100 years or more in the future without any effective intermediate milestones for comparison and appraisal. The method proposed herein provides milestones, on a current ongoing basis, of the progress made in repaying the costs in accordance with the authorizing legislation.

Cost Measurement on Basis of Service Lives

Current accounting practices of the Bureau of Reclamation and the Corps of Engineers (civil functions), as approved by the General Accounting Office, provide for recording depreciation on the basis of estimated service lives. This method is the conventional process and is substantially in accord with the requirements of the Federal Power Commission for private power utilities. This method is also in substantial accord with the practices of the Tennessee Valley Authority and is one of the tests used by the Authority in its processes for establishing power rates. Thus, it could well be argued that the solution to the problem at Interior is to change the cost base for fixing power rates to that of service lives of the respective assets (sometimes referred to as "accrued cost").

Rate determination on the basis of conventional cost accounting processes would not only be substantially in accord with industry practice but also is the soundest means of achieving the objective that Federal power users pay the full cost. However, the adoption of conventional cost accounting processes as the base for establishing power rates in Interior-managed power systems would require authorizing legislation. Moreover, it would require far-reaching operational changes within the Department, with significant ramifications externally as well.

The method described in the preceding section could be implemented under existing legislation if Interior were to require annual amortization of the Federal investment on an orderly basis. This method would readily show the status of repayment, eliminate the need for projections of estimated costs and revenues into the far-distant future, and result in a better matching of current costs and revenues in establishing current power rates.

Exhibit 1

FEDERAL COLUMBIA POWER SYSTEM
STATEMENT OF REVENUES AND EXPENSES
FISCAL YEAR 1975

	Fiscal year 1975	*Increase or decrease (−) from preceding year*
OPERATING REVENUES:		
Bonneville Power Administration:		
Sales of electric energy:		
Publicly owned utilities		
Privately owned utilities		
Federal agencies		
Aluminum industry		
Other industry		
Total		
Other operating revenues:		
Wheeling revenues		
Other revenues		
Total		
Total BPA revenues		
Associated projects:		
Other operating revenues		
Total power system operating revenues		
OPERATING EXPENSES:		
Purchase and exchange power		
Operation		
Maintenance		
Depreciation		
Interest on Federal investment		
Less related interest charged to construction		
Total operating expenses		
NET OPERATING REVENUES FROM COMMERCIAL POWER OPERATIONS:		
Amortization of allocated power investment in excess of depreciation shown above		
EXCESS (OR DEFICIT) OF REVENUES FROM COMMERCIAL POWER OPERATIONS:		
Amortization of irrigation investment allocated for repayment from power revenues		
EXCESS (OR DEFICIT) FROM COMMERCIAL POWER OPERATIONS AFTER ALL COSTS TO BE BORNE BY POWER		

Assistance to Irrigators

For most systems, power marketed by Interior also provides revenues for repayment of construction costs of irrigation facilities that the irrigators are not able to pay. This subsidy to irrigation is met by power revenues as late as possible in the repayment period because interest is not required to be paid the Government on the irrigation investment. Accordingly, this repayment of irrigation costs is deferred until the far future in most cases.

Under the usual repayment arrangements for irrigation construction costs, irrigators have 50-year contracts covering the portion of the costs to be repaid by them, with a maximum of 10 years for development during which the irrigators make no payments under their contracts. The financial statements do not include any amounts for amortization of irrigation assistance from power revenues until such amounts are actually repaid.

This distortion of accounting and related reporting needs to be corrected in the interest of adequate disclosure and a proper matching of revenue and cost in establishing power rates. It is proposed in exhibit 1 that the amortization of the irrigation investment allocated for repayment from power revenues be recorded and reported on a straight-line amortization basis over the effective periods of the related contracts with irrigators.

Amortization of irrigation assistance from power revenues as shown by exhibit 1 may require authorizing legislation in some cases. Based on the language in the amendment to the Bonneville Project Act and an opinion by an Interior Solicitor, it is not clear that annual amortization of irrigation assistance can be allowed to affect power rates. Exhibit 2, on page 49, shows a means of meeting this objection. In the interest of enhancing the financial integrity of Interior's power programs, this matter needs to be resolved.

Other Problems

An improved accounting and reporting system for demonstrating the adequacy of power rates to meet investment repayment requirements by no means solves all the problems in the current repayment study methods and concepts. Among these other problems are the suballocation of the power investment to irrigation pumping for classification as irrigation investment and the allocation of investment to purposes before use. However, the major issue that needs to be addressed first is the basic principles for the cost measurement and reporting system in assessing the financial management of marketing power generated at the Bureau of Reclamation and Corps of Engineers (civil functions) power projects.

Concluding Comments

Refinement of the average rate and repayment study currently prepared by the Department of the Interior is one way of improving the financial data on Federal power systems managed by the Department. However, refinements cannot cure the inherent defects in any estimates made for 100 years or more in

Exhibit 2

FEDERAL COLUMBIA POWER SYSTEM
STATEMENT OF REVENUES AND EXPENSES
FISCAL YEAR 1975

	Fiscal year 1975	*Increase or decrease (−) from preceding year*
OPERATING REVENUES:		
Bonneville Power Administration		
Sales of electric energy:		
Publicly owned utilities		
Privately owned utilities		
Federal agencies		
Aluminum industry		
Other industry		
Total		
Other operating revenues:		
Wheeling revenues		
Other revenues		
Total		
Total BPA revenues		
Associated projects:		
Other operating revenues		
Total power system operating revenues		
OPERATING EXPENSES:		
Purchase and exchange power		
Operation		
Maintenance		
Depreciation		
Interest on Federal investment		
Less related interest charged to construction		
Total operating expenses		
NET OPERATING REVENUES FROM COMMERCIAL POWER OPERATIONS:		
Amortization of allocated power investment in excess of depreciation shown above		
EXCESS (OR DEFICIT) OF REVENUES FROM COMMERCIAL POWER OPERATIONS:		
Amortization of irrigation investment allocated for repayment from power revenues		
Less deferral of repayment of irrigation investment until after liquidation of commercial power investment		
EXCESS (OR DEFICIT) FROM COMMERCIAL POWER OPERATIONS AFTER ALL COSTS TO BE BORNE BY POWER		

the future. Further, no system can be truly sound that does not permit some means of current measurement or comparison of actual results with estimated results, particularly for periods of time as are here involved. The proposed method of comparing current revenues with current costs on the basis of cost measurement through investment amortization provides the milestones and the means for appraisal.

The proposed method should also result in more equitable treatment of present and future power customers as a result of providing a basis for determining power rates which more nearly match current costs and current income requirements. An alternative would be to seek authorizing legislation that would permit annual amortization of the Federal investment over the economic service lives of the related facilities rather than over a 50-year period and to set power rates based on conventional cost accounting processes.

Who, Us?

The agency seems to relish the obscurity that has characterized it since its founding in 1921. The agency is housed in a dreary building on the fringe of an unfashionable neighborhood across the street from a pawn shop, and a gas station that has gone out of business.

Tom Margolis
"The G.A.O. Is Congress's Unpopular Watchdog"
The New York Times
May 18, 1975

STEPHEN L. KELETI AND JOSEPH A. MARANTO 7 2/557

Planning A Full-Scale Audit of the Small Business Administration

The 93d Congress directed GAO to conduct a full-scale audit of the Small Business Administration and to report to the House and Senate not later than 6 months from the date of the act. This article describes how this assignment was planned and organized. A later article will describe the results of the work performed.

At one time or another during the span of a professional career with GAO, many auditors probably have felt frustrated because they have not had enough resources to audit a Federal agency in depth. Such was the plight of the GAO staff at the Small Business Administration until Public Law 93-386, requiring GAO to make a total audit of that agency, was passed on August 23, 1974.

But why would the Congress order such an audit? And what would be the best way to plan and organize it to respond to such an order? Answers to these questions follow.

Small Business Administration

This agency was established in 1953 primarily to aid small business concerns—those which are independently owned and operated and which are not dominant in their field of operation. The agency operates 10 regional offices and 81 district and branch offices to aid the 8.8 million small businesses throughout the United States. Its basic mission is to make direct loans or guarantee loans made by participating banks. These loans usually are limited to $350,000 per business.

In addition, SBA 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 procurement assistance to small busi-

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Mr. Maranto, a supervisory auditor in the General Government Division, received his bachelor of science degree from Northwestern State University with further studies at George Washington University. He is a member of the National Association of Accountants.

nessmen. As of June 30, 1975, SBA had a loan portfolio of $6.1 billion.

Events Preceding Act

Oversight investigations conducted by the House Banking and Currency Committee during 1973 and 1974 revealed that new problems were being discovered in SBA virtually every day—problems ranging from simple mismangement to out-and-out criminal fraud. Although the Committee's investigations covered 20 of SBA's 91 field offices, the Richmond, Virginia, office received the largest amount of attention.

The Committee felt that, despite its repeated admonitions, SBA's loan processing and program administration was continuing to deteriorate. The Committee noted that the agency had for the most part been unwilling to recognize and deal with this deterioration. The Committee's concern was caused, in part, when the SBA Administrator testified that the losses in Richmond would amount to no more than $50,000 and chastised the Committee for blowing a small situation out of proportion. The Committee's reaction can best be characterized by one member's statement that "the SBA officials are more interested in covering up than uncovering scandals in the Agency."[1]

The Committee, although recognizing that GAO did audit SBA operations, was concerned that this audit was only of selected programs and therefore did not result in an overall review of the agency's operations. Concluding that SBA would be unable to uncover all of its problems with an in-house audit, the Committee felt that the only alternative was to ask GAO to make a total audit—so H.R. 15578 was drafted and ultimately passed as Public Law 93-386.

During the time the Committee was conducting its investigations, the General Government Division began a major review of the 8(a) procurement program—designed to help socially or economically disadvantaged businessmen become viable entrepreneurs. The San Francisco regional office, picked to help in this major review, responded by assigning a topnotch audit manager and staff. Also, recognizing that there was mounting interest in SBA, we expanded our audit plans to include coverage of SBA's local development company program, its minority enterprise small business investment company program, and its 7(a) business loan program. These audits were started in early 1974.

After H.R. 15578 was introduced in July 1974, GAO staff members held discussions with the House Banking and Currency Committee staff concerning how GAO would meet the requirements of section 13 of the bill. On August 23, 1974, the bill was enacted as originally introduced.

Events After the Act Was Passed

GAO staff members met shortly thereafter with the Chief Investigator of

[1]H. Rept. 93-1178, July 3, 1974, Small Business Amendment of 1974, p. 5.

the House Banking and Currency Committee to discuss the scope of the work required to fulfill the congressional mandate. We pointed out that, as a practical matter, it would be nearly impossible to report to the Congress within the 6-month time frame.

We told the Chief Investigator that we had several surveys and reviews underway at that time and that several other assignments—planned for the not-too-distant future—could be accelerated. We also pointed out that our Detroit regional office had begun a survey of SBA's basic loan assistance program—the 7(a) program—in April 1974 and was almost finished.

At this meeting we suggested extending the scope of our audit of the 7(a) program to about 30 district offices. We felt that an audit of this size was about the best we could properly manage in a relatively short time. We also told the Chief Investigator that, in our opinion, the assignments already underway or planned would be broad enough to give the Congress enough information to determine SBA's effectiveness. The Chief Investigator agreed.

It was obvious that we would have to increase the size of our staff at the SBA audit site in order to properly plan for and successfully implement several concurrent reviews; the director of the General Government Division, therefore, reassigned several staff members from other audit sites to the SBA audit staff.

The next step was to devise a plan to implement the public law. We decided we should take advantage of the GAO regional office personnel who were already involved in several of our ongoing self-initiated assignments.

Planning Session

Annapolis, Maryland, was chosen as the site for our brainstorming session. On September 4, 5, and 6, 1974, the SBA staff and the General Government Divison director met with key staff members from the Atlanta, Chicago, Detroit, Philadelphia, San Francisco, and Washington regional offices. Also, staff members from the Federal Personnel and Compensation Division were invited to participate because their division was expected to audit selected SBA personnel activities. A representative from the Financial and General Management Studies Division discussed previous accounting system reviews, while an attorney from the Office of the General Counsel briefed the staff on anticipated legal questions.

Although we did a good deal of our planning at the formal sessions held during the day, many ideas and suggestions were bandied about during dinner and "across the table" in the later hours of the night.

As a result of the planning session, we agreed that the SBA audit would comprise eight separate reviews, as follows:

1. *Review of the effectiveness of SBA's 8(a) procurement program*. SBA uses this program to help socially or economically disadvantaged small businessmen to achieve a competitive position in the financial marketplace by entering into procurement contracts with Fed-

SBA FIELD OFFICES INVOLVED IN GAO'S AUDITS

OFFICES	PROGRAMS						
	8a	301(d) SBIC'S	LEASE GUARANTEE	502	7a	MANAGEMENT	PERSONNEL
REGIONAL OFFICE							
BOSTON							X
DISTRICT OFFICES							
BOSTON			X		X		X
CONCORD							X
HARTFORD					X		
PROVIDENCE			X				X
REGIONAL OFFICE							
NEW YORK	X						X
DISTRICT OFFICES							
NEW YORK					X		X
NEWARK					X		
SYRACUSE							X
BRANCH OFFICE							
BUFFALO							X
REGIONAL OFFICE							
PHILADELPHIA	X					X	
DISTRICT OFFICES							
PHILADELPHIA					X	X	
BALTIMORE					X	X	
CLARKSBURG					X		
RICHMOND			X				X
WASHINGTON	X		X			X	X
REGIONAL OFFICE							
ATLANTA	X					X	X
DISTRICT OFFICES							
ATLANTA				X			X
BIRMINGHAM					X		X
CHARLOTTE					X		
MIAMI						X	X
REGIONAL OFFICE							
CHICAGO	X	X					
DISTRICT OFFICES							
CHICAGO	X	X			X		
CLEVELAND			X		X		
COLUMBUS					X		
DETROIT	X				X		
INDIANAPOLIS					X		
MADISON				X			
MINNEAPOLIS	X			X			

SBA FIELD OFFICES INVOLVED IN GAO'S AUDITS

OFFICES	8a	301(d) SBIC'S	LEASE GUARANTEE	502	7a	MANAGEMENT	PERSONNEL
REGIONAL OFFICE							
DALLAS	X					X	X
DISTRICT OFFICES							
DALLAS	X						X
ALBUQUERQUE			X			X	X
HOUSTON					X		
LUBBOCK			X			X	
LOWER RIO GRANDE VALLEY						X	
SAN ANTONIO							X
REGIONAL OFFICE							
KANSAS CITY							X
DISTRICT OFFICES							
KANSAS CITY					X		X
DES MOINES							X
ST. LOUIS					X		X
REGIONAL OFFICE							
DENVER[1]						X	X
DISTRICT OFFICES							
DENVER					X	X	X
CASPER							X
HELENA							X
SALT LAKE CITY					X		
SIOUX FALLS			X				
REGIONAL OFFICE							
SAN FRANCISCO	X					X	X
DISTRICT OFFICES							
SAN FRANCISCO	X		X		X		X
HONOLULU					X		
LOS ANGELES				X	X	X	X
SAN DIEGO						X	X
BRANCH OFFICE							
LAS VEGAS					X		
REGIONAL OFFICE							
SEATTLE							
DISTRICT OFFICE							
SEATTLE			X		X		

[1] This office also examined SBA's financial statements.

eral agencies and, in turn, subcontracting the work to these small businessmen. This review, which was nearly completed, was directed towards ascertaining (a) the program's success in helping firms to become self-sufficient, (b) whether sponsored organizations actually helped disadvantaged firms and gradually relinquished control over these firms, and (c) whether all firms admitted to the program actually needed the special assistance it provided.

The San Francisco regional office was spearheading this review with help from 10 other GAO regions. Atlanta had assumed responsibility for the audit work on sponsored organizations.

This assignment involved work at six SBA regional offices and six district offices.

2. *Review of the effectiveness of 301(d) small business investment companies.* Under this program, SBA licenses and provides financial assistance to privately owned and operated small business investment companies which provide equity capital, long-term loans, and management assistance to small business enterprises that are least 51 percent owned and managed by socially or economically disadvantaged businessmen.

The Chicago regional office, carrying out this review in four major metropolitan areas, was trying to determine the extent to which SBA provided guidance to the investment companies and whether or not the companies were assisting the small business concerns with equity financing.

3. *Review of the self-sufficiency of the lease guarantee program.* This program is designed to help small businesses obtain leases of commercial and industrial property. The Congress intended that the program be self-sustaining and pay its own way. Our review, accordingly, was to be directed towards ascertaining if the program was self-sustaining.

The Seattle regional office had been slated to start this review near the end of calendar year 1974. Because of the public law, this assignment had to be started sooner. The Seattle office suggested that, to speed up the job even more and reduce startup time, it would be the only regional office involved. Seattle agreed to have its staff do the actual audit work at 10 SBA district offices.

4. *Review of the effectiveness of the local development company program.* In this program, SBA makes loans to local development companies for the acquisition of land and for plant construction, conversion, or expansion. The purpose is to benefit communities through increased employment. The companies must use the loans to assist identifiable small business concerns.

Assisted by the Atlanta and Los Angeles regional offices, our St. Paul office was to lead this review, taking us into four SBA district offices. We wanted to determine whether the development companies were assisting communities and small businesses and the extent to which jobs were being created. We also wanted to determine why small businesses would apply for this program as opposed to SBA's regular loan and guarantee program.

5. *Review of the 7(a) loan and guarantee program.* In this program—the most basic of all SBA programs—business loans are made to help new and existing small businesses (a) finance plant construction, conversion, or expansion, (b) finance the acquisition of equipment, facilities, machinery, supplies, or materials, and (c) supply businesses with working capital.

   As mentioned previously, the Detroit regional office was finishing a survey of this program and had identified several potential deficiencies. Although the regional office originally intended to make a detailed review at about 3 or 4 SBA district offices, we decided, on the basis of our discussions with the Committee's Chief Investigator, to carry out the review at 30 offices.

   We decided we could best meet this "quota" by having each of the 15 GAO regional offices participate in reviews at 2 SBA district offices. Because the SBA programs were so large and because we wanted to minimize the impact of staffing on the GAO regions, we decided to program the audits in two phases so that no one regional office would have to provide more than six men at any given time for these audits. For example, the Seattle regional office already had committed three men to the review of the lease guarantee program. If Seattle were to become involved in 7(a) reviews at two SBA district offices, that office would have had to assign nine men to audits of the one agency. In this case, we decided to have Seattle do one 7(a) review during the first phase, concurrent with the review of the lease guarantee program, and do a second 7(a) review during the second phase.

Accordingly, we planned for the 7(a) review to be conducted at 22 SBA district offices during the first phase and at 8 district offices during the second phase.

Due to the extensive size of this audit, the director of the General Government Division assigned an audit manager solely to supervise the field offices and pull together a draft report. The Detroit regional office continued to play a major role in this assignment and, together with the Washington staff, drafted the audit guidelines for this major review.

To expedite the start of this assignment, three separate kick-off conferences were held in Detroit, Michigan; San Francisco, California; and Kansas City, Kansas. Members of the Detroit regional office who conducted the survey held briefings at these conferences, presented the results of their survey, and together with the Washington staff went over the audit guidelines.

The 7(a) job started in November 1974. From that time on, the Washington staff members assigned to the job were constantly traveling to insure that all 15 GAO regions were uniformly carrying out the audit program. Detroit's assistant regional manager assisted by making several field trips to other regional offices during this period. All regions completed the field audit work in mid-February 1975 as planned.

6. *Review of SBA's management, organization, and review functions.* The director of the General Government Division suggested that, in addition to our program reviews, we take a close look at how, in his words, "SBA manages the store"; that is, ascertain how SBA's top management keeps apprised of how good a job the agency is doing. To carry out this assignment, we planned to look at (a) the effectiveness of and need for several SBA audit and investigation offices, (b) the use by management officials and program managers of reports generated by SBA's management information system to monitor the progress of loan programs, (c) the effectiveness of SBA's policy and regulations regarding conflicts of interest, and (d) the adequacy of reviews made by SBA's Office of Portfolio Review, which was established in 1973 to evaluate the district offices' loan assistance portfolios.

Regarding (d), we recognized that the Federal Deposit Insurance Corporation had, for many years, carried out a similar function for banks, so we discussed with members of that agency the possibility of having them assist us in our evaluation. After a series of meetings with the Deputy Director of FDIC's Division of Bank Supervision, we contracted with FDIC to examine (a) the adequacy of SBA staffing in terms of numbers and qualifications for carrying out work, (b) the adequacy of SBA's written policies and procedures for carrying out the intended purposes of the organization, and (c) the actual practices of the portfolio review staff. It was agreed that FDIC would carry out its examination at four SBA district offices, which it would select.

Although we stipulated at the outset that their access to records for purposes of this assignment would be under the broad authority that GAO has in such matters, we expected the FDIC personnel to determine the scope of work necessary and to devise their own work plan.

Subsequently, in February 1975, a four-man FDIC team, headed by an assistant regional director, began its investigation.

7. *Review of personnel management at SBA*. The Federal Personnel and Compensation Division agreed to review selected SBA personnel management activities at headquarters and field office locations. The Division was to examine (a) problems disclosed by the Civil Service Commission's personnel management evaluations at selected SBA offices and the extent of corrective actions taken by SBA, (b) ways to identify the strong and weak areas of SBA's personnel management, and (c) the issues involved in the alleged political referral system at SBA. We expected much of our work to be based upon interviews of SBA employees—both the professional and clerical staffs. This assignment was to be carried out at 7 SBA regional offices and 23 district offices.
8. *Audit of SBA's financial statements for fiscal year 1974*. To round out our review of SBA activities, we arranged with the Field Operations Division for the Washington regional office to conduct an audit of SBA's 1974 financial statements. Although this audit was to be made primarily at SBA's headquarters office, some work was done at SBA's Financial Operations Division in Denver, Colorado.

Scope of Full-scale Audit

These eight reviews, then, were to provide us with broad coverage of SBA's operations and allow us to report to the Congress on the effectiveness of several SBA loan programs, as well as the efficiency with which SBA carries out its personnel, management, and financial operations. As indicated on the table on pages 54–55, these reviews would take us into 54 of SBA's 91 field offices, as well as its headquarters offices.

After completing our plans, we held a briefing for the Comptroller General, the Deputy Comptroller General, and the directors of the three operating divisions involved in October 1974.

At the end of the briefing, we agreed to send letters to the Chairmen of the two SBA legislative committees—the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking and Currency—describing our audit approach for responding to the congressional mandate. At the Comptroller General's suggestion, we pointed out that the General Accounting Office was committing a substantial amount of manpower—estimated to cost about $2 million—to comply with the public law. We sent the letters on October 18, 1974, thus completing the planning cycle for the comprehensive audit of SBA.

The task of completing the audits and preparing reports remained ahead. A future article will summarize the results of our work and congressional and agency use of our findings and recommendations.

CLINTON H. WHITEHURST

New Horizons For An Ever-young Lady—GAO

A university professor who spent a year on the staff of GAO as a Sears-American Assembly of Collegiate Schools of Business Fellow under the Federal faculty fellowship program gives his observations about GAO. The article is based on a paper presented at the tenth annual meeting of the southeastern chapter of the Institute of Management Sciences to try to interest management science specialists in GAO's work.

This is not a technical paper such as might be expected at a regional meeting of the Institute of Management Sciences. Nonetheless, it is entirely relevant and I trust it will prove beneficial as well as interesting to the management scientists and his colleagues in sister disciplines such as econometrics, systems analysis, and operations research.

In a word, the paper examines a little-known but most important component of the legislative branch of the Federal Government—the U.S. General Accounting Office, better known perhaps as GAO.

In 1974, this ever-young lady passed her 53rd birthday. Not old in terms of original cabinet departments such as State and Justice, War and Navy, but still senior to almost half the present-day cabinet departments and most Federal agencies. If, however, the agency has reached chronological middle age, its functions, responsibilities, and everyday work as the congressional watchdog are as new as the latest NASA space shot and as timely as the reorganization of the northeastern railroads.

Historical Background

The General Accounting Office is an independent agency lodged in the legislative branch of the Federal Government. It is headed by the Comptroller General of the United States—at present *Elmer B. Staats*—and came into being under provisions of the Budget and Accounting Act of 1921. This act vested in the Comptroller General all of the duties and authority formerly exercised by the Comptroller of the Treas-

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ury. Since 1921, GAO's authority and responsibilities have been constantly enhanced by additional acts of Congress.

The headquarters building in Washington, D.C., at 441 G Street, NW., occupies an entire city block. In cornerstone-laying ceremonies in 1951, President Harry S Truman observed:

> Many people in the Government have wrongly considered the General Accounting Office a sort of bugaboo that keeps them from doing what they want to do. Many people outside the Government, when they think of the General Accounting Office at all, consider it a dry and boring subject. But the General Accounting Office is neither a bugaboo nor a bore. It is a vital part of our Government. Its work is of great benefit to all of us.[1]

This work of great benefit to us all—in other words, the mission of GAO (and how it is carried out)—is what this paper is all about.

GAO's Mission

A chief mission of GAO is to determine how the various Government agencies are carrying out the mandates of the Congress. The GAO review is the primary way this responsibility is carried out. A review is essentially an audit in which an agency's management, its program, and its responsibilities are analyzed with the view of insuring that public funds entrusted to the agency are being used efficiently and economically. All told, 11 executive departments, 40 independent agencies, and 80 boards and commissions are subject to such reviews.

A second major GAO mission is to provide direct assistance to the Congress. Special audits and surveys are made at the request of congressional committees and individual Members. Such requests typically receive a high priority. Other responsibilities include settling claims for and against the United States and overseeing Federal campaign spending and reporting.

Each year many GAO professionals are assigned to congressional committees. Their function is to provide, and assist in providing information for committee studies and investigations. Frequently, GAO representatives are called upon to testify before congressional committees in connection with particular reviews and reports. In some cases testimony will be by the Comptroller General and division directors; in many other cases it is by the GAO professional testifying in areas of his unique expertise.

A final fact worth noting is that the individual—the man in the street—can and does request GAO assistance. Usually his request is narrow in scope and can be better answered by another agency, or he can be referred to an existing report about his question. But whatever, his inquiry *will always get a response*.

Thus does the agency serve . . . from the chairmen of powerful and prestigious committees of the Congress to the individual citizen. Congressman Frank Horton of New York probably summed

[1] Harry S Truman, quoted in *The GAO Review*, Summer 1974 (inside cover).

up GAO's mission as well as can be when he said:

> With the seemingly endless array of Federal agencies and programs, GAO is able to provide Congress with the objective information it needs to determine how our tax dollars are to be used and to pinpoint needless expense and programs which don't work. Without GAO, congressional oversight activities would be much more difficult. With it, Congress has an invaluable tool to check on the efficiency and economy of the Federal Government.[2]

The Watchdog

It is not by chance that the monthly newspaper of GAO employees is called *The Watchdog*. It is entirely appropriate and precisely defines a major agency responsibility.

Earlier it was asserted that the primary way in which GAO's mission (or watchdog role) is carried out is through a review and that the basic method of carrying out a review is the audit. Under the Budget and Accounting Act of 1921 and subsequent legislation, areas of an audit have been expanded to include: [3]

Fiscal accountability, including integrity, disclosure and compliance with applicable laws and regulations.

Managerial accountability, concerned with the efficient and economical use of personnel and other resources.

Program accountability, concerned with benefits being attained and whether programs are achieving their intended objectives.

This legislation also mandates that information obtained by GAO in performing its functions is to be made available to the Congress.

In some cases GAO findings and conclusions may be of no interest to the Congress. When such a determination is made, the reports are sent directly to the agency concerned. If, however, a GAO review makes recommendations to the head of any Federal agency, the agency is required within 60 days to submit a written report to the Government Operations Committees of the House and Senate. The report must state what action is contemplated by the agency with respect to the recommendations. Moreover, a similar statement must be submitted to the agency's congressional appropriations committees prior to its request for funding.

Allocating GAO Resources

In terms of Federal agencies, GAO is not large. The professional staff in August 1974 numbered only 3,589 (1,575 in Washington, 1,790 in regional offices, and 224 in the International Division). Its operating budget in fiscal year 1974 was $109 million, a comparatively small amount when contrasted with the multibillion dollar budgets of Health, Education, and Welfare and the Department of Defense.

Given these very real constraints, the Comptroller General must pay particular attention to directing the agency's audit efforts. In this respect, his basic criteria are to direct efforts in those di-

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[2] Frank Horton, "GAO—A Valuable Resource," *The GAO Review*, Winter 1974, pp. 68-69.

[3] *The U.S. General Accounting Office: Purposes, Functions, Services* (1973), p. 9.

rections (1) which will insure the most efficient use of public monies and (2) which will be of most help to the Congress as it seeks to discharge its legislative responsibilities.

Specific factors influencing the decision to make an audit are: [4]

—Statutory requirements.

—Congressional requests and indications of congressional interest.

—Potential areas of improvement in Government operations.

—Areas which have been identified as involving weaknesses in management controls and operations.

—Deviation of agency policies from congressional intent.

—Programs with large sums to spend, assets, or revenues, and newness of programs.

Although GAO must carefully allocate its manpower, it does not lack for legislative authority to carry out its mission. A number of laws give the Comptroller General the right to examine relevant books, documents, records, and papers of any Federal department or agency. This right also extends to certain contractors in the private sector who have been awarded Government work.

One measure of GAO effort is the number of audit reports issued. In fiscal year 1973 these totaled 949, as indicated in the following table.[5]

[4] *Ibid.*

[5] *Annual Report of the Comptroller General of the United States, 1973*, p. 3.

To Congress	152
To Congressional committees	180
To Members of Congress	172
	504
Reports to	
Federal agency officials	405
Reports of	
Office of Federal Elections	40
Total	949

The breadth and scope of GAO reviews can be seen by a sample of the subject matter of some of the reports:

- Interim report on evaluation of U.S. Metric Study
- Need for a national earthquake research program
- Assessment of the Teacher Corps Program
- Procurement of weapon detection devices for the aircraft antihijacking program
- Cost growth in major weapons systems
- Use of military aircraft for political purposes
- Examination into whether the Postal Service has improved first-class mail service

Other measures of GAO output are testimony before congressional committees and reports to the Congress respecting pending legislation. In fiscal year 1973 GAO professionals gave testimony on 38 different occasions. In a related responsibility the agency is increasingly being asked by the Congress for independent, objective advice on proposed legislation. In this respect, 575 reports on pending bills were furnished to the various House and Senate committees.

A last index is the number of audits made of the various Federal agencies. During fiscal year 1973 a total of 1,585 audits were performed in the United States and 53 other countries.

The end result of this effort is a more economical and efficient government. For fiscal year 1973 it is estimated that the adoption of GAO recommendations saved the taxpayers approximately $284 million.

GAO: Yesterday and Today

A much heard observation in Washington, D.C., is that, while administrations and Congresses may change, the bureaucracy goes on as before. Be that as it may, it is not true with respect to GAO—at least not since the midsixties. Much has happened and very little is as before. Many GAO people would precisely date the change in emphasis, if not direction, with the appointment in March 1966 of *Elmer B. Staats* as Comptroller General.

It is not that the basic mission of the agency changed. It didn't. Rather, it was a recognition that, with ever-increasing responsibilities in an increasingly complex and technological world, the accountant, lawyer, and auditor—the traditional GAO professional—needed help and needed it now, not 10 years hence. Thus, the economist, management scientist, and systems analyst who would have considered chances of employment at GAO remote a few years ago need not today. The Office of Personnel Management aggressively recruits at the Nation's colleges and universities each year, and the above types are not being overlooked.

With respect to the college recruiting year ended June 30, 1973, out of a total of 198, GAO hired 61 persons holding bachelor's degrees in business administration, economics, management, engineering, mathematics, and operations research. At the master's level in these same fields, a total of 41 were hired out of a total of 80. For the recruiting year ended June 30, 1974, a total of 94 bachelors and 61 masters were hired in the above fields.

The newly graduated GAO recruit holding a bachelor's degree can expect an appointment at the GS-7 level. Those with a master's degree generally start as a GS-9 (GS-7 salaries in the above areas range from $10,520 to $11,222; for GS-9 the salary is $12,841).

The new recruit comes from a cross section of American institutions of higher learning. During the period August 1973-May 1974, new graduates representing 63 colleges and universities cast their lots with the agency. Schools in the southeast region include East Tennessee University, Florida Technological Institute, Florida State, Jacksonville State, A&T University, Alabama State, University of Georgia, Troy State, Duke, University of Tennessee, Middle Tennessee State, Virginia State, and Old Dominion University.[6]

Appointments in GAO, however, are not limited to the new college graduate. In a random sample of recently hired professionals (those hired within 2

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[6] *The GAO Review,* Summer 1974 and Winter 1974, pp. 130-32 and 112-13.

years) having degrees in economics, management science, or general business, 11 out of 26 were hired at the GS-13 to -15 level, i.e., at salaries ranging from $20,000 to $30,000 per year.

GAO: Tomorrow

Since its creation in 1921, the responsibilities of GAO have constantly changed. A number of its functions have been transferred to other agencies, while new responsibilities have been added. In general, accounting and reporting once performed for other agencies is now the responsibility of those agencies. On the other hand, the breadth and scope of GAO audits have been expanded to include agency managerial and program accountability.

In the General Accounting Office Act of 1974, the thrust is much the same. Routine audits will be performed less often and the last remaining centralized audit performed by GAO will be transferred to the executive branch. On the other hand, authority is conferred for GAO to expand its watchdog function into new areas.

Actually the move toward having agencies be responsible for their own detailed audits is, itself, a result of GAO initiatives in developing effective internal auditing standards for the Federal Government.

The above, however, are legislative changes—mandated by the Congress. They are important, but it is argued here that more important—at least for the new professional thinking about a career with GAO—is the underlying philosophy of the agency. Where it is going and how does it see its role in the future?

As with any agency, the philosophy and tone will be largely set by the agency head. In the case of GAO, that responsibility falls to Comptroller General Staats.

One thing is certain: the broadening of the professional staff will continue. In addressing the Washington, D.C., chapter of the National Association of Accountants in 1971, Mr. Staats said:

> Two distinct fields of endeavor emerge as the role of the accounting profession in this era of social change: creative accounting and program analysis and evaluation. While the accountant will be deeply involved in each of these fields, he will, in order to meet the needs of decision-makers and administrators, have to share his contribution substantially with other disciplines—scientists, computer analysts, engineers, medical practitioners, systems analysts, mathematicians, economists, sociologists, statisticians, actuaries, and the like.

Another forecast safe to make is based on no more than a continuing observation in the Washington headquarters. That is, the agency will continue to be "ever young" in a literal sense. Young people are not only being recruited but are moving up faster and getting real responsibility earlier. Assistant and associate directors are young—younger in many cases than the average associate professor at the large State universities.

Speaking to the American Assembly of Collegiate Schools of Business in 1973 on "The Common Interests of Government and Schools of Business and Administration in Improving Management in Government," Mr. Staats outlined his view of the type of product the Nation's business schools should be turning out. He said:

> We need people who want to be leaders and who associate with that desire the highest standards of honesty, integrity, and ethics—a sacred regard for the public interest—whether or not their day-to-day work involves them in private enterprise or Government service.
>
> Whether these future leaders remain in business, enter a more specialized profession, or develop in some other capacity, they will never escape their relationship to, and concern with, the activities of Government—Federal, State, and local. An understanding of Government *and* politics is a must, and the schools of business and public administration should assume a large part of the burden of insuring that their graduates obtain such an understanding.

In this respect it is worth noting that 95 percent of new GAO college recruits come from schools of business. But the business school graduate will not work in an environment devoid of other disciplines. At the bachelor's level alone for the recruiting year which ended in June 1974, holders of 19 different degrees, including history, public affairs, foreign affairs, and government, joined the agency.

Conclusion

Perhaps now the rather poetic title of this paper has become clear. GAO must remain young. It has no choice. As the scope and responsibilities of the Federal Government change, so must the role of GAO. As the legislative branch asserts itself more and as the executive branch continues to grow, nothing could be more certain than endless horizons for this ever-young lady.

Too Polite?

What some critics complain about is that with all this built-in independence, ability and power, the GAO too often is bland and timid and uses nice-nelly language.

William Ringle
Democrat and Chronicle
(Rochester, N.Y.)
March 30, 1975

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RALPH W. LAMOREAUX

Training in Operational Auditing

The best training in auditing, regardless of scope, is generally under experienced auditors right on the job. There is always a need, however, for classroom training which provides opportunities for analyzing and discussing the basic concepts and reasons for the auditing policies and practices being applied. This article describes the origin, makeup, and future of a new course being used in GAO and elsewhere to train auditors in the concepts and techniques of operational auditing.

"Operational auditing" is a term and function which has gathered considerable momentum and attention in the last several years. Many articles on the subject have appeared in various trade publications, and brochures and pamphlets offering training courses in operational auditing are now being circulated by accounting, auditing, and management associations and by the Government. GAO, a forerunner in the world of operational auditing, now offers a 2-week course on the subject which has been tested and proven successful.

Operational Auditing: What Is It?

Before getting into a discussion of the training course, it is perhaps best to define operational auditing, also known as management, performance, or program auditing. Although there is no generally accepted definition for the term,

> . . . Operational auditing . . . usually refers to a scope of auditing which examines and evaluates the operating, managerial, or administrative performance of an activity or organization beyond that required for an audit of accounts and financial statements.[1]

This does not imply that operational auditing should supplant financial auditing. Rather, the operational audit can and should be a logical and far-ranging extension of the financial audit. While a financial audit is, of necessity, a critical analysis of past financial activities, an operational audit is designed to be a constructive assessment of future

[1]E.H. Morse, Jr., "Operational Auditing and Standards for the Public Sector," *The GAO Review*, Winter 1973.

Mr. Lamoreaux has been assigned to the Office of Policy for the past 3 years where he played an important role in getting the subject training course started in GAO. He joined GAO in 1967 in the Denver regional office. A member of the American Institute of CPAs and the Association of Government Accountants, he holds an M.B.A. degree from the University of Utah and is a CPA (Utah).

alternatives available to an organization. The objective of operational auditing is to appraise management organization, techniques, and performance with a view towards improvement. To state another way—in GAO language—the primary purpose of such extended auditing is to identify opportunities for greater efficiency and economy and for improved effectiveness in carrying out procedures and operations.

Traditionally, auditing has been directed toward safeguarding funds and other assets, confirming a state of financial affairs, verifying that generally accepted accounting principles have been applied with consistency, and expressing an opinion on fiscal stewardship. Its primary involvement has been with the fiscal record. Now, the auditor must often respond to a demand from different parties for more information about results than can be found solely in the fiscal records. Both within business and government, interested parties have increasingly been seeking information by which the quality of management can be judged, progress toward enterprise objectives measured, and effectiveness of different programs, functions, and activities assessed. Responding to this increased demand, the techniques and procedures of auditing are being applied more and more to the nonfinancial aspects of operations.

Table 1 summarizes some of the differences between financial and operational auditing.[2]

Course Origin

GAO has been a pioneer and leader in the field of operational auditing. Each year it sends hundreds of reports

TABLE 1

Characteristics	*Financial*	*Operational*
1. Purpose	Express an opinion on financial condition and on stewardship	Appraise and improve management methods and performance
2. Scope	Fiscal record	Interrelated operating, managerial, and administrative functions
3. Methods	Emphasis on accounting skills	Emphasis on interdisciplinary skills
4. Time-orientation	To the past	To the future
5. Practice	Traditional	Recent

[2] Adapted from *Perspective in Auditing—Readings and Analysis Situations,* D. R. Carmichael and John J. Willingham (New York: McGraw-Hill, Inc., 1971), p. 483.

to the Congress, its committees and members, and to the responsible Government agencies. These reports cover a variety of subjects dealing not only with financial matters, but also with the efficiency, economy, and effectiveness by which operations have been conducted. Many of them include findings which serve as a basis for recommending that improvements be made in Government operations—action being taken on them by either the responsible agency or by the Congress.

Because of its position of leadership in the field, the Comptroller General of the Republic of Peru asked GAO to develop a training course in operational auditing. Such a course was needed by his office to assist in establishing a program of auditing which would permit implementation of new responsibilities provided it under Peruvian law. These responsibilities dealt with making "operational examinations to verify the correct administration of human, material and financial resources."

In response, the Comptroller General of the United States recommended *Robert L. Rasor* for the job. Employed by GAO for 25 years—from 1946 to 1971—Mr. Rasor spent much of that time in what is now known as the Office of Policy where he helped formulate many of the auditing and reporting policies and procedures used by the Office today.

Development of the course was financed by the U.S. Agency for International Development (AID) as part of its technical assistance program to the Peruvian Comptroller General's Office. AID also ratified the letter of agreement between the Comptroller General of Peru and Mr. Rasor which gave the Comptroller General rights to the course materials in Spanish and Portuguese. Although Mr. Rasor retained rights to the English-language course material, he has since granted GAO unrestricted rights to the material for use in training its own staff.

The Spanish version of the course was first presented in September 1973 in Peru. It has since been taught in Bolivia, and the Comptrollers General of Colombia and Venezuela have also requested that it be taught in their countries.

The English version of the course has been taught six times in GAO, the first session beginning in June 1974. AID is considering presenting the course to its professional staff. The Interagency Auditor Training Center of the Department of Commerce, which has been assigned audit training responsibilities by the Civil Service Commission, also plans to present the course for Federal, State, and local auditors.

Course Makeup

The course, known as the "Progressive Development Training Course in Operational Auditing," is designed to illustrate the practical as well as the theoretical aspects of such auditing. It consists of (1) discussion sessions on the general nature of operational audits and the methods, procedures, and standards used and (2) an extended case exercise involving an illustrative operational audit assignment. The case exercise takes the student from the beginning of an audit to the final report.

The student is provided, on a progressively released basis, with the same type of information that an auditor nor-

Author leads discussion in recently held session of the training session.

mally would have in conducting an actual audit. The student is required to plan and prepare the program of audit work to be done during each phase of the audit (i.e., preliminary survey, legislative review, preliminary review, detailed examination, and report writing) based on this information. In addition, the student is required to prepare portions of a report draft which, theoretically, would be forwarded to the agency for advance review and comment. This particular training approach is aptly suited to operational auditing because such work is highly innovational and dependent upon the ingenuity and discretion applied by the auditor as the audit progresses.

The purpose of each audit phase, as well as the methodology to be used, is discussed by the instructor at appropriate times throughout the session. Further, each student is given an opportunity to orally present to the rest of the class portions of the audit programs and report draft he or she has prepared according to study and work assignments which have been made. There is naturally, and of necessity, considerable discussion and exchange of ideas and experiences between the instructor and the students before and after each audit phase.

Course Purpose

The purpose of the course is to help the student understand GAO's policies, procedures, and techniques for operational auditing and to enable him or her to actually apply them in conducting an audit from beginning to end. Permission to use these policies, procedures, and techniques in teaching people outside GAO was granted by the Comptroller

General in furtherance of his objective of helping to upgrade the quality and expand the nature of governmental audit work performed, irrespective of who does it. The auditing program of the Office has proven to be successful. Accordingly, it should be of interest and value to others engaged in this kind of work, subject to certain adaptations brought about by the peculiarities of the individual audit organizations and the activities which they examine.

Course Materials

Course materials consist of the following documents:

1. *Training Booklets Nos. 1-8*—These booklets present the master case on a progressive basis. Each booklet presents a possible solution to the previous work assignment and the material necessary for the next assignment.
2. *Training Booklet No. 9*—This booklet is an instructor's guide.

The following materials prepared and published by GAO are also used by the course participants:

1. *Comprehensive Audit Manual, Part I*—13 selected chapters.
2. *Report Manual*—15 selected chapters.
3. *Standards for Audit of Governmental Organizations, Programs, Activities & Functions*—A publication which presents and explains standards applicable to all levels of governmental auditing in the United States.
4. *Internal Auditing in Federal Agencies*—A publication which presents basic principles, standards, and concepts of internal auditing.

Teaching the Course in GAO

A full-time instructor teaches the course in GAO over a 2-week period. A representative from the Office of Policy assists as needed and at each discussion session. This arrangement differs from the three to five instructors who teach the course in South America over a 3-week period.

Approximately 120 students in 6 classes of 18 to 20 students each have completed the course in GAO. The students' grade levels have ranged from GS-7 through GS-15, and their time with GAO has varied from a couple of weeks to 15 years. A few of the students came from GAO regional offices, but most were from headquarters. The first six classes deliberately involved a wide cross section of GAO professional employees in order to help identify the group or groups to which the course is best suited.

The student gains from the course in direct proportion to the amount of work he or she puts into it. Because of the nature and extensiveness of the study and work assignments, some outside effort is required by most students. So far, this has ranged from as few as 2 to as many as 30 hours during the 2 weeks.

The course has generally been very favorably received by those who have participated in it. This is evidenced by written critiques received at the end of each class as well as unsolicited, voluntary comments made by many of the students. Typical comments include:

> This course has helped crystallize a systematized, orderly, logical, disciplined approach to conducting an operational audit and preparing a GAO report.

> This course information does provide a useful framework . . . to utilize in conducting or managing actual work. Perhaps its best result is a familiarization with the CAM and the Report Manual.

> Knowing the whole audit report process will better enable me to plan my own work.

> The required reading from the CAM and Report Manual provides excellent awareness of GAO policy, standards and guidance on the proper conduct of auditing procedures and reporting.

> The information will help me in terms of being better able to proceed in a more organized and orderly manner in planning, initiating and conducting work.

> The course is . . . directly related to the work I am currently doing and will be doing in the future.

In the Future

The course has proven particularly helpful to those GAO employees categorized as "upper-level hires." These are employees hired at grade levels generally ranging from GS-9 through GS-15 who have varying amounts and kinds of work experience before being employed by GAO. The course gives these employees, in a short time, a broad overview of how the Office makes its audits and prepares its reports. This overview is important because of the higher level responsibilities these individuals are assigned after beginning work. Future sessions of the course will be open to this group. Sessions will also be open to any other employees wanting to attend, or who are recommended by their division or office, regardless of grade level. Because of the limited class size, however, first priority will be given to upper-level hires and those professional staff members who have from 15 to 18 months experience in GAO.

Although firm dates have not yet been established, it is expected that the course will soon be taught in several regional and overseas offices. Additional offerings of the course outside Washington will depend on these initial presentations, the availability of instructors and resources, and the expressed need of the different offices.

To Be Clear and Brief—

Clarity takes time, and so does brevity. It is easier to over-write than to program the reader selectively with what he needs in the way of fact to bring about concurrence.

Professor Mary C. Bromage
University of Michigan
Dividend, Fall 1974

ROBERT T. ROGERS

72/553

Performance Appraisals: Why Don't They Work Better?

Why performance appraisals don't work better and what can be done about it has been a mystery to managers for many years. As a special research effort in the MBA program at The University of Detroit, various forms of performance appraisals were studied in detail to gain an understanding of this perplexing problem. The following article is based on excerpts from that research.

Often described by subordinates and supervisors as "that terrible time of the year" or "the time to play God," performance appraisals have become one of the greatest causes of anxiety—for both subordinate and supervisor. And yet, appraising individual performance is a fundamental human act. People have watched others since the beginning of time, appraising behavior in terms of their own goals and needs. Relationships have been initiated, strengthened, or severed on the basis of such appraisals.

Despite the immeasurable benefits of an effective appraisal system, the appraisal processes in many business and Government organizations do not implement the basic appraisal theories and techniques taught in personnel management textbooks and learned by managers in training seminars. Why?

Current Appraisal Systems

Before we try to identify the causes, we must understand the purpose of appraisal systems. Most authors seem to agree on the following goals:

—Help or prod supervisors to observe their subordinates more closely and to do a better coaching job.
—Motivate employees by providing feedback on how they are doing.
—Provide backup data for management decisions concerning merit increases, transfers, dismissals, etc.
—Improve organization development by identifying people with promotion potential and pinpointing development needs.
—Establish research and reference bases for personnel decisions.

Mr. Rogers is an audit manager and professional development coordinator in the Detroit regional office. He holds a B.S. degree in accounting and has completed several postgraduate courses in industrial and personnel relations since joining GAO in 1965. He is a member of the Association of Government Accountants, the International Personnel Management Association, and the Intergovernmental Training Council of Michigan.

How well these goals are accomplished depends on the appraisal technique used and the work environment. Five of the more popular forms of appraisal are:

1. Graphic rating scale.
2. Essay or narrative.
3. Forced-choice rating.
4. Ranking or peer comparison.
5. Management by objectives.

In evaluating each, we will look at the premise of the technique as well as its general use and limitations in actual practice.

Graphic Rating Scale Approach

The oldest and most widely used, the rating scale technique is also the most controversial and criticized. It generally uses a checklist form which lists various characteristics, either of performance or personality, and then provides several choices from which the rater selects the one that best describes the employee and his performance.

Some scales use general choices such as "outstanding," "excellent," "average," "below average," "unacceptable." Others use more descriptive terms—"highly innovative," "good self-starter," "needs prodding." In either case, the form also shows a point scale for evaluating each characteristic numerically and allows for a total score as well.

While the forms vary, the basic premise is the same. Supervisors select the description and numerical score for each characteristic and then total their choices to determine the total score. The scores for individual characteristics provide a basis for counseling the employee, and the total score gives management a quantified basis for comparing employees and making personnel decisions.

However, the overall rating technique assumes that each factor or characteristic has equal importance or weight in overall performance. Thus, an employee's low performance in timeliness can be offset by an enthusiastic attitude or willingness to accept added responsibility or ability to relate goals and objectives to specific work steps. The technique also assumes that one rating scale is equally applicable to a variety of jobs. Yet clearly, some characteristics are more important for certain jobs than others.

Another assumption is that all raters use the same standards in determining whether a subordinate is good, excellent, or needs improvement. Unfortunately, each rater views standards for performance differently. In many cases no attempt has been made to determine what standards should apply or to define the characteristic so raters know what it means.

Because of the lack of clear, objective standards, supervisors' personal perceptions and biases have an impact on the effectiveness of the rating scale technique. This also allows for differences between hard graders and easy graders. Some supervisors hesitate to give low ratings based on subjective judgments for fear of antagonizing their subordinates. They also fear their low ratings will reflect on their supervisory abilities. Others went through a struggle to get to the supervisory level, and now they demand that each employee struggle the same way.

A common problem caused by the lack of clear, objective standards is the "halo" or "blend" effect. This is a natural tendency for the rater to be influenced in rating one factor by the kind of rating he gives on others. If a supervisor has a general feeling the employee is good, he will rate the employee high on all factors.

Another fundamental problem in some rating scale systems is the use of personality traits instead of specific performance characteristics. These systems are of little help to the individual or the organization because little can be done to change an employee's personality. Usually the supervisor is insecure in giving the rating and the subordinate becomes antagonistic when personality is questioned.

As a result of the system's shortcomings, supervisors balk at using appraisals rather than considering them as an aid in observing their subordinates. In addition, employees view the appraisal system as an adversary procedure rather than one providing them with motivation for development.

Essay or Narrative Appraisals

Because of criticisms aimed at the rating scale approach—particularly its lack of feeling for the individual and its complicated format—some organizations have changed to a free-form essay evaluation. The essay appraisal simply requires supervisors to write down their impressions of the individual. The comments can, if desired, be grouped under headings such as nature of job performance, employee characteristics, and developmental needs for the future.

Both a virtue and a defect of the essay procedure is the considerable time and thought needed to do it well. Although the procedure makes the supervisor be more observant and analytical of subordinates' performance, it requires more time than the average supervisor can afford (or is willing) to spend.

Other problems also plague essay appraisal system. For example, some supervisors are poor writers. The skill and effort of the writer-rater often has a greater impact on the rating than the real performance of the employee being rated.

The lack of comparability of results from narrative comments is also a problem. Because there is no numerical score, there is no basis for comparing large quantities of appraisals. Comments included in such appraisals also are usually too general and vague to give employees the needed feedback. After preparing essay appraisals a few times, raters soon find it quicker and easier to use a ready list of "canned" cliches or comments that can be inserted, usually meaninglessly, into the spaces provided. As a result, the system breaks down as an aid to development.

However, the biggest problem with essay or narrative appraisals is the same as that with rating scale systems. No attempt is made to give raters specific, clear, objective standards for performance. Truly open-ended appraisals are seldom satisfactory because the results are too general.

Forced-Choice Rating

Forced-choice questionnaires were developed to evaluate Army officers in

World War II. Combinations of four or five adjectives are used to describe an individual's performance. The rater is asked to select the adjective which best describes and the one which least describes the employee. These choices are then reviewed against a key unknown to the rater to determine how the employee rates.

The forced-choice system reduces the impact of personal bias on the appraisal. However, the system is expensive to install and is usually practical only for evaluating jobs when several hundred employees have the same position. Few industries can meet that requirement. Using this approach for jobs with differing characteristics results in poor correlation between appraisal and actual performance.

A second problem of the forced-choice technique is its limited value as a counseling aid. Because of the supervisor's lack of knowledge of the proper answers, he or she cannot use the appraisal to counsel the employee on developmental needs. Also, supervisors trying to help their subordinates may try to outwit or get around the system. In doing so, supervisors are not only doing harm to the system but possibly jeopardizing their employees' appraisal.

Because of the system's secrecy, many supervisors as well as subordinates resist its use. The system's detrimental impact on morale makes the cure to typical rating systems worse than the original problem.

Ranking or Peer Comparison Approach

The ranking or peer comparison approach probably simulates most closely our own natural process of judging others. Because of its simple and natural base, it is fairly widely used in organizations where small groups of employees are being evaluated.

Three approaches to ranking or peer comparison are used—simple overall ranking, alternative ranking, and paired comparison. For the overall ranking, raters simply list employees in order, based on their evaluation of performance. In alternative ranking, raters take the best performer and worst performer and list them accordingly. They then take the next best and worst and list them, until all employees have been listed. The paired comparison involves comparing two employees. Then two more employees are compared until each employee has been compared with every other employee. Employees are then ranked on the basis of the results of these comparisons.

Ranking techniques are especially useful when appraisals become a basis for personnel actions—for example, when trying to determine which employee would best fill a supervisory position. The reliability of such rankings—especially when several supervisors are involved—is very good.

Ranking techniques, however, have some significant limitations. One employee could have much the performance level as another. They rank one and two. A third employee's performance level could be significantly below one and two, but he would rank third, and the discrepancy in performance would not be apparent.

Another problem is the lack of data for use in counseling. Since the ranking technique is usually concerned only with overall performance, its use for developmental counseling is impossible. In combination with some other form of nondiscriminating appraisal technique, however, ranking techniques may be helpful.

The same problem that has plagued all of the previous techniques also has an impact on the ranking technique—it is based on subjective judgments. Without specific standards for performance and objective measures for evaluating employee performance against those standards, the results of the appraisal technique will have limited value and little acceptance among subordinates and supervisors.

Management by Objectives

To satisfy many of the problems described in the preceding appraisal systems, a relatively new appraisal approach has been developed. This new approach has been called by a variety of titles: "management by objectives," "programmed management," "management by results," etc. Essentially, all of these systems are based on the same approach—judging employees on the basis of their performance measured by specific quantifiable and qualifiable targets or objectives.

This system has four basic steps:

—Subordinates and supervisors jointly set objectives for short-range and long-range accomplishments.

—Subordinates and supervisors agree on specific criteria for measurement and specific short-range targets.

—Supervisors try to help subordinates accomplish their objectives instead of merely judging their performance.

—Supervisors evaluate their subordinates' progress several times a year, commenting on accomplishments and failures but not on personal traits.

The joint setting of goals and measures prods or helps supervisors to observe specific areas of performance. In addition, the appraisal allows the supervisor to be more of a coach or counselor, helping the subordinate rather than judging him. This also results in a more motivational work environment for employees.

While the strengths of management by verifiable objectives are obvious, the system also has some weaknesses. Many of the failures are the result of poor implementation but others are inherent.

First, verifiable objectives are hard to set. Many programs are never successful because management is unable to refine its objectives into specific goals. Generalities, such as "make more effective," "improve," "increase," "simplify," or "speed up," do not provide verifiable objectives. For each objective, the goals should state "how much" or "how well." Care must also be taken to assure future goals are not sacrificed for short-range goals.

If setting specific objectives is a problem, finding criteria to measure those objectives is even more difficult. Many quantifiable measures have been used to evaluate performance, but those measures sometimes do not really show performance. Another problem is the overemphasis on meeting quantified goals and ignoring other responsibilities. The tendency to overlook staff development, for example, exists in many programs. To overcome these problems, management-by-objectives programs should be broadened to include four areas: routine duties; emergency and problem-solving duties; goals for creating new methods, products, etc.; and staff development goals, such as development of managerial, technical, and professional skills.

Narrowing the Gap Using Basic Behavioral Science Techniques

As we have seen from the preceding discussion, major problems exist with most of the performance appraisal systems currently being used. Some of these problems may be the result of sloppy implementation. However, the most common one is the failure to consider proven behavioral science techniques when designing an appraisal system.

What are these techniques and how do they work? I will discuss three of them that are especially useful:

—Establishment of "target" behavior and measures for providing meaningful feedback on progress.
—Use of "building on strengths" to aid staff members in growth and development.
—Use of reinforcers to support the credibility of the appraisal system.

Establishment of "Target" Behavior and Measure of Progress

In each of the appraisal systems discussed above, the need for specific, measurable performance standards was a constant problem. Most of the systems, however, seem more concerned with quantifying the subjective judgment of the supervisor or in spreading the subjective judgment among a group or forcing it on the subordinate. Even in discussions of management by objectives, the question remains, "What are performance standards and how are they determined?"

A performance standard is an agreement, ahead of time, between an employee and his supervisor, as to how the employee will know when he/she is performing acceptably. The following criteria for goals or standards should be considered:

—Goals should be measurable.
—Goals should be acceptable to all involved.
—Goals should relate to specific tasks.
—Goals should be put into priorities if there is more than one.
—Goals should be realistic.
—Goals should relate to other goals of the organization.

Making goals or standards measurable has long been a major "bugaboo." To shed some light on setting performance standards, the following four steps have been set out.

1. To set standards for individual performance, supervisors and subordinates must agree on what is expected of each employee. A good technique for doing this is to list goods and services related to the specific job. Then analyze those goods and services to determine what specific activities are involved in providing them.

2. The next step is to determine the impact of specific activities or tasks on the end products identified above. Each activity should be analyzed to determine the relative importance of specific behavior or tasks called for in the activity being evaluated. The result should be a clear definition, in general terms, of what is expected.

3. Now that we know what tasks are relevant to the overall performance, we can define specific performance standards. This is done by defining why some goods or services were of high quality or were done well. When the elements of success have been determined, they should be weighted according to their importance to the successful completion of the task.

4. The final step is to determine how well or how much of each element must be done. These measures of success must then be defined in measurable quantities. The end results are approximations of success.

Through the above procedures, we can define the specific measurable "target" behavior to be used as the standards for appraising the performance of employees. While the process discussed above seems laborious, once established it provides a reliable basis for making personnel decisions, counseling and coaching employees, and determining organizational needs. In addition, employee awareness of "target" behavior can serve to motivate employees.

It must be remembered that, realistically, these standards are the result of successive approximations and must continually be evaluated for validity.

Building on Strengths

One of the prime purposes of performance appraisals is to motivate employees by giving them feedback on how they are doing. Unfortunately, most performance appraisal systems emphasize what employees have not done rather than what they have done.

Two problems are caused by emphasizing the weaknesses or negative aspects of performance:

1. The emphasis is placed on how far away from the goal the employee is. Emphasizing how much needs to be done can quickly go from being a challenge to looking like it would be too much effort. Emphasizing progress and good performance provides much better motivation.
2. There is a greater likelihood that the supervisor will overlook strengths in the employee's performance if the supervisor is focusing on weakness. There is usually more than one way to do things, and there is always more than one way to describe or think of the performance. The supervisor who looks for weaknesses tends to fix upon a particular way of performing. If the employee does not do it that way, a weakness is identified. On the other hand, when looking for strengths, the supervisor is more likely to find a way of performing which is similar to what the employee is doing.

What do you do if you cannot find any strengths to build on? Keep looking! If you search long enough, you can find something. If you cannot find a strength, look for performance which is not as bad as usual. By providing sincere, positive feedback on the performance, you will reinforce the better performance, causing the employee to be motivated to improve.

Use of Reinforcers

Another important function of performance appraisal systems is to provide a basis for personnel decisions—promotions, transfers, merit increases, dismissals, etc. Much recent discussion seems aimed at separating this function from the employee development function. To do so would separate the actual appraisal process from the reinforcers which lend credibility to the appraisal system. Instead, we should be looking for ways to create a closer association between the performance appraisal and the reinforcers available to management.

If an employee's performance meets the supervisor's expectations, then the employee should be rewarded. On the other hand, if the employee's performance does not meet the supervisor's expectations, the employee should not be rewarded. The appraisal process breaks down if the employee's performance does not influence his rewards.

Thirteen steps are suggested for improving performance through the use of reinforcers. These steps should be integrated into the marrow of every appraisal system:

—Advantages of good performance must outweigh the disadvantages of good performance or the advantages of poor performance.

—There should be short-term and long-term feedback on the quantity and quality of performance improvement.

—There should be frequent informal recognition of performance improvement.

—There should be occasional formal recognition of performance improvement.

—There should be clearly specified standards and/or goals for performance improvement.

—Performance improvement should be related closely and simply to advancement.

—Rewards for improvement should be rewards from the point of view of the person whose performance is being appraised.

—Improvements sought should be the smallest improvements that will eliminate differences between desired performance and the employee's performance.

—Desired improvements should be built upon existing performance strengths.

—Minimum acceptable improvement criteria should be specified, as well as the consequences of not improving when in "improve or else" situations.

—The cause or causes of poor performance should be identified, whether the cause is lack of knowledge, skill, opportunity, incentive, or capacity.

—For long-term improvements, short-term improvement goals should be specified.

—Once improvement is achieved, provisions should be made to assure continued performance at the desired level.

With these steps as its foundation, an appraisal system will have the credibility needed to insure its enthusiastic support.

Conclusion

We have discussed (1) some of the gaps between the theory and practice of various performance appraisal systems and (2) the application of basic behavioral science techniques in narrowing these gaps. Using these techniques can definitely help improve the appraisal process. However, we have only scratched the surface in applying behavioral science to management. Hopefully, more attempts will be made to relate behavioral science not only to appraisals but to other areas, such as training and manpower planning.

Equal Opportunity

Justice Louis Brandeis once said, "Experience should teach us to be most on our guard to protect liberty when the government's purposes are beneficient. The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding."

Those words hit the mark. Those "without understanding" interpret equal opportunity in a narrow, egalitarian sense. They are hypnotized by the game of numbers.

This is egalitarian tyranny, not equal opportunity. Equal opportunity means the right to *compete* equally for the rewards of excellence, not share in its fruits regardless of personal effort.

Casper W. Weinberger
Secretary of Health, Education, and Welfare
Before Commonwealth Club of San Francisco, July 21, 1975

ULDIS ADAMSONS

The Certificate in Management Accounting

The author discusses a professional certification which may closely relate to the knowledge and needs of many GAO staff members, particularly management auditors.

For many years the status of a certified public accountant has been an important symbol of professional development in GAO, coupled, of course, with continued education and activity in professional organizations. This has been somewhat of an enigma to GAO auditors with specialties far removed from public accounting—specialties not yet encompassed by any one professional certification. Recognizing this void, GAO has encouraged its staff members to pursue their professional interests in a variety of ways—a policy which allowed me to sit for the certificate in management accounting (CMA) in 1973.

I chose the CMA for several reasons. When I joined GAO in 1968, I had a management-oriented background that included little basic accounting. The CPA examination didn't seem a viable alternative for me because it was more specialized than my background, and I needed quite a bit more accounting to even meet my State's prerequisites to sit for the examination. An audit manager in the Chicago regional office, who is a CPA, pointed out the close relationship of the CMA to GAO work, and suggested that I consider sitting for that examination.

My reaction to the experience? I found the CMA more closely related to my GAO responsibilities than any other certification program because the skills and knowledge I use in GAO fieldwork and reporting met program requirements. To be sure, differences existed, centering around private versus public management accounting. Management accounting, though, is concerned largely with how well an organization has met management's goals—a very close parallel to GAO's effectiveness, efficiency and economy audits.

Mr. Adamsons is a supervisory management analyst who recently transferred to the Far East Branch from the Chicago regional office. A graduate of the University of Minnesota in economics and political science, he joined GAO in 1968, passed the certificate in management accounting examination in December 1974, and received a superior performance cash award in 1975.

What Is the CMA Program?

The CMA is awarded by the Institute of Management Accounting of the National Association of Accountants. To sit for the examination, an applicant must either

—hold a baccalaureate degree in any area,
—achieve a satisfactory score on either the graduate record examination or the admission test for graduate study in business, or
—be a certified public accountant or hold comparable professional qualification outside the United States.

The certificate is awarded to candidates who pass all five parts of the 2-1/2-day examination and meet professional experience requirements. The examination is offered annually in June and was held in 27 locations in 1975. You may sit for two or more parts at a time, but must pass all five parts within a 3-year period. The five parts are as follows, with a fee of $30 for each part attempted.

1. Economics and business finance
   A. Enterprise economics
   B. Institutional environment of business
   C. National and international economics
   D. Working capital management
   E. Long-term finance and capital structure
2. Organization and behavior, including ethical considerations
   A. Organization theory and decision making
   B. Motivation and perception
   C. Communication
   D. Behavioral science application in accounting
   E. Ethical considerations
3. Public reporting standards, auditing and taxes
   A. Reporting requirements
   B. Audit protection
   C. Tax accounting (corporate)
4. Periodic reporting for internal and external purposes
   A. Concepts of information
   B. Basic financial statements
   C. Profit planning and budgetary controls
   D. Standard costs for manufacturing
   E. Analysis of accounts and statements
5. Decision analysis, including modeling and information systems
   A. Fundamentals of the decision process
   B. Decision analysis
   C. Nature and techniques of model building
   D. Information systems and data processing

Several articles in *Management Accounting* have analyzed the content and results of prior examinations in some detail; actual questions and unofficial answers are also available. The examination is oriented more to management accounting than to such areas as economics or decision analysis. However, questions are sufficiently management oriented to require no detailed knowledge of accounting practice.

The outline shows several topics which are almost exclusively private-sector oriented, such as enterprise economics, tax accounting, and profit planning. Other topics, which can include public-sector emphasis (such as analysis of accounts and statements), are heavily business oriented and only peripherally related to GAO work. Overall, however, the CMA examination seems relevant to our work, especially when you consider topics such as decision analysis, model building, and information systems—topics which need more emphasis in the public sector.

What Preparation Is Needed?

Observers believe successful completion of the program demonstrates a level of competence expected from a bachelor's degree in business with emphasis in management accounting. According to the Institute, 48 percent of the program candidates in 1972 and 1973 reported advanced degrees, and 47 percent had completed undergraduate study.

Although I had taken related courses, such as information systems and public-sector economics, within a year of taking the examination, GAO experience and training formed the bulk of my background as a CMA candidate. I passed four parts in my first attempt but was too weak in corporate tax accounting to pass the fifth. Independent study and a fortuitously timed assignment on an Internal Revenue Service audit helped me pass the last part the following year.

Schools now offer CMA review courses, but I cannot personally comment on their value. Other *GAO Review* articles[1] have discussed preparing for the CPA examination, and their observations should apply to the CMA as well.

The Institute provides a recommended reading list which includes several primary sources for each part of the examination and numerous secondary sources. The primary references are readily available. Although examination questions are not necessarily limited to the contents of books on the list, Dr. James Bulloch, Director of the Institute, said a thorough understanding of the topics covered by the books listed as primary sources should result in success on the examination. He also recommended being aware of recent developments through current periodicals such as *Management Accounting, Management Adviser, The Financial Executive, Journal of Accountancy, Business Week*, or the *Wall Street Journal*.

Since the examination is not easy, apprehension about passing it is normal, but I'd like to emphasize that GAO experience and training formed the bulk of my background as a CMA candidate. In other words, the examination deals with the real world and as such can be tackled successfully by the working auditor—you need not be an academician to pass. Institute records show that candidates reported an average of 8 years elapsed since their last degree.

After the Certificate—What Then?

The Institute requires certificate holders to maintain their professional competence by averaging 30 hours a year of professional study in each 3-year period after passing the examination. This can involve college courses,

[1] Jeffrey C. Steinhoff, "Preparing For and Taking the CPA Examination," *The GAO Review, Winter 1975*.

seminars, workshops, or technical meetings under the direction of an instructor. Published technical articles or major technical talks given for the first time also may be eligible for hours of study credit. Study can be in any combination, except that employer-sponsored training may fulfill only one-half of each 3-year requirement.

The fact that the Institute doesn't just encourage, but requires, continuing education is to me a strong point of the program. The requirement seems imposing at first but isn't that hard to meet. A 3-credit college course for a semester (about 45 hours) and two 3-day seminars (24 hours each) could fulfill continuing education requirements for 3 years. The problem does become greater with increased tenure in an organization because office-sponsored training tapers off at higher grades, necessitating more individual effort to seek out education opportunities.

More information about continuing education requirements, or any other aspect of the CMA program, can be obtained from the Institute of Management Accounting, City Center Building, Ann Arbor, Michigan 48108.

What Is the Impact of the CMA Progam?

The CMA program is relatively new, and I have seen no firm indications of its full acceptance. However, according to the Institute, 410 candidates sat for the examination in 1972, 534 in 1973, 633 in 1974, and 725 in 1975. Not including 1975 results, 297 candiates have passed all five parts of the examination. The Institute reports that one of the "Big 8" accounting firms sent a memorandum "recommending the certificate and knowledge background required to obtain it for CPA's engaged in management consulting." The Institute also notes favorable reactions from corporate leaders.[2]

The Institute could be more aggressive in gaining general acceptance of the CMA outside its own circle. The Civil Service Commission, for example, allows specific point credits for holders of the certified public accountant and certified internal auditor certificates for Federal employment. Such specific credit is not yet provided for the CMA, apparently because the Institute had not, until advised of the problem, taken action to provide for it. The issue of credit might be academic in some cases because the CMA could be recognized for credit under a different category, but I think more effort at spreading the word to all parts of business and governmental communities is called for.

I cannot predict the program's impact on GAO staff professional development or on the management accounting profession for which the program was designed. It has excellent potential, however, because it complements rather than competes with other certifications, each with its defined body of knowledge.

The program offers additional means for management auditors in GAO to show a professional level of competence in their chosen field. Since the program is broad-based and does not duplicate CPA program objectives, it can be valuable to GAO auditors even if they already are certified public accountants.

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[2] "Certificate in Management Accounting," *Management Accounting*, July 1974.

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.*

H. Kensky Is Assistant Regional Manager

October 1960

Joseph Campbell, Comptroller General, has announced the designation of Harry C. Kensky as assistant regional manager, Philadelphia Office, Field Operations Division.

Mr. Kensky received a B.S. degree in commerce from New York State University in 1943 and a M.A. degree from Temple University in 1948. He served with the United States Navy as a Communications Officer during World War II.

Prior to joining GAO in 1951, he was associated with a firm of certified public accountants in Philadelphia.

In addition to assisting the regional manager in the operations of the Philadelphia regional office, Mr. Kensky's responsibilities include the supervision of audits in the Department of the Navy and the Atomic Energy Commission.

Fasick Will Be Assistant Director, DAAD

August 1960

Joseph Campbell, Comptroller General of the United States, has announced the designation of J. Kenneth Fasick as assistant director of the Defense Accounting and Auditing Division.

Mr. Fasick attended the University of Maryland where he received a B.A. degree in business administration. He 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 has had broad experience with GAO in conducting accounting and auditing assignments both in the United States and Europe. Mr. Fasick is a certified public accountant in the District of Columbia.

Mr. Fasick will have responsibility for audits of the Military Assistance

Program and other Defense-wide programs.

Rubin and Scantlebury Get New Posts in DAAD

March 1961

Harold H. Rubin has been designated as associate director of the DAAD according to a recent announcement by Comptroller Joseph Campbell.

After attending Northwestern University for a year, Mr. Rubin . . . completed his undergraduate work at George Washington University, where he received the degree of bachelor of arts in government in 1941, with distinction . . . . He received the degree of master of commercial science from Strayer College in 1942.

Mr. Rubin is a certified public accountant in Illinois and is a member of the American Institute of Certified Public Accountants.

He has had broad experience in the accounting and auditing activities of GAO since joining the Office in 1936. He served as manager of the St. Paul and Dayton regional offices during 1951 to 1955 before being appointed an assistant director, DAAD.

As associate director of the DAAD, Mr. Rubin will have responsibility for direction of examinations into activities of the Department of Defense, including reviews of operations of contractors engaged in performance of work under negotiated contracts of the Departments of the Army, Navy, and Air Force.

Mr. Campbell also announced the designation of Donald L. Scantlebury as assistant director of the DAAD.

Mr. Scantlebury . . . attended Antioch College, Yellow Springs, Ohio, from which he received a B.A. degree in business administration in 1950. Subsequently, he was employed for several years in the field of public accounting with the firms of Allen and Company, in Des Moines and Cedar Rapids, Iowa, and Raymond P. Myer and Company, Racine, Wisconsin.

He became associated with the Office in 1956. Since that time he has assumed positions of increasing responsibility, including supervision of major accounting and auditing assignments in the Department of the Navy.

Mr. Scantlebury is a certified public accountant in Iowa and Wisconsin and is a member of the American Institute of Certified Public Accountants.

As assistant director in the DAAD, Mr. Scantlebury will assist in the overall planning and supervision of the accounting, auditing, and investigative work conducted by the Office in the Navy Department.

C. Kirby To Be Assistant Director, DAAD

March 1961

Joseph Campbell, Comptroller General, recently announced the designation of Charles W. Kirby as assistant director of the DAAD.

Mr. Kirby was employed by GAO in 1937. Since that time he has progressed steadily to reach his present position. After entering Government service, he attended Columbus University Law School and the Department of Agriculture Graduate Accounting School.

He has had broad experience in most of the major activities of GAO, particularly in the areas involving accounting and auditing. In addition to his assignments in Washington, he has served tours of duty in GAO field offices in Atlanta, Cleveland, Denver, and St. Louis.

As assistant director of the DAAD, Mr. Kirby will assist the Director in the overall planning and supervision of the accounting, auditing and investigative work conducted by the Office in the Department of Defense, including the Departments of the Army, Navy, and Air Force and their contractors.

Lloyd G. Smith To Be Director of European Branch

May 1961

Joseph Campbell, Comptroller General, has announced the designation of Lloyd G. Smith as director of the European Branch of GAO with headquarters in Paris. Mr. Smith will succeed Robert F. Brandt, who will complete a 2-year tour as director in September 1961.

Mr. Smith is now manager of the Frankfurt Field Station in Germany. He joined GAO in 1953, and prior to his assignment to Frankfurt served in the Los Angeles regional office.

He served as a naval aviator from 1941 to 1945, and has had several years' experience with Ira N. Frisbee & Co., Certified Public Accountants, of Beverly Hills, Calif. Prior to coming with the Office he also served as Controller for a camera manufacturer and a motion picture production company.

Mr. Smith is an honor graduate of the University of California with the degree of bachelor of science in accounting. He is a certified public accountant in California and a member of the American Institute of Certified Public Accountants.

L.R. Kirvan Is Assistant Director, OSM

June 1961

Joseph Campbell, Comptroller General, recently announced the designation of Lawrence R. Kirvan as Assistant Director, Office of Staff Management . . . .

Mr. Kirvan received a Ph.D. degree from Boston College in economics and accounting and continued his education at Catholic University where he completed his master's degree in public administration. He then attended Columbus University and obtained his Ll.b degree. Prior to entering the GAO, he was employed by the Federal Bureau of Investigation as a special agent.

Starting with GAO in 1951, Mr. Kirvan was assistant chief, Office of Investigations, supervising auditing and investigative assignments before being assigned in 1957 to the Office of Staff Management. His new responsibilities as assistant director, Office of Staff Management, will include the recruiting, assignment, training, and professional development of the staff of accountants, auditors, and investigators of the Office.

V.L. Lowe To Be Assistant Director, CAAD

July 1961

Victor L. Lowe has been designated as assistant director of the CAAD by Joseph Campbell, Comptroller General. Mr. Lowe will be in charge of accounting and auditing work in the International operations area . . . .

Mr. Lowe received his B.B.A. degree from the University of Georgia in 1949.

He served in the United States Navy from June 1945 to August 1946. He is a certified public accountant in the State of Georgia.

He joined the staff of GAO as a GS-5 trainee accountant on July 5, 1949, and his entire professional experience has been with the Office. He has been assigned to audits, among others, of the Tennessee Valley Authority and Department of Agriculture, and diversified activities as staff assistant on the Program and Review Staff in the Office of the Director, Civil Accounting and Auditing Division.

He was a participant in the Management Development Program of Harvard University in 1960. Upon his return to the Office he was made responsible for the Office's work at the State Department, Development Loan Fund, Export-Import Bank of Washington, and the United States Information Agency.

E. Stepnick Is Assistant Director, CAAD

July 1961

Joseph Campbell, Comptroller General of the United States, recently announced the designation of Edward W. Stepnick as assistant director of the CAAD, in charge of the auditing, accounting, and investigative activities at the Department of Health, Education and Welfare.

Mr. Stepnick received his B.S.C. degree from Roosevelt College in Chicago in 1950. He served in the U.S. Army from November 1945 to December 1946. He is a certified public accountant in the State of Illinois, and is a member of the American Institute of Certified Public Accountants.

Prior to joining the staff of GAO in September of 1952, he was associated as a staff member with two public accounting firms in Chicago, Illinois. Since joining the Office, Mr. Stepnick has assumed positions of increasing responsibility in audits at the Treasury Department, General Services Administration, and HEW.

R. Hall To Be Assistant Director, DAAD

August 1961

Robert B. Hall, Jr., has been designated assistant director of Defense A&A Division, according to a recent announcement by the Comptroller General, Joseph Campbell. He will be in charge of work relating to the review of contractors' operations under negotiated defense contracts with the Federal Government.

Mr. Hall received a B.S. degree in accounting from the University of Louisville in 1952. He served in the U.S. Army Air Corps from June 1943 to June 1946. He is a certified public accountant in the State of Kentucky and is a member of the AICPA and the D.C. Institute of CPAs.

He joined GAO in August 1954 and was assigned to the Kansas City regional office. He assumed positions of increasing responsibility and in July of 1956 was assigned to the Defense Group of GAO's Defense A & A Division in Washington, where he is making a major contribution in the review and direction of defense contract audits.

R. Drakert Regional Manager in New York

September 1961

Joseph Campbell, Comptroller General, announced recently that Robert Drakert has resumed the position of regional manager of the New York regional office, after serving two years as assistant director of the Paris European Branch.

Hyman L. Krieger, recent regional manager, will attend the 40th Session of the Advanced Management Program at Harvard University Graduate School of Business Administration.

Mr. Drakert attended New York University and the College of the City of New York, and is a certified public accountant in the State of New York. Prior to his coming with GAO in November 1951, Mr. Drakert had diversified experience as a professional accountant in both public accounting and private business.

News & Notes

Honorary Degrees for Comptrollers General

Elmer B. Staats, Comptroller General, received an honorary degree of Doctor of Laws from Duke University on May 11, 1975. The degree was presented by Dr. Terry Sanford, President of the University and former Governor of North Carolina.

Joseph Campbell, former Comptroller General of the United States (1954-1965), was awarded an honorary Doctor of Science degree by Georgetown University on May 24, 1975. In referring to Mr. Campbell's service as Comptroller General, the citation read:

> During this time in government service he was credited with having the capacity and courage to exercise the fullest powers of his office and yet remain firm in the belief that the Comptroller General must always be the taxpayer's tireless friend.

Latin American Branch Established

GAO has established a Latin American Branch in Panama City, Panama, with operations beginning in July 1975. *George L. DeMarco* has been designated director and will be responsible to the director of the International Division for administration and performance of the work of the branch.

Opening this branch will enable GAO to expand its coverage of, and provide continuity for, its audits of U.S. activities in South and Central America, Mexico, the West Indies, and the Caribbean area.

Congressional Oversight

A large part of the continuing work of GAO is the audit of Federal agency programs and activities which results in findings, conclusions, and recommendations that are reported to the Congress. The Congress makes use of this information in various ways, including the exercise of its oversight function with respect to operations of executive branch agencies.

Some interesting background on this function and how it will operate in the House of Representatives is set forth in a report by the House Committee on Government Operations, chaired by Congressman Jack Brooks. The report, addressed to the Speaker of the House and dated March 14, 1975, is entitled "Oversight Plans of the Committees of the U.S. House of Representatives" (House Report No. 94-61).

> As one of the weights Congress can drop on the scale in an effort to achieve a balance between the legislative and executive branches, oversight has assumed an increasingly important role in recent years This trend reflects a widespread concern in Congress that the

growth of the Federal Establishment has outstripped congressional efforts to supervise it. The chilling example of unchecked Federal power afforded by Watergate-related issues should, alone, provide a sufficient spur for action.

But, oversight should not be seen only as a club held over the executive branch. Ideally, it should complement executive management, providing clear policy limits within which an administrator is free to act. The certain knowledge that failures of administration will be taken into account by an alert oversight committee should produce the efficiency of operation that both Congress and the executive branch desire.

Oversight, especially in recent years, has come to be viewed primarily as an investigative activity, and it is true investigations have played a significant role in helping Congress keep track of executive branch operations. But there are other ways of accomplishing the same end, some more suitable to the continuing supervision that is contemplated by the new oversight rules. Where the goal is to improve efficiency, reinforce policy guidelines or reduce costs, rather than to expose some flagrant misdeed in the executive branch, a conference between committee and agency representatives can frequently achieve the desired result. The authorization and appropriation process offers committees a periodic opportunity to review the administration of many departments and take whatever corrective action is needed

Oversight, in fact, is not a structured procedure in the manner of Congress legislative function. A continuously watchful eye is the main requirement for determining whether an executive agency is performing as it should, backed by a willingness to act when it is not.

Although practiced in a variety of ways throughout the history of the nation, oversight was not formally authorized as a function of each standing committee until passage of the Legislative Reorganization Act of 1946. That same act revived the long defunct Committee on Expenditures in the Executive Department and gave it broad powers to investigate all Federal agencies and departments.

In 1952, that committee was renamed the Committee on Government Operations and now it has been given an even broader mandate and asked to help fashion a system for a coordinated review of the Federal Government by all committees.

The all-embracing nature of the Committee on Government Operations' oversight jurisdiction, which empowers it to examine "the overall economy and efficiency of government operations and activities," is underscored by the special oversight provisions of the Committee Reform Amendments of 1974. Clause 4(c) (2) of rule X states that the committee "may at any time conduct investigations of any matter without regard to * * * provisions * * * conferring jurisdiction over such matter upon another standing committee."

The House rules also instruct the other standing committees to include in their legislative reports a summary of any oversight findings and recommendations the Committee on Government Operations may have made under its broad authority to investigate all levels of the Government.

By including these provisions in the rules, the House has again emphasized its acceptance of the principle of maintaining an oversight committee separate and apart from the committees that have responsibility for initiating and continuing legislative programs. While these legislative committees carry out their oversight responsibilities in their assigned areas, only the Government Operations Committee has the total view of the overall governmental process and avoids any question of lack of objectivity in connection with its investigations.

GAO's Role in 1975 Bid Protests

Any firm in the United States dissatisfied with treatment of its bid or proposal on a U.S. Government contract may protest the circumstances to the U.S. General Accounting Office, which will make an independent determination of the facts.

In fiscal year 1975, GAO closed 1,093 such protests. It rendered 539 formal decisions on these protests, sustaining the protester in 43 cases. These decisions usually lead to some change in the award made or proposed by the Government agency concerned. Corrective action was recommended in 98 cases.

During the year, 327 protests were withdrawn, many probably because of some remedial action on the part of the contracting agency; 227 protests were closed because they were untimely or for other reasons.

GAO considers protests on any award by an agency of the Federal Government whose acts are subject to settlement by GAO. This means nearly all of the Federal departments and agencies.

A firm dissatisfied with the treatment of its bid or proposal on a Government contract may file a written "protest" with GAO. If procurement procedure or contractor selection is found to deviate from the norms prescribed by law and regulation, the proposed award may be prevented or the contract already awarded may be terminated.

Even where the protest does not succeed in short-circuiting the protested procurement, it may result in an improvement in the process to prevent a recurrence of the problem in future procurements.

The protester may also have his protest reviewed by a Federal district court. However, the court frequently will make known its interest in having GAO's decision before deciding the case. In fact, the Court of Appeals for the District of Columbia has characterized a combination of the court's authority to enjoin procurement action or contract performance and GAO's expertise in resolving the disputed issues as a "felicitous blending of remedies and mutual reinforcement of forums."

Qualifications of Public Accountants to Conduct Governmental Audits

The Comptroller General has reaffirmed the conclusions reached in 1970 as to the preferable qualifications of public accountants engaged to audit financial operations of governmental organizations. The reaffirmation followed a comprehensive reevaluation of the position taken in 1970 made at the request of the Senate Government Operations Committee.

In 1970 the Comptroller General issued two letters to the heads of Federal departments and agencies regarding the qualifications of public accountants to audit federally chartered, financed, or regulated private organizations. Those letters recommended that, after December 31, 1975, only certified public accountants and those public accountants licensed before December 31, 1970, be engaged to make financial audits.

The Spring 1973 issue of *The GAO Review* contained a complete discussion of these recommendations in an article written by *Frederic H. Smith*, former deputy director of the Financial and General Management Studies Division.

With the publication in 1972 by the Comptroller General of "Standards for Audit of Governmental Organizations, Programs, Activities & Functions," which included this policy, its application was considerably broadened.

The reaffirmation letter was addressed to Senator Abraham A.

Ribicoff, Chairman of the Senate Government Operations Committee (B-148144, May 28, 1975).

Some excerpts:

* * * * *

In making our recommendation on this matter, we were not unmindful that we are not specifically authorized to prescribe the professional qualifications for public accountants to do government work and that our recommendation was only advisory. The standards in our recommended policy become mandatory only when prescribed by a statute or incorporated in agency regulations, and then only if Federal funds are involved. However, we recognize that our recommendation is influential.

* * * * *

THE ISSUE

The field of public accounting services is a broad one. Public accountants often provide bookkeeping services, assistance in income tax matters and expert accounting services, as well as perform audits that lead to rendering opinions on financial statements.

Our recommendation relates only to the latter; that is, the function of auditing financial accounts and transactions and expressing an opinion on whether an organization's financial statements fairly present its financial condition as of a given date and the results of its operations for an accounting period ended on that date in accordance with generally accepted accounting principles consistently applied or with other specified accounting principles applicable to the organization. Nothing in our recommendation would prohibit unlicensed or noncertified accountants from providing bookkeeping services, expert accounting services, or other services not requiring a financial audit leading to an opinion on financial statements, or from serving as employees of qualified public accountants who assume responsibility for opinions on financial statements, if the laws of their States permit them to do so.

The audit standards that we issued in 1972 provide not only for financial audits but also for audit work assessing whether desired results are attained under government programs and whether funds are used efficiently and economically. There is no profession which is, by statute, specifically authorized to, or precluded from, performing audits of efficiency and economy of operations or evaluating whether desired results have been achieved by governmental programs. Accordingly, noncertified accountants and CPAs alike may do such work, if otherwise qualified or capable.

Therefore there are many areas of accounting and auditing in which accountants may render service to governmental clients. Our recommended policy applies to only one area—rendering opinions on financial statements. These opinions have special importance because third parties rely on the professional opinions in making investments, such as purchasing municipal bonds, and for other important financial decisions. The practice of establishing standards for those who perform this service is analogous to what States require in other professions, such as law, medicine, and nursing. The ultimate purpose of such professional standards is to protect the interest of the public who uses those services.

BASES FOR OUR CONCLUSIONS

Few will dispute that governmental financial statements include many complex and complicated accounting transactions. It follows, therefore, that the highest type of skills are needed to audit and give opinions on these statements. To be sure that those who undertake such work possess such skills requires establishing criteria to measure competence.

* * * * *

Because of these divergent State requirements, the question is how the Federal Government can assure itself that those engaged to give opinions on financial statements possess the required skills. We believe that, to the maximum extent practicable, the Federal Government should rely on the standards and qualifications established by the individual State governments. However, for public accountants other than certified public accountants, there are no uniform requirements and no effective regulation in some States. For CPAs there is a uniform examination, a major portion of which is designed specifically to test the candidates' ability in precisely that area of accounting practice.

CONCLUSION

We believe it is in the Government's interest that our recommendation remain unchanged. We believe also that, when the Government engages public accountants, it needs the best qualified ones it can get. It is clearly far less costly to the Federal Government to rely on the State-sponsored CPA examination as a means of testing competence to give opinions on financial statements than it would be for us or for any other Federal agency to administer a separate test. No other existing test seems as well suited to this purpose as the CPA examination.

Public accountants who do not meet the qualifications we recommend may do many other types of governmental accounting work, including, but not limited to, audits of efficiency and economy of operations, audits of effectiveness, and accounting systems design work.

Court Orders OMB and HUD to Show Housing Contract Authority as Obligated

On August 20, 1975, United States District Judge June Green ordered James T. Lynn, Director of OMB, and Carla Hills, HUD Secretary, to record the obligation of pre-July 1, 1974, budget authority under section 235 of the National Housing Act. The order was issued in response to a motion by Comptroller General *Elmer B. Staats*, who is the plaintiff in the first lawsuit brought under the Impoundment Control Act of 1974. The suit was commenced on April 15, 1975, in the District Court for the District of Columbia, in response to the failure of the defendants to obligate impounded budget authority after the Congress, under the Impoundment Control Act, had required its release.

President Ford was one of the original defendants, but he was dropped from the case on June 11 when the court determined that adequate relief could be obtained from the remaining defendants.

The August 20 order will not lead to an immediate resumption of the section 235 Mortgage Assistance Program, since the order's purpose is to prevent lapse of the budget authority pending final resolution of the case on the merits.

Further action in the case may come in October, when the Court is expected to rule on a pending motion by the Justice Department, representing the defendants, to dismiss the case on the ground that the Impoundment Control Act unconstitutionally permits the Comptroller General to sue the executive branch.

GAO attorneys, representing the Comptroller General, have filed a formal opposition to the motion to dismiss on the grounds that for purposes of a suit under the act (1) the Comptroller is an independent officer of the United States who constitutionally may and historically has performed both legislative and executive functions and (2) if the Court determines that the Comptroller is a legislative officer under the act, his instituting this lawsuit is not violative of the separation of powers or any other constitutional doctrine. Thus the suit is not one between the Congress and the President as Justice argues, but is justifiable under relevant judicial precedent.

GAO Review to Go on Microfiche

The GAO Review, along with about 140 periodicals published by the agencies of the Federal Government, has been included in the Index to U.S. Government Periodicals, published by Infordata International Incorporated for several years.

Starting in 1975, this company is making arrangements to publish microfiche copies of these periodicals. It is also understood that copies of earlier years will also be reproduced on microfiche.

The Index to U.S. Government Periodicals by Infordata is available in the GAO Library, and microfiche copies of *The GAO Review* prepared under contract with this organization will also be available there.

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Legislative Developments

By Judith Hatter
Chief, Legislative Digest Section

General Accounting Office Act of 1975

On August 1, 1975, Senator Lee Metcalf of Montana reintroduced, as S. 2268, the General Accounting Office Act of 1975, to revise and restate certain functions and duties of the Comptroller General of the United States.

The bill contains four titles, Title I—Enforcement of Decisions and Settlements, Title II—Enforcement of Access to Records of Non-Federal Persons and Organizations, Title III—Enforcement of Access to Records of Federal Departments and Establishments, and Title IV—Profits Study.

By its provisions, (1) procedural remedies through court action to prevent the obligation or expenditure of funds in an illegal manner are authorized, (2) the Comptroller General may sign and issue subpoenas requiring the production of negotiated contract and subcontract records and records of other non-Federal persons or organizations to which he has a right of access by law or agreement, (3) procedural remedy to enforce already existing rights to access to records in Government departments and establishments is stipulated, and (4) authority to make selective studies of the profits of Government contractors and subcontractors whose Government business aggregated $1 million or more is delineated.

Office of the Attending Physician Revolving Fund

Pursuant to a recommendation by the General Accounting Office, the Legislative Branch Appropriation Act, 1976, Public Law 94-59, July 25, 1975, 89 Stat. 269, provides for the establishment in the Treasury of the United States a revolving fund for the Office of the Attending Physician. The fund is to be utilized for deposit of moneys received from the sale of drugs or from any other source and is to be made available for the purchase of drugs for resale.

The law requires that the activities of the Office be audited by the General Accounting Office. Reports of such audits are to be furnished to the Speaker of the House, the President of the Senate, the appropriate committees of Congress, and the Clerk of the House. The Comptroller General is provided access to records as he may deem necessary.

The net profit established by the GAO audit, after restoring any impairment of capital, is to be transferred to the general fund of the Treasury.

Congressional Appointment of the Comptroller General

Representative Jack Brooks of Texas and Senator Lee Metcalf of Montana have introduced legislation (H.R. 8616 and S. 2206) providing for the appointment of the Comptroller General by the Speaker of the House and the President pro tempore of the Senate.

The legislation also provides for appointment of other legislative branch officials by the Congress.

Representative Brooks, in his discussion of the measure, refers to the argument made in the House when the General Accounting Office was created in 1921 to have the Comptroller General appointed by the Congress and the fact that the proposal was dropped because it would invite a veto and endanger the overall legislation.

Taxpayer Assistance Office

Referring to a GAO report which verifies the need for increased taxpayer assistance programs within the Internal Revenue Service, Senator William V. Roth, Jr., of Delaware introduced S. 1925, to establish a Taxpayer Assistance Office.

In his remarks Senator Roth mentions a series of test calls made by GAO auditors in which 20 percent of the tax questions were answered incorrectly by IRS personnel.

Subsequently, Representative Charles Vanik discussed the results of the report to the Joint Committee on Internal Revenue Taxation and pointed out that the Oversight Subcommittee experienced similar problems in a telephone survey it conducted.

Unvouchered Funds Expenditure Audit

Senator Richard S. Schweiker of Pennsylvania introduced legislation, S. 1817, to prohibit the appropriation and expenditure of unvouchered funds unless specifically authorized by law, and to provide for reports on and audits of authorized expenditures of unvouchered funds.

Under the provisions of the bill, audit authority over these expenditures is extended to the General Accounting Office.

The Comptroller General is required to prescribe rules and regulations which will protect the security status of any classified information during an audit.

Toxic Substances Control Act

Representative Bob Eckhardt introduced legislation designed to supplement existing Federal laws by authorizing the Environmental Protection Agency to develop a comprehensive and systematic approach to the task of protecting health and environment from hazardous chemical substances.

The Toxic Substances Control Act, H.R. 7729, requires at section 25 that the General Accounting Office conduct a study of all Federal laws administered by the Environmental Protection Agency for the purpose of determining whether and under what conditions, if any, indemnification should be accorded any person as a result of any action taken by the Administrator under any laws administered by the agency.

The study, which is to be completed within 2 years of the law's enactment date, is to include an estimate of the probable cost of any indemnification programs which may be recommended and an examination of all viable means of financing the cost of any recommended indemnification.

Appearances Before Congressional Committees

General Accounting Office officials testified 29 times before various committees and subcommittees of the Congress during May, June, and July and in August prior to the congressional recess.

Adolph T. Samuelson

Adolph T. Samuelson, Assistant Comptroller General, retired from active service in the General Accounting Office on June 27, 1975, after nearly 34 years of Federal service.

Mr. Samuelson joined the staff of the former Corporation Audits Division in September 1946 and was appointed director of the former Civil Division in October 1956. In April 1972, he was named one of the first three Assistant Comptrollers General appointed by Comptroller General Staats. In that capacity, he was responsible for overseeing and assisting three of the newly created operating divisions—Manpower and Welfare, Resources and Economic Development, and General Government. With the further realignment of organizational responsibilities in GAO in June 1974, Mr. Samuelson was designated Assistant Comptroller General for Special Assignments.

Mr. Samuelson received the GAO Distinguished Service Award in 1957 and the Comptroller General's Award in 1971. He is a member of the National Association of Accountants, the American Institute of CPAs, the District of Columbia Institute of CPAs, the Federal Government Accountants Association, the American Accounting Association, and the American Society of Public Administration. He has been especially active in the National Association of Accountants at both local and national levels, serving as president of the Washington chapter (1963-64), national director (1967-69), national vice president (1971-72), and national treasurer (1973-).

Mr. Samuelson is a CPA (Illinois) and served for 9 years on the staff of Price Waterhouse & Co. in Chicago. He served in the Navy in World War II, attaining the rank of commander. He is a graduate of Walton School of Commerce and has attended Loyola University and Northwestern University in Chicago.

In announcing Mr. Samuelson's retirement, Comptroller General Staats stated that he had "contributed greatly to the development of the GAO and its staff through his many years of dedicated service."

In a statement published in the *Congressional Record* for July 8, 1975, Congressman Jack Brooks of Texas, Chairman of the House Government Operations Committee, referred to Mr. Samuelson as "one of the early pioneers of management audits of government programs." He paid especial tribute to his strong interest in improving the quality of GAO work by improving the quality of its staff and pointed out that many of the staff members he helped develop are now leading accountants, auditors, and financial managers in GAO and other Government agencies.

Senator Abraham Ribicoff, Chairman of the Senate Government Operations Committee, added a further tribute in his statement published in the *Congressional Record* for July 9, 1975. He stated that Mr. Samuelson had served GAO and his Government exceptionally well during his long career and that throughout he had provided outstanding leadership in developing competent professional staff dedicated to carrying out GAO's responsibilities with the highest degree of integrity, dedication, and objectivity.

Forrest R. Browne

Forrest R. Browne was designated regional manager of the Dallas regional office, effective September 1, 1975.

Mr. Browne joined the General Accounting Office in the Kansas City regional office in 1953, after several prior years in public accounting. He was designated regional manager in Kansas City in 1954 and in 1966 was appointed deputy director of the Field Operations Division in Washington. In May 1971, he was designated associate director of the Defense Division in charge of the Manpower Group. With the reorganization in 1972 of the GAO divisions and offices, he was designated deputy director of the new Federal Personnel and Compensation Division, and in March 1973 he was designated director.

Mr. Browne is a certified public accountant (Oklahoma and New Mexico), and a member of the American Institute of CPAs and the Association of Government Accountants. He holds a bachelor of science degree from New York University and in 1962 completed the Executive Development Program at Stanford University Graduate School of Business.

Robert H. Drakert

Robert H. Drakert, upon nomination by Joseph M.A.H. Luns, Secretary General of the North Atlantic Treaty Organization, was appointed Chairman of the International Board of Auditors of NATO to serve for the period August 1, 1975, to July 31, 1976. He has been a member of the five-member board, chosen from 15 member states, since July 1970, and previously served as Chairman from August 1, 1971, to July 31, 1973.

Mr. Drakert joined the New York regional office in 1951 after a varied career in private industry, including public accounting and book publishing. He was appointed regional manager of the New York office in 1954. From 1959 to 1961 he was assistant director of the GAO European Branch, returning from that post to New York to resume the duties of regional manager.

Mr. Drakert served in the U.S. Army from 1942 to 1945. He is a certified public accountant in New York and a member of the American Institute of CPAs and the Association of Government Accountants.

Robert L. Higgins

Robert L. Higgins has been named assistant general counsel for Civilian Personnel Law, effective August 3, 1975.

After joining the General Accounting Office in 1970 as an attorney-adviser in the Office of the General Counsel, Mr. Higgins, in January 1972, was assigned to the campaign expenditures task group established by the Comptroller General to plan for GAO's responsibilities under the Federal Election Campaign Act of 1971. From March 1972 to November 1974, he served in the Office of Federal Elections, first as counsel to the new office and later as acting deputy director.

Mr. Higgins received his B.A. degree from Harvard College in 1955 and his Ll. B. degree from Yale University in 1958. He served in the U.S. Air Force after graduation from law school. In addition to prior Government service as a lawyer for the National Aeronautics and Space Administration, he has practiced law in New York and in Maryland.

He is a member of the bars of New York, Maryland, the District of Columbia, and the U.S. Supreme Court, and belongs to the Federal Bar Association.

Hyman L. Krieger

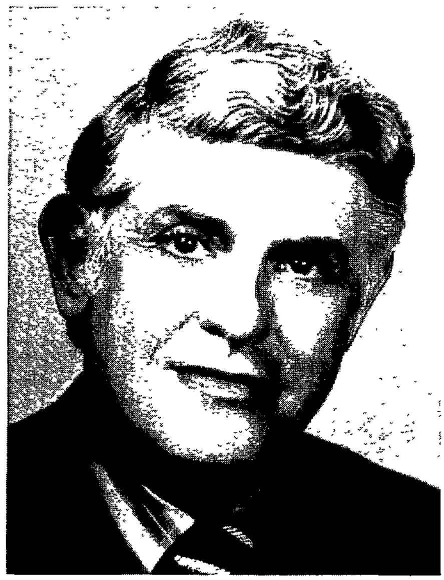
Hyman L. Krieger was designated director, Federal Personnel and Compensation Division, effective September 2, 1975.

Mr. Krieger joined the General Accounting Office in 1946 upon release from the Army. His assignments have included positions with the Corporation Audits Division, the Division of Audits, the Accounting and Auditing Policy Staff, and the Field Operations Division. He served as manager of the Chicago, New York, and Los Angeles regional offices and as a deputy director of the Field Operations Division prior to being assigned as manager of the Washington regional office in September 1971.

In 1941, Mr. Krieger received a B.B.A. degree in accounting from City College of New York and later attended The George Washington University. He completed the Advanced Management Program at Harvard University Graduate School of Business Administration in 1961.

Mr. Krieger is a certified public accountant (North Carolina and Illinois) and a member of the American Institute of CPAs and the Association of Government Accountants. He received the GAO Career Development Award in 1970.

Robert H. Rumizen



Robert H. Rumizen, assistant general counsel, retired on July 31, 1975, after more than 34 years of Federal service, 33 of which were served in the Office of the General Counsel.

Mr. Rumizen entered Government service in June 1941 as an assistant clerk with the Department of the Treasury and was appointed a junior attorney in the Office of the General Counsel, GAO, in November 1942. He served as staff attorney with the European Branch of GAO from 1954 to 1957, and upon his return to Washington was assigned as an attorney-adviser in the procurement law area. In February 1971, Mr. Rumizen was appointed an assistant general counsel in procurement law.

Mr. Rumizen has written articles on procurement law for the *Federal Bar Journal* and the *Military Law Review* and has lectured extensively before the Defense Advanced Procurement Management Course at Fort Lee, Virginia.

David P. Sorando

David P. Sorando has been designated manager of the Washington regional office, succeeding H.L. Krieger, who assumed the position of director, Federal Personnel and Compensation Division.

Mr. Sorando returns to the Field Operations Division following 3 years in GAO headquarters, where he served as deputy director in the Manpower and Welfare and Federal Personnel and Compensation Divisions. His prior GAO field experience began in the New York regional office in 1953. He was in charge of the sub-office at Syracuse, New York, from August 1960 to June 1964, when he transferred to the Cincinnati regional office. He was appointed regional manager of that office in January 1967, a position he held until transferring to Washington in June 1972.

Mr. Sorando is a graduate of Fordham University in New York. He attended the Program for Management Development at Harvard in 1962 and the Federal Executive Institute in 1972.

Stephen J. Varholy

Stephen J. Varholy was designated an associate director in the Manpower and Welfare Division on July 21, 1975. He is responsible for audits of health research, resources, and services.

Mr. Varholy received a bachelor of business administration degree in accounting, *cum laude,* from Fairfield University in 1963 and a master of science degree in financial management from The George Washington University in 1970. He served in the Army from 1963 to 1964.

Since he joined GAO in 1963, Mr. Varholy has had diverse assignments, including responsibilities for audits at the Veterans Administration and for directing GAO's work in the area of intergovernmental relations.

Mr. Varholy is a CPA (Virginia), a member of the American Institute of CPAs, and an officer of the Washington chapter of the National Association of Accountants. He also is a staff member of the Graduate School, Department of Agriculture. He received the GAO Career Development Award in 1970, and in 1975 he received the GSA Public Service Award and the William A. Jump Memorial Award.

Other Staff Changes

New Director

Equal Employment Opportunity

Alexander A. Silva

New Assistant Directors

Office of Assistant Comptroller General for Special Programs

Rodney E. Espe

Office of Program Analysis

Marvin I. Brown
Joseph F. Delfico
James K. Kardokus

Office of Special Programs

William C. Oelkers

Financial and General Management Studies Division

James R. Watts
James P. Wright

General Government Division

Danny L. Statler

Logistics and Communications Division

Merwin F. Almy

Procurement and Systems Acquisition Division

Raymond A. Hautala
Ralph S. LaVallee
Charles W. Moore

Resources and Economic Development Division

Roy J. Kirk

International Division—European Branch

Jerry W. Dorris

New Deputy Assistant General Counsel

Henry R. Wray

New Assistant to the General Counsel

Martin J. Fitzgerald

New Legislative Attorney

M. Thomas Hagenstad

New Legislative Adviser

Peter J. McGough

New Assistant Regional Managers

Detroit

John Competello

New York

George J. Anthony

Retirements

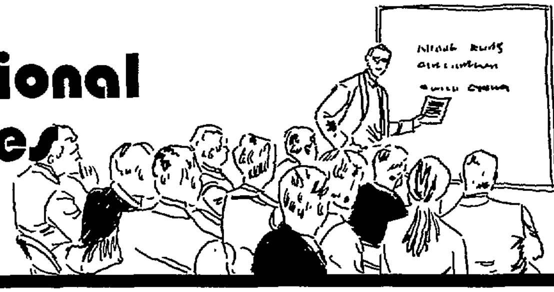
Office of Policy

Eugene L. Pahl—assistant director

Federal Personnel and Compensation Division

Max Stettner—assistant director

Professional Activities



Office of the Comptroller General

The Comptroller General, *Elmer B. Staats*, addressed the following groups:

Industrial College of the Armed Forces (1974–75 class), Washington, D.C., on "The General Accounting Office and the Department of Defense," May 2.

Federal Government Accountants Association Silver Anniversary Symposium, Miami Beach, Fla., on "Financial Management: Looking Back to 1950 and Ahead to 2000," June 16.

National Association of Accountants 1975 Annual International Conference, Anaheim, Calif., on "The Federal Budget, the Economy and Inflation," June 23.

Brigham Young University, College of Social Sciences, Commencement Exercises, Provo, Utah, on "Recipes for Living in a Complicated World," August 15. (Mr. Staats was given the Abraham O. Smoot Public Service Award.)

National Society of Public Accountants 1975 Annual International Conference, Houston, Tex., on "The Nation's Stake in Congressional Budget Reform," August 19.

Following are recently published articles of the Comptroller General:

"Needed—A National Productivity Center," *The GAO Review*, Spring 1975 (based on Mr. Staats' statement before the Senate Committee on Government Operations on December 17, 1974).

"The Federal Civilian Work Force," *Civil Service Journal*, April-June 1975 (based on Mr. Staats' statement before the House Post Office and Civil Service Committee on March 20).

Mr. Staats participated in a 3-member roundtable discussion on "A Post-Watergate Code of Ethics" published in the International City Management Association magazine, *Public Management*, June issue.

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

21st annual Washington seminar of the Maxwell Graduate School of Syracuse University on the role of the GAO in the Federal Government, May 22.

Seminar for deans of the American Assembly of Collegiate Schools of Business Administration on GAO and the important role educators can have in government, June 24.

U.S. Civil Service Commission Executive Seminar on Administration of Public Policy on "Accountability in the Administrative Process:

The Role of the GAO" at Kings Point, N.Y., August 27.

To commemorate the 25th anniversary of the law, Mr. Morse has written an article entitled "Current Significance of the Accounting and Auditing Act of 1950," published in the September 1975 issue of *The Federal Accountant*.

Mr. Morse received one of the three 1975 FGAA Author's Awards for his article in the September 1974 issue of *The Federal Accountant* entitled "The Challenge to Federal Accountants in Improving Congressional Control of the Budget." The award was presented in July by *Max Hirschhorn*, associate director, Resources and Economic Development Division, and chairman of the FGAA Publications Policy Committee for 1974–75.

E. H. Morse, Jr., receives Author's Award from Max Hirschhorn, chairman, FGAA Publications Policy Committee.

Office of the General Counsel

Paul G. Dembling, general counsel:

Participated in the spring meeting of the National Academy of Public Administration, May 22 and 23.

Addressed the Third National Capital Conference of the International Personnel Management Association on "Recent Developments in Providing Make-Whole Remedies for Federal Employees," May 27.

Addressed an Orientation Program for New Presidential Appointees on "Administering and Dealing with Federal Laws," at The White House, June 7.

Testified before an informal hearing at the Department of Labor on proposed amendments to 29 C.F.R. part 4, Labor Standards for Federal Service Contracts, June 24.

Attended and participated in the American Bar Association Annual Meeting, August 8–15, in Montreal.

Milton J. Socolar, deputy general counsel, addressed a meeting of the League of Women Voters on "The Investigative Process and How It Investigates the Efficiency of the Agencies," May 21.

Paul Shnitzer, associate general counsel, attended and participated in the American Bar Association Annual Meeting, August 8–15, in Montreal.

Rollee H. Lowenstein, assistant general counsel, attended a conference on "Labor-Management Relations in the Federal Service: The Critical Issues" sponsored by the Federal Mediation and Conciliation Service and participated in a panel discussion on "The

Role of the Arbitrator in the Federal Sector and the Assistant Secretary's Impact Upon That Role," June 11–13, in Los Angeles.

Geraldine M. Rubar, senior attorney, spoke before the San Francisco chapter of the National Contract Management Association on "The Fly American Act," July 8.

Alan I. Saltman, attorney-advisor, spoke before the Boston chapter of the National Contract Management Association on "Recent Developments at GAO," May 14.

Office of Congressional Relations

Roger Sperry, legislative advisor, is participating in the 1-year mid-career program in Public Administration at the John F. Kennedy School of Government at Harvard University.

Office of Personnel Management

Richard A. Hart, acting assistant director, spoke at the Federal Government Accountants Association Symposium on "Training Needs and Resources for Journeymen Government Financial Managers" at Miami Beach, Fla., June 19.

Office of Program Analysis

Dean K. Crowther, deputy director, briefed David Miles Connolly, Liberal Party Member of the Parliament of Australia, on "GAO's Role in the Analysis of Budget Alternatives," July 18.

Office of Special Programs

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

The Eighteenth Annual Symposium of the Federal Government Accountants Association, Philadelphia chapter, on "Energy, the Economy, and the Budget," May 16, at Philadelphia.

The Worcester Polytechnic Institute's 1975 IQP Summer Program for Faculty, June 11, at Worcester, Mass.

The 1975 Engineering Foundation Conference on "America's Energy Futures," August 4, at Henniker, N.H.

J. Dexter Peach, deputy director, addressed the Seminar for Deans of American Assembly of Collegiate Schools of Business at GAO, June 24.

William C. Oelkers, assistant director, participated in the fourth Dartmouth Institute held at Dartmouth College, Hanover, N.H., June 29–July 25.

William E. Gahr, assistant director, participated in a panel discussion—Human Values: Which Ones Must Change in the World of the Future and How—at the World Future Society General Assembly in Washington on June 3.

Federal Personnel and Compensation Division

Thomas A. Eickmeyer, supervisory auditor, addressed a seminar at the Industrial College of the Armed Forces on June 2. His subject was "Consolidation of Flight Training by the Department of Defense."

Financial and General Management Studies Division

Donald L. Scantlebury, director:

Was elected President of the Association of Government Accountants (renamed from FGAA) for 1976–77. In the interim year he will serve as President-Elect.

Addressed the annual seminar of the FGAA Boston chapter on May 13 at Newton, Mass. His presentation covered what GAO is doing to implement the requirements of the Congressional Budget and Impoundment Control Act of 1974.

Was a guest speaker at the State Auditor Seminar sponsored by the Law Enforcement Assistance Administration on May 29 at the Interagency Auditor Training Center. He discussed some of the problems and possible ways for obtaining more cooperation between State and Federal auditors.

Spoke on the same subject as a panel member in a plenary session at the 25th Annual FGAA Symposium in Miami Beach, Fla., June 16.

Spoke on "Operational Auditing" to the South Carolina Association of CPAs on June 20 at Myrtle Beach.

Conducted a seminar in Washington, D.C., on July 24 for a group of Japanese businessmen who were studying internal auditing as carried out by industry and Government in the United States. He was assisted by *George L. Egan*, assistant director; *John J. Reck;* and supervisory auditors *John J. Adair, Gary A. Bulger, Richard E. Nygaard,* and *Ronald C. Oleyar.*

Fred D. Layton, deputy director:

Was appointed to a 3-year term on the Association of Government Accountants Financial Management Standards Board.

Was appointed to a 3-year term on the Advisory Committee on Government and Industry of the American Institute of Certified Public Accountants.

Spoke on "GAO Audit Policy and GAO Accounting Systems Design Requirements" at the Environmental Protection Agency Financial Management Conference, Boston, Mass., May 16.

Spoke on "The New Congressional Budget Act" to the San Francisco chapter of FGAA, San Francisco, Calif., May 19.

Conducted a seminar on "Audit Standards" at the FGAA Annual Symposium, Miami Beach, Fla., June 16–18.

Conducted an operational auditing course sponsored by FGAA at Miami Beach, June 19–20.

James P. Oliver, associate director, spoke on "GAO's Role and Concerns under the Congressional Budget and Impoundment Control Act of 1974" at a workshop of the FGAA Symposium, Miami Beach, June 16–18.

Walter L. Anderson, associate director:

Was a featured speaker at the Computer Business Equipment Manufacturers Association Spring Meeting at La Costa Hotel, Carlsbad, Calif., on May 30. His talk was entitled "The

Size of Cost and the Cost of Size" as applied to Government automatic data processing.

Participated as a speaker and panelist at the Conference on Federal Government Data Systems 1975–1985 in Washington, D.C., June 27, sponsored by the American Institute of Industrial Engineers. His talk concerned post-procurement analyses of automatic data processing systems.

Earl M. Wysong, Jr., assistant director:

Received the FGAA "Achievement of the Year Award" at its Annual Symposium in Miami Beach, June 18.

Conducted a workshop session at FGAA's 25th Annual Symposium on June 17th and 18th. The title of the workshop session was "Impact of Advanced ADP Technology on Financial Systems."

Ernest Davenport, assistant director:

Was elected Director of the District of Columbia Institute of CPAs at its annual meeting on June 6.

Served as a panelist on "Opportunities in the Field of Accounting" at the annual convention of the National Association of Black Accountants in Houston, Tex., June 20.

Robert J. Ryan, assistant director:

Addressed the Columbia, South Carolina, chapter of the National Association of Accountants on GAO's audit standards on March 20.

Attended the 69th Annual Municipal Finance Officers Association International Conference on Public Finance, April 27 to May 1, in Montreal, Quebec, and served as a panelist at a session on "Performance Auditing—Level 2."

Attended the 40th Annual National Conference of the National Association of Counties in Honolulu, Hawaii, June 21–25. He addressed a session of county financial officials on "The GAO Audit Standards and Broad Scope Auditing As They Relate to Counties."

Ken Pollock, assistant director:

Was elected President of the EDP Auditors Association, National Capital Area.

Addressed a 1-day Symposium of the Chicago chapter of the Institute of Internal Auditors on the subject of controls and auditing in ADP systems, Chicago, Ill., March 17.

Carl R. Palmer, supervisory auditor, was appointed a member of the Executive Committee, College of Information Systems, Institute of Management Sciences, for the year 1975–76.

Ronald L. Eckman, supervisory systems accountant, had an article entitled "The GAO Approval Process for DOD Accounting Systems" published in the *Air Force Comptroller*, July 1975.

General Government Division

Robert Rosensteel, supervisory auditor, completed the requirements for a master's degree in public administration at American University.

Jacob P. Glick, audit manager, discussed the role of GAO and its relationship to the Senate Commerce Committee's National Ocean Policy Study with a group of Stanford University students on July 7.

International Division

Donald M. Mutzabaugh, assistant for development, in his capacity as a National Director (for the second year) of the National Association of Accountants, was a panel member at the NAA chapter Management Seminar at King of Prussia, Pa., May 21. While attending the Annual International Conference of the National Association of Accountants in Anaheim, Calif., June 22–25, Mr. Mutzabaugh participated in the meeting of the National Board of Directors and was inducted into the Stuart Cameron McLeod Society, an organization comprising National Officers and Directors of the National Association of Accountants.

Frank M. Zappacosta, assistant director, is currently Director of Member Attendance for the Washington chapter, National Association of Accountants.

Joint Financial Management Improvement Program

Donald C. Kull, executive director, addressed the following groups:

Spring Conference of the International Personnel Management Association on "Organizational Effectiveness and Productivity" on May 27 in Washington, D.C.

Head State Auditors Seminar of the Interagency Auditor Training Center on "The JFMIP and Its Relation to State Auditors" on May 28 in Washington, D.C.

Twentieth Anniversary Meeting of the Portland chapter of FGAA, on "Financial Management Improvement" on June 21 in Portland, Oreg.

Mr. Kull participated in a "Workshop on Productivity" and a "Plenary Session on JFMIP" at FGAA's 25th Anniversary Symposium on June 16–17, in Miami, Fla.

Mr. Kull spoke on "The Federal Productivity Program" at the Baltimore Federal Executive Board on June 26, the Seattle Federal Executive Board on July 21, the Portland Federal Executive Board on July 23, and the San Francisco Federal Executive Board on July 25.

Brian L. Usilaner, assistant director, addressed the following groups:

Baltimore Federal Executive Board on "The Federal Productivity Program" on June 26 in Baltimore, Md.

Patent Office Conference on "Work Measurement for Professionals" on July 2 in Washington, D.C.

National Commission on Productivity and Work Quality workshop on "Total Performance Measurement," on July 15 in San Francisco, Calif.

Mortimer A. Dittenhofer, assistant director:

Participated in a meeting of the National Council on Governmental Accounting representing the JFMIP as a member of the Council's Advisory Committee on May 1–2.

Addressed the Boston chapter of the Institute of Internal Auditors on "Audit Standards" on May 27 in Boston, Mass.

Participated in a workshop of the International Conference of the Institute of Internal Auditors on "Accountability Auditing in Governments" on June 16 in Dallas, Tex.

Moderated a seminar on "Auditing in Government" at the International Conference of the Institute of Internal Auditors on June 18 in Dallas.

Directed a seminar on "Needs and Resources for Financial Management Training in Government" following the Annual Symposium of the FGAA on June 19–20 in Miami, Fla. Mr. Dittenhofer provided the introductory and summary talks and a presentation on the "Institute for Applied Public Financial Management."

Logistics and Communications Division

Fred J. Shafer, director:

Spoke on "Manufacturing Technology—Changing Opportunities and Challenges in Productivity" before the Numerical Control Society at the Shoreham Hotel in Washington, D.C., on May 19 and before the Numerical Control Society at the Northern Illinois University, DeKalb, Ill., on May 21.

Participated in a panel discussion on problems in productivity in the United States conducted by McKinsey & Company for the National Science Foundation on June 3.

Spoke on "Concerning Productivity" before the Manufacturing Executive Conference at the Mayflower Hotel in Washington, D.C., June 25.

Received a lifetime Honorary Membership to the Society of Logistics Engineers on August 12 at the International Logistics Symposium, Lake Buena Vista, Fla.

Donald L. Eirich, associate director, spoke to classes of the Industrial College of the Armed Forces on June 2. He discussed GAO's and the Logistics and Communications Division's audit responsibilities and the execution of reviews of communications and data management functions.

C. O. Smith, assistant director, wrote a paper on "A Systematic Approach for Evaluating the Data Management Activities of the U.S. Government." It was presented at the International Computer Symposium in Taipei on August 20–22.

Werner Grosshans, associate director, instructed a class on program evaluation for the Interagency Auditor Training Center in Puerto Rico during July.

Manpower and Welfare Division

Gregory J. Ahart, director, addressed the Conference for Business Executives on Federal Government Operations, The Brookings Institution Advanced Study Program, held on June 2 in Washington, D.C. Subject: "Work of the General Accounting Office."

Kevin M. Tansey, supervisory auditor, made a presentation before the Adult Education Management Coordination Conference on GAO's report, "The Adult Basic Education Program: Progress in Reducing Illiteracy and Improvements Needed." The conference was held in Washington, D.C., on June 10.

Procurement and Systems Acquisition Division

Richard W. Gutmann, director, made a presentation before a meeting of the Acquisition Advisory Group to the Deputy Secretary of Defense in Washington on July 1. His subject was the role and mission of GAO in the major weapon acquisition process.

At the request of Edward A. McGough, III, Major General, USAF, Commandant of the Industrial College of the Armed Forces, staff members spoke in two of the College seminar sessions at Ft. Leslie McNair, Washington, D.C., on June 2, on the general subject of "GAO Evaluation of Defense Management Problems," as follows:

> *Andrew B. McConnell*, associate director, spoke on general procurement matters relating to the Department of Defense.
>
> *Hyman S. Baras*, assistant director, discussed the report on "Life Cycle Cost Estimating—Its Status and Potential Use in Major Weapon Systems Acquisition."
>
> *Raymond A. Hautala*, assistant director, discussed the report on "Department of Defense Use of Flight Simulators—Accomplishments, Problems and Possible Savings."

Guy A. Best, assistant director, lectured in the management section of the review course for internal auditors sponsored by the Institute of Internal Auditors in the Department of Agriculture Graduate School, June through August.

Robert G. Meisner, assistant director, was appointed to the Awards Committee of the Washington chapter of the Association of Government Accountants (formerly FGAA). *Homer H. Thomson*, supervisory GAO auditor, was appointed to the National Chapter Activities Committee of the Association. Both appointments are for the chapter year 1975–76.

R. Stanley LaVallee, assistant director, participated in a seminar on Economic Investment Analysis sponsored by the Huntsville (Alabama) chapter of the Institute of Internal Auditors on May 28. He spoke on "Economic Analysis and the Auditor."

C. William Moore, Jr., assistant director, was elected Director for Manuscripts by the Washington, D.C., chapter of the National Association of Accountants for the 1975–76 chapter year.

Richard E. Tuck, operations research analyst, spoke on "AWACS Cost-Effectiveness in a European Environment" before the Tactical Air Warfare Working Group at the 35th Military Operations Research Society Symposium, July 2, at Annapolis, Md.

Charles A. Kezar, operations research analyst, returned in July after spending a 10-month period under Air Force sponsorship at the Air Command & Staff College, Montgomery, Ala. During this period he produced two research papers, one entitled "Income & Employment as Measures of Federal Program Benefit," which was presented at a seminar of the Industrial College of the Armed Forces. The other paper was entitled "National Security Storage System for Petroleum."

L. Patrick Samsell, supervisory auditor, was elected Director for Community Affairs by the Washington, D.C., chapter of the National Association of Accountants for the 1975–76 chapter year.

Resources and Economic Development Division

Max Hirschhorn, deputy director, presented the manuscript awards for the Federal Government Accountants Association in Miami Beach, Fla., June 16–18.

Brian P. Crowley, assistant director, was named Director of Member Relations of the Washington chapter of the National Association of Accountants for fiscal year 1976.

Frank V. Subalusky, assistant director, was appointed to the National Association of Accountants' Board of the Committee on Socio-Economic Programs for fiscal year 1976 at the international conference held in Anaheim, Calif., June 22–25.

Field Operations Division

Marvin Colbs, regional manager, Atlanta, spoke on "The Roles and Missions of GAO" to the controller's course of the Air University, Maxwell AFB, Ala., on May 19; participated in a panel discussion on auditing at the Huntsville, Ala., chapter of the Institute of Internal Auditors, on May 12; accompanied by *William Ball*, conducted a seminar on "Auditing Careers in GAO" at South Florida University, Tampa, on May 28.

Solon P. Darnell, assistant regional manager, participated in a panel discussion on "Operational Auditing at the Grass Roots Level" at the FGAA national symposium in Miami Beach on June 18.

On May 15, 1975, *Joseph Eder*, regional manager, Boston, was the keynote speaker at the Eighth Annual Conference of the New England Federal Personnel Conference. The subject of his talk, in keeping with the theme of the conference, was GAO's role in personnel management and productivity. He discussed the functions of the Federal Personnel and Compensation Division and GAO's booklet on productivity.

Donley E. Johnson, audit manager, Chicago, spoke at Accounting Day, April 23, 1975, sponsored by Beta Alpha Psi and the Minnesota Accounting Club, University of Minnesota. His topic was "The First Year of Employment." On May 19, 1975, he spoke at the University of Minnesota School of Mechanical Engineering on "How GAO Utilizes and Evaluates Accounting Data."

Clement F. Preiwisch, audit manager, spoke at the operational auditing seminar of the Twin Cities chapter of the Federal Government Accountants Association, March 13, on operational audits and GAO.

Paul Wilson, supervisory auditor, was selected to serve on the Government Accounting and Auditing Committee of the Minnesota Society of CPAs for fiscal year 1976.

Terrence M. Ray, auditor, was elected secretary of the Chicago chapter of AGA for fiscal year 1976.

Melvin J. Koenigs, Jr., Walter M. Trauten, Steward O. Seman, and *Kenneth P. Boehne,* supervisory auditors, were elected AGA chapter directors for fiscal year 1976.

James R. Hilmer, supervisory auditor, received the AGA chapter's membership development award.

Paul C. deLassus, assistant regional manager, Dallas, participated in Business Day activities at the University of Texas at Arlington on April 15 by discussing career opportunities in GAO with about 300 undergraduate accounting students.

Weldon Stanley and *Francis Langlinais,* supervisory auditors, participated in an FGAA-sponsored career orientation session on April 1 which provided Federal employees and college students with the purposes and functions of several Federal agencies. Mr. Langlinais also participated on March 26 as an instructor in a Civil Service Commission-sponsored program, "Advanced Systems Analysis," involving computer techniques.

William F. Laurie, audit manager, Detroit, conducted a seminar for students of Case-Western Reserve University, Cleveland, on the subject of "Social Measurement as an Evaluation Tool," March 5.

Charles D. Allegrina, supervisory auditor, was elected Regional Vice President of the Federal Government Accountants Association, Central Region, effective July 1.

Robert J. Piscopink, audit manager, spoke at a seminar sponsored by the State Governmental Accountants Association of Michigan on "Trends in Federal Government Auditing," April 23.

Philip A. Bernstein, regional manager, Seattle, has been appointed by Washington's Governor Daniel J. Evans as a member of the Advisory Council on State Government Productivity. The primary functions of the Council are to provide to the Governor's Office advice on ways to improve the efficiency and effectiveness in all areas of State government.

Douglas E. Cameron, supervisory auditor, was recently appointed Portland chapter Coordinator for the Task Force to Foster Training on Operational Auditing of the FGAA Task Force on Operational Auditing. He was also reappointed to the Oregon State Society of CPA's Governmental Accounting and Auditing Committee for program year 1975–76.

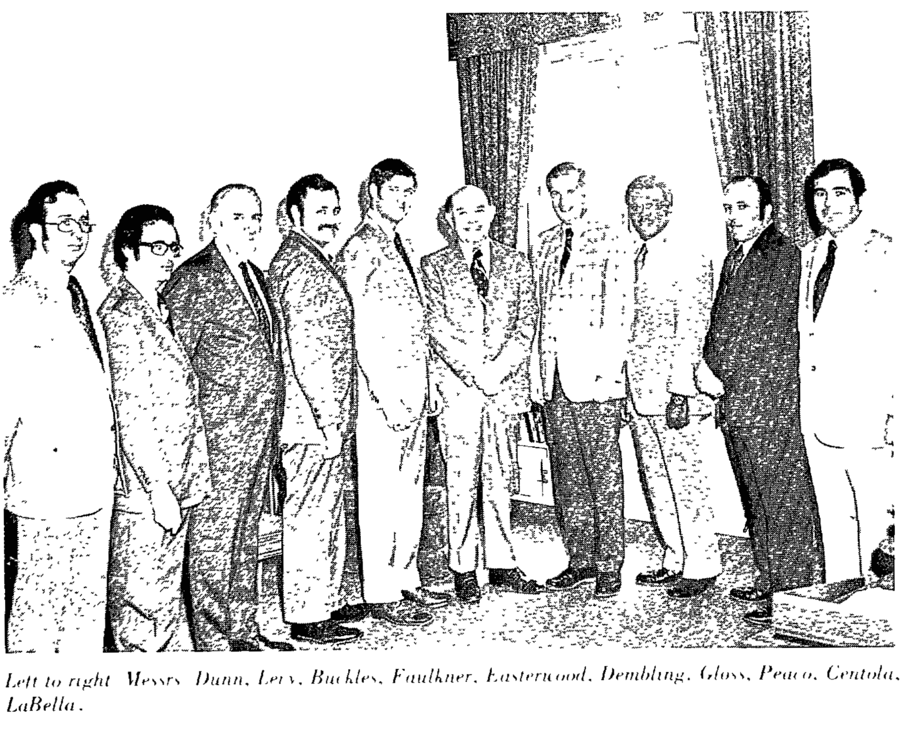
G. Robert Murphy, supervisory auditor, has been reappointed to serve on the Washington Society of CPA's Governmental Committee for the 1975–76 program year. This committee serves as an interface between Federal and State auditors and private practitioner CPAs, informing all of Government regulations affecting their work. It has conducted two seminars (over 100 attending each) dealing with audit standards and their effect on auditing Government programs.

John P. Carroll, assistant regional manager, Washington, addressed the Charter Dinner of the Naval Facilities Engineering Command Toastmasters Club on April 18. His talk, entitled "On the Move," addressed the benefits of Toastmasters and how to get the most out of being a member.

Gregory R. Ulans, supervisory auditor, spoke to the Senior Class at Oakton High School on April 30. His address, entitled "Minding the Millions," dealt with the careers available in the Government in accounting and auditing, with special emphasis on opportunities in GAO.

Attorneys Admitted to Supreme Court Practice

Paul G. Dembling, General Counsel, appeared before the Supreme Court of the United States on April 28, 1975, to move the admission of a number of GAO attorneys. Those admitted to practice before the Supreme Court were: District of Columbia—Galen M. Buckles, Oliver H. Easterwood, Donald L. Gloss, Vincent A. LaBella, and James W. Peaco, Jr.; Maryland—Herbert I. Dunn and Howard S. Levy; Massachusetts—Robert J. Centola; and New Jersey—Douglas A. Faulkner.



Left to right Messrs. Dunn, Levy, Buckles, Faulkner, Easterwood, Dembling, Gloss, Peaco, Centola, LaBella.

New Staff Members

The following new professional staff members reported for work during the period May 16, 1975, through August 15, 1975.

Financial and General Management Studies Division	Bennett, Deborah J.	University of Alabama
	Bowen, Johnny R.	United Planning Organization
	Connor, David M.	Coopers & Lybrand
General Government Division	Groskin, Richard B.	National Council on Crime and Delinquency
Logistics and Communications Division	Allen, Raymond W.	U.S. Army
Office of the Comptroller General	Handy, Carolyn A.	Department of Labor
Office of the General Counsel	Herrick, John A.	University of North Dakota
	Hunt, Donald B.	University of North Carolina Law School
	Kaminsky, Jerrold N.	Temple University
	Sherry, Paul J.	University of Massachusetts
Office of Special Programs	Weber, Stephen F.	University of Wisconsin
Procurement and Systems Acquisition Division	Nolan, Michael D.	Department of Defense
Transportation and Claims Division	Walsh, John T.	University of Scranton
Office of Staff Development	Baptiste, Leonard, Jr.	Southeastern Massachusetts University
	Bartlow, Janet E.	Kings College

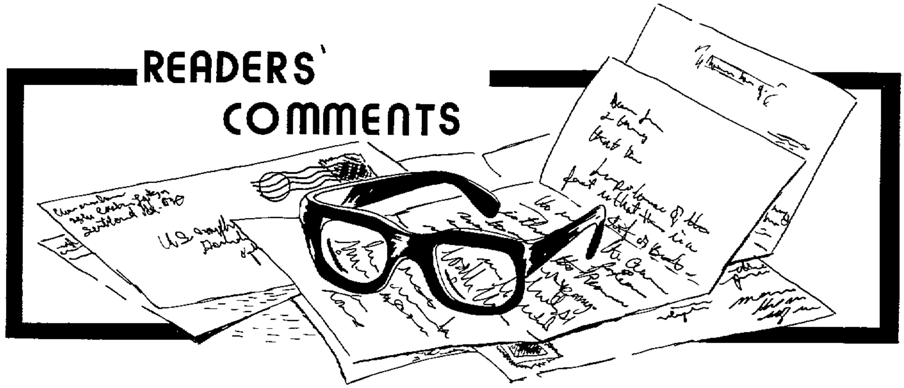
	Burgett, Marcia I.	Virginia Polytechnic Institute and State University
	Clinebell, Michael W.	Concord College
	Davis, Raymond L.	University of Oregon
	Ferdinand, Marilyn C.	St. Francis College
	Forbes, Bruce J.	University of Pennsylvania
	Francis, Paul L.	University of Scranton
	Hatcher, Richard	Howard University
	Herman, Benjamin F., Jr.	Pennsylvania State University
	Hylton, Deborah K.	Virginia Polytechnic Institute and State University
	Jacobson, Alan C.	University of Pennsylvania
	Kenney, Kim F.	Eastern Washington State College
	Kinney, Joseph A.	Syracuse University
	Kurgan, Walter M.	Syracuse University
	Lund, Jill J.	Washington State University
	Matthews, Virginia C.	Federal City College
	Reinhold, Ralph W., II	University of New Haven
	Schneider, Arnold S.	Case Western Reserve University
	Steffler, Sandra L.	Shippensburg State College
	Tolliver, Delleane V.	Xavier University
	Wright, Annell	Federal City College

REGIONAL OFFICES

Atlanta	Keetch, Susanna K.	Immaculate Heart of Mary School
	Pansini, Paul J.	University of Florida
	Stanfield, John E.	Georgia State University
	Wade, Richard J.	Atlanta University
Boston	Ridgley, Lawrence P.	Boston University
	Rose, Jeffrey V.	Boston University
Chicago	Allberry, Charles M.	University of Notre Dame
	Cortese, James S.	Creigton University
	Ferschl, Robert T.	University of Wisconsin
	Stuart, Richard J.	University of Notre Dame
Cincinnati	Gabriel, James H.	Seattle University
	Haas, Thomas J.	Ohio Central State University
	Oden, Billie J.	Ohio Central State University
	Thompson, David L.	Murray State University
Dallas	Barbee, Janet K.	University of Texas
	Bond, Mark A.	University of Texas
	Bonnette, Christopher J.	Louisiana State University
	Brumfield, Stan W., Jr.	North Texas State University
	Curtis, William D.	Morris Brown College
	Fair, John H.	U.S. Air Force
	Garvey, Patrick J.	Florida State University

	Harris, Margaret A.	University of Texas
	Hinton, Lee M.	Stephen F. Austin State University
	Hopson, Robert K.	LBJ School of Public Affairs
	Hoskins, Jerilyn	East Texas State University
	Kirkpatrick, Lynne A.	University of Alabama
	Logan, Thomas W., Jr.	University of Southwestern Louisiana
	Mc Kee, Catherine A.	Pacific Lutheran University
	Peters, Shirley W., Jr.	North Texas State University
	Reinig, David E.	University of Notre Dame
	Rives, Michael E.	Texas A & I University
	Truitt, Alfred R.	University of Puget Sound
Denver	Fernandez, Peter	New Mexico Highlands University
	Suhre, William R.	University of Colorado
Detroit	Krukowski, Anthony A.	University of Detroit
Kansas City	Fuquay, James E.	U.S. Air Force
	Jones, George	University of Missouri
	Mayes, Brenda J.	Langston University
	Payne, Frank H.	Bryant College
Los Angeles	Cicco, Anthony, Jr.	University of Nebraska
	Ham, Warren R.	California State University
	Heil, Terry L.	California State Polytechnic University
	Rodriguez, Richard A.	California State University
	Viereck, Ronald G.	California State University
	Webb, Diane M.	Arizona State University
	Woodson, Robert A., Jr.	California State University
New York	Borst, Richard T.	St. Johns University
	Harris, Magdalene	Long Island University
	Payton, Daniel T., II	Wagner College
	Quan, Thomas Y., Jr.	New York University
Norfolk	Bowman, Cora M.	Muskingum College
	Cain, Patricia E.	University of North Carolina
	Englert, David H.	East Carolina University
	Saunders, Roland H.	Hampton Institute
Philadelphia	Martin, Clifford W.	University of Pennsylvania
	Murray, Lester J.	Rutgers University
	Petrick, William E., Jr.	Villanova University
	Saracino, A. Robert	Drexel University
	Trottie, Shirley A.	Hampton Institute
San Francisco	Aquino, Evelyn E.	University of San Francisco
	Facciano, Alice D.	University of Nevada
	Mc Williams, Mallory L.	San Jose State University

Seattle	Birmingham, Thomas E.	University of Washington
	Davis, Raymond L.	University of Oregon
	Lund, Jill J.	Washington State University
	Swick, William R.	Oregon State University
Washington (Falls Church)	Austin, Elizabeth A.	West Virginia Wesleyan College
	Bageant, Ronald B.	Madison College
	Bowser, Gary W.	Elizabethtown College
	Clark, David L., Jr.	Shepherd College
	Deckert, Linda K.	Madison College
	Hawkins, Wanda T.	Alabama A & M University
	Jones, Mary L.	Virginia Commonwealth University
	Mathias, David R.	University of Maryland
	Mc Crory, Suzanne J.	Bucknell University
	Riggle, Patricia M.	George Mason University
	Robinson, Joseph W.	George Mason University
	Rosenfeld, Mark B.	University of Maryland
	Schneider, Gregor	American University
	Simmons, Rex A.	American University
	Smolin, Leslie D.	University of Maryland
	Walch, Loretta K.	George Mason University
	Webb, Nancy L.	Delaware State College
	Witte, David T.	University of Maryland



Acquiring Major National Systems

The Comptroller General received one letter commenting on my article "A Framework for Acquiring Major National Systems" in the Spring 1975 issue of the *GAO Review,* which calls for a response.

The letter made the point that technology—"the idea for a solution"—often drives the requirements process, and this point is well made; in fact, the Report of the Commission on Government Procurement documents this phenomenon (see, for example, pp. 98, 99 and 117–121 in Vol. 2, Part C, "Acquisition of Major Systems"). The report goes on to say:

> . . .Even when a technological breakthrough provides the initial impetus for a new program, however, the mission need to be met should be questioned. If the combination of potential opportunities, agency priorities, and available resources warrant a new program, the system idea should be permitted to evolve freely within program limits based on mission goals, not premature product specifications. [and] The need should be separated from <u>any</u> particular system, and goals should be <u>defined</u> independently of the performance, cost <u>and</u> schedule characteristics of any particular system. . . . (Underscoring supplied)

If the need is so precisely defined, as it is now, so as to preestablish the requirements and dictate the solution, then the "standard" view that the determination of need comes first and that the solution comes next is indeed a myth, as the commentator suggested. My article tried to acknowledge this myth and to show how the myth can be turned into reality by proper application of the framework proposed by the Commission.

The framework would start the formal acquisition process with problem-oriented rather than solution-oriented statements of need. The focus would be on the mission job or function to be performed. Intended results are (1) to open up the creative design process so that a wide span of technical solutions can be initially considered, (2) to fund those system candidates deserving exploratory development, and (3) to thereby introduce meaningful and sustained systems level competition at an early and relatively inexpensive stage in the acquisition process.

The soundness of a problem-oriented statement of need was also recognized in Project Hindsight, a report issued by the Office of the Director of Defense Research and Engineering in 1969. It found that "the interaction of scientific and technological knowledge is stimulated by, and is most productive for, weapon system development in a problem-oriented environment."

The commentator's letter identified principal factors interacting in a dynamic way on the system need. Although not highlighted in the article, these factors are discussed in chapters 3 and 4, Part C, Vol. 2 of the Commission report. For example, pages 112 and 123 illustrate graphically how mission need interacts with the design, and how design interacts with the technology base. In recognition of the dynamic nature of systems acquisition, the Commission recommended that the initial mission needs and program goals be updated and formally reconsidered when the procurement program is approved.

Robert B. Hall
Assistant Director
Procurement and
Systems Acquisition
Division

Protecting Reputations

Reference is made to the article "Reputation: The Most Prized Possession" carried in the Spring issue of the *Review*. This article is a reprint of an article by the President and Chief Executive Officer of the American Management Associations.

I was surprised at certain examples used in the article which was recommended for reading by GAO staff members. I suggest the examples be studied in terms of the personnel policies of our organization.

My concern is with the examples that illustrate that the credibility of management depends in part on trust, and that this trust requires that managers protect the reputations of those with whom they interact. Two of the examples (a controller's systematic falsification of records, concealed by the president, and an employee's failure not being revealed when a letter of reference is requested from the former employee's manager) might be classified by human behaviorists—Blake and Mouton—as a 1–9 style of management. This style places primary emphasis on the attitudes and feelings of people—they come first.

Carrying these two examples into practice in GAO might lead us to such positions as: Assign a staff member to an audit team but don't tell the site senior that the person has a writing problem, a tendency to arrive late for work and leave early, or any other characteristic that could impair the effectiveness of the audit team. Or, perhaps when a professional staff member measures very poorly against our standards for retention, do not tell the prospective hiring Federal agency of his shortfalls in our organization.

I subscribe to the author's theme of trust as one of the characteristics of the credibility of management (and certainly GAO's credibility is built on a reputation of independence and professionalism). However, it seems that the writer is overlooking another characteristic of management: a professional's ability to view such "bad marks" on the reputation of a person in their proper perspective.

Our staff is continually, through on- and off-the-job training and education, acquiring the many personality traits essential to the future of GAO. It is through this training that GAO's professional staff of over 3,000 can handle the adverse situations in a sensitive manner, rather than "sweeping them under the carpet."

Karl E. Deibel
Audit Manager
Los Angeles
Regional Office

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 members. Submissions may be made directly to 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 range in length between 5 and 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.

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POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

CONTROLLED CIRCULATION RATE