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# The GAO Review



FALL 1968

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# THE GAO REVIEW

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# The Manager, the Government, and the Accounting Profession 721324

By Elmer B. Staats  
*Comptroller General of the United States*

The following address was delivered by Mr. Staats on August 27, 1968, before the Annual Convention of the American Accounting Association, San Diego State College, San Diego, Calif.

Perhaps you will permit me to start this discussion with a story from the 19th century. Charles Dickens reduced to the simplest example what every accountant—whether in private enterprise or government—hopes his client's books will show. You may remember the motion picture based on Dickens' book *David Copperfield*, and the scene in which the late W. C. Fields, as Wilkins Micawber, ostentatiously delivered to Master Copperfield the following stricture:

"Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought six, result misery." Fields, in speaking these lines, laid heavily on that final word, "misery."

This quotation came to mind as apt for 20th-century listeners as I read recently a National Industrial Conference Board publication titled *The Federal Budget*. In that pamphlet you will find the following excerpt:

In the postwar period, even though state and local revenues from their own sources have risen very rapidly at 9.0% per annum . . . their expenditures have in-

creased at the even faster rate of 10.0% per annum.

Has the result been the same sort of "misery" for State governments that Wilkins Micawber predicted for David Copperfield?

Let us read on from the National Industrial Conference Board pamphlet.

Federal grants have made the major contribution in closing the gap between state and local expenditures on the one hand and total revenue from its own sources on the other \* \* \*

Result: Happiness? No, not quite, but, as we all know, immensely complicated management problems for all levels of government—Federal, State, and local. And the result, in part anyway, is a series of Federal budget deficits.

I begin my discussion with this reference to changes in State and local government sources of income, and the resulting effect upon the Federal budget, as a dramatic illustration, among many, of the increasingly heavy management burdens facing the Federal Government today. I am not limiting that term "burden" to the financial aspect, but including the larger and still growing burden of Government management.

***Federal Grants a Century Old***

While the device of financial grants is now commonplace, it is not new. Federal grants to State and local governments came into being more than a century ago under the Morrill Act of 1862. States received grants of Federal lands under this law to establish what were called "land-grant" colleges—now usually State universities—offering courses in agriculture, engineering, and home economics. These grants were subject to conditions spelled out in the law and were made subject to supervision by the Department of Agriculture. This was the way the Federal grant idea got started.

In the early 1900s Federal aid to State and local governments was extended through other agricultural programs. Between 1916 and 1920, Federal assistance was made available for State highway programs and for vocational education and rehabilitation programs. Impelled by the economic depression of the 1930s, large numbers of Federal welfare, employment security, public housing, and health programs were established which included various types of emergency grants. While the emergency aspect of social, unemployment insurance, and other aid programs began to taper off as early as 1937, State and local governments continued to receive various types of Federal grants.

By the year 1930 Federal grants to State and local governments, however, had amounted to not much over \$100 million, equivalent to about 1 percent of total State and local expenditures in that year. Well over half this amount represented Federal aid for highways.

By the end of World War II, total Federal grants and aid to State and local governments had leveled off at about \$900 million a year. While we all know what has happened since, perhaps it will be well to refresh our memories with the figures.

***Federal Grant Assistance Skyrockets***

Ten years after World War II Federal financial assistance to State and local governments amounted to about \$4 billion a year. By 1963, some 18 years after the war, the figure had doubled to \$8 billion yearly. In fiscal 1967, just 4 years later, Federal assistance had nearly doubled again, to \$15 billion. In 1968 it had increased to \$17 billion. In the current year—fiscal 1969—it is expected to go over \$20 billion—representing 17 percent of total State and local revenues. Obviously, the peak is not in sight.

Estimates differ as to the number of these Federal assistance programs. A number frequently cited is 170; others cite higher figures. Whatever precise figure might be agreed upon, the number of similar programs existing in 1930—about 10—has a wistful sound to us today. One might call those the times of innocence compared to the present when our multibillion dollar grant or aid programs are financed under more than 400 separate authorizations and administered by 21 Federal agencies through 150 Washington bureaus and over 400 field offices.

Let me cite the area of the budget where the grant-in-aid device has been used most extensively.

***Grants for Health and Welfare***

The second largest category in the Federal budget today is in the functional budget category called "health, labor, and welfare." Expenditures in this area will reach almost \$52 billion in 1969, a \$28 billion increase in 8 years. This figure compares with the largest budget category of \$80 billion that is budgeted for the Department of Defense this fiscal year. Much of this "health, labor, and welfare" budget is distributed in the form of Federal grants and assistance, finding its way eventually in one form or another—financial assistance, special services of many types, or medical support—to local recipients from Maine to California.

Merely to list, let alone try to describe, the Government's economic, social, and public welfare programs would take more time than we have available in a luncheon talk. Largest amounts in this category will be spent for social insurance and public welfare purposes, nearly \$34 billion—cash benefits to the unemployed, the retired, the disabled, or their survivors, and the like. Medicare and medical assistance and research programs come next—over \$10 billion. Public assistance programs come third, with something more than \$3 billion.

This system of transferring Federal revenues by means of grants or in forms of assistance back to States, cities, and towns may be compared to the growth of trees. For purpose of example we may say that the main body of grant or assistance dollars starts flowing from central trunks growing in Washington and dividing into main limbs, or

States; and larger branches, or metropolitan areas; then into innumerable smaller branches, cities; and twigs, towns; and finally to the leaves, or actual recipients.

The Bible tells us that "the leaves of the tree were for the healing of the nations." We may perhaps adapt this dictum to say that the leaves from our Federal financial trees are designed to strengthen and build—and, yes, to heal—our body politic as a nation. While this is oversimplification, of course, it is, I feel, not an inappropriate example of the growth of Federal grant assistance from those 10 trees (or programs) of the 1930s to today's forests.

As I have mentioned, Federal grant-in-aid programs serve many different objectives such as education, housing, job training and employment, health, and income maintenance. Each of these objectives is served by several different programs, often administered by different Federal agencies in cooperation with different units of State government and, either directly or through the State, different units of local government. Some of the participants are in the nature of quasi-public bodies set up for the specific purpose of carrying out certain federally sponsored or aided programs and are not fully subject to State or local government direction or control.

These factors operate to make difficult and to place constraints on the improvement of financial management. They also make necessary, as a condition precedent to improvement, a great deal of effort in identifying and defining specific problems and their relationship to the broader picture, in order

to permit the development of solutions which give consideration to the "real world."

Indeed, the task confronting us all is immense and it will require that all parties bring to bear upon these problems the utmost in research and innovative resources.

Recognizing this need, the Secretary of the Treasury, the Director of the Bureau of the Budget, and I have initiated a project to study the problems of administration, accounting, auditing and reporting of Federal-State-local cooperative grant programs. The study, just now getting underway, will be carried out under the auspices of the Joint Financial Management Improvement Program.

This program was undertaken with congressional support as far back as 1947 to improve Federal financial management in all its aspects. Under the leadership of the officials I just named, the program involves every Federal agency and has produced numerous improvements of lasting benefit.

The team to study grant program cooperation will be staffed by representatives from the three fiscal agencies—the Bureau of the Budget, the Treasury Department, and the General Accounting Office—and by representatives from the four largest agencies involved in grants to State and local governments. These agencies are the Department of Health, Education, and Welfare, the Department of Housing and Urban Development, the Department of Labor, and the Office of Economic Opportunity.

The objective of the project is to develop recommendations for improving and simplifying the administration and

financial management of Federal grants-in-aid to State and local governments. This would include efforts to develop recommendations for grantee accounting procedures common to all granting agencies; audit by a single agency; and a reduction in reporting requirements through simplification, combination, or elimination of existing reports. The study will cover eight Federal agencies which have the preponderance of the programs with grants-in-aid and will cover a representative number of State and local governments to ascertain their problems as recipients of grants.

We are hopeful that this project will bring forth significant information and ideas useful to achieving vital improvements. I know that the full cooperation of Federal, State, and local government officials will be rendered in this endeavor, and that we will have the benefit of the views of professional accountants as well as those responsible for the management of these programs.

### *Defense Spending—Constant Attention*

Up to this point this talk has been heavily weighted in the direction of the civil problems pressing upon Government, as well as upon society. No discussion of management and accounting needs in the Federal service can omit, of course, mention of the Department of Defense and U.S. expenditures for defense purposes.

When a department is spending public money, for all its purposes, at the rate of more than \$200 million a day, every day of the year, weekends included, you can be sure that many



checkpoints and reviews of this spending are needed. They are required internally—by agency management and internal auditors; and they are required externally by an agency such as the General Accounting Office or by the Appropriations Committees of the House and Senate.

Defense activities of almost every description need more or less continual review:

- Procurement problems, from million dollar contracts legally negotiated for goods and services in Vietnam or elsewhere down to what is called “small procurement” or the buying of washers, nuts, and bolts, dramatized last year by Congressman Otis G. Pike of New York with the help of GAO auditors;
- Logistics planning, such as the dismantling and moving out of France of U.S. personnel and materiel assigned to NATO forces in Europe, an area where large amounts of public investment are at stake; and,
- Management of supplies in all the services where, various types of audits show, the need for improvements is never ending to assure maintenance of accurate stock records, avoidance of duplicate ordering, adequate flow of supplies on schedules adapted to actual needs, and so on.

In listing the above items I have barely indicated the amount of audit and review work that is required for proper management of spending in this one very large area—national defense. And I want to give proper credit for the

significant infusion of professional accounting and management talent in the top echelons of the Defense Department which has contributed to the management and control of Defense resources by such measures as the program budget and the new accounting system for operations.

### *Problems Ahead for Government Managers*

We may be sure that the government managers of the future—at all levels of government—will face more problems than they have at any time in the American past.

People may differ as to the variables which will determine the role of and the problems facing the government manager in the years ahead, but perhaps could agree on the following:

- A population increase of more than 50 million in 20 years, increasingly urban in character. The National Commission on Urban Problems says 71 percent of our people will live in metropolitan areas by 1985.
- Continued changes in the pattern of family life, with a weakened role of the family unit. Approximately six out of every 10 Negro youths have at some time been supported before age 18 by the Federal Aid to Dependent Children program.
- Rising expectations which grow from an ever-increasing standard of living where expressed needs will continue to outdistance resources and capabilities to meet them.

- A highly intensified struggle to develop and preserve our natural resources and our natural environment which will require additional constraints on exploitation and increased emphasis on scientific research.
- A further blurring of the lines between what is considered “public” and what is considered “private” in our national economy.
- And, underlying all of these, the pervasive and unpredictable effect of a rapidly changing industrial technology.

All one has to do is remember a single statistic: \$17 billion invested by the Federal Government in research and development every year. It requires little imagination to visualize the enormous management problems generated by the flow of ideas developed, leading to new programs ranging from the design of a supersonic transport to new drugs, nuclear power, and synthetic fuels.

### *A Period of Social Change*

To attack these and related social problems, Congress has enacted far-ranging legislation in the last several years, such as:

- The Economic Opportunity Act,
- The Housing and Urban Development Act,
- Medicare,
- The Elementary and Secondary Education Act, and
- The Higher Education Act.

But even as Congress has acted, pressures simultaneously were mounting still higher for solution to problems of the crowded and dilapidated ghettos;

need for more and better schools—and especially capable teachers; more widespread and effective programs for the training of the underprivileged. The country, as well as its Congress, has been swimming, and continues to swim, against these stiff currents. As a country we are short of talent as well as of money.

This appears to sound as if I were making a case that Federal Government should be responsible for solving all these problems. I do not want to convey that impression. While the Federal Government will have to do all it can by way of leadership and example, these problems require all hands for solution: private, professional, and public. Just the other day my attention was called to an excellent article on the responsibility of the business community to understand and to act in these various situations. Called “The Challenges of Hope” and written by a vice president of the Inland Steel Company, Mr. William G. Caples, the article is provocative for all of us as we grope through this period of social change. His appeal to business to hire employees of the future solely on the basis of “capacity to learn and ability to produce” is an excellent statement of one of our key problems. The article was published in the Michigan State University’s Graduate School of Business magazine, *MSU Business Topics*, Spring 1968 issue.

### *Accounting, “The Ideal Subject”*

How can the accounting profession make its maximum contribution to the solution of the problems, existing and potential, I have enumerated? Most of

us would share the views about the accounting profession expressed not long ago by Mr. Lynn A. Townsend, CPA and Chairman of the Board of Chrysler Corporation. Writing on the subject of a "Career in Business Accounting" in your publication, *The Accounting Review*, Mr. Townsend said:

Accounting is truly an ideal subject, perhaps even superior to physics for the majority of present-day students. It comprehends human nature and human rights and relationships, as well as the financial aspects of our natural resources and all the goods and services making up the economic pipeline, especially through the production and marketing stages.

Whenever there is a need for financial measurement accounting is the dominant force not only in the measurement process but in achieving understanding, order, and control.

Mr. Townsend goes on to say also that he has found accounting not just measurement and reporting of measurements. It includes, he adds, "the application of measurements to problems to be solved." I might remark at this point that Mr. Townsend has taken words right out of GAO's mouth. As I will try to show, this defines GAO's present as well as future approach to its reviews and evaluations of Government operations. Likewise, I believe it defines the philosophy of the enlightened leaders of the accounting profession, among whom your members are in the forefront.

### ***Broadening Accountants' Training***

To carry out this philosophy we at the General Accounting Office will continue to require the best accounting talent that we can find. These are the people who will be able to exercise

dominant force in achieving "understanding, order, and control." But to do so they must not only be trained in the fundamentals of their profession but also provided a broad general background of society. We believe that the interrelationships between accounting and other disciplines need to be better developed. For a long time accounting has been more than bookkeeping. A student needs to understand other subjects such as the behavioral sciences, mathematics, economics, systems analysis, etc., in order to accept the challenges now given to him in the accounting field. One of the main problems of colleges and universities today is educating for change in the accounting profession. The profession of accounting is changing as rapidly as are medicine, sciences, and other fields. And the accounting student needs to be educated to meet these changes.

Some would include languages as important to tomorrow's accountant. I would suggest that he commence with English. I am not being whimsical. Many accountants find it difficult to reduce to words the essential meaning of what they find in figures. And yet if an accountant cannot tell someone else what he has found—as we in the General Accounting Office must tell the Members of the Congress (who usually speak plain English)—he has failed to communicate.

Mr. Townsend emphasizes this point in the article previously referred to where he says:

If I were faced with the problem of selecting the outstanding subject deserving rigorous and continuing attention in the school system, in preparation for a useful career, I would not pick physics or account-

ing but I would give the edge to English composition.

In professional work of all kinds the ability to write well (reflecting the ability to think well) is of paramount importance.

I mention these various points particularly to those of you here who are in the profession of teaching the accountants of tomorrow. The accountants that we will need in the General Accounting Office and that Government generally, business, and institutions serving our society will need will be those who are not only proficient in their own discipline but equipped with broad backgrounds of knowledge such as we have been reviewing.

### ***GAO and Comptroller General***

If I may speculate for a moment, I wonder what the two titles—General Accounting Office and Comptroller General—convey? As you have heard those titles today what images have come to your minds? I bring this matter up because in traveling about the United States speaking to audiences concerned, like yourselves, with accounting and managerial problems and responsibilities, I find that not many people outside of Washington have more than a vague notion of what the General Accounting Office and the Comptroller General do, why we do what we do, and how our services affect most Government operations.

You may be aware that the General Accounting Office—GAO as it is usually called—saves the Federal Government several hundred million dollars annually through audits which it conducts of various departmental or agency activities. As a result of these audits wasteful practices are stopped, loose or in-

efficient administrative methods are halted, and procedures for effective management are recommended and put into operation. You may be aware, also, that from this service came the pseudonym which GAO has had for many years—"the watchdog" of the Congress. The implication of the title "watchdog" is not inaccurate but it is narrow and stereotyped. GAO and the Comptroller General's office provide many services broad in purpose and anything but stereotyped as I hope to be able to show.

### ***GAO Organization***

Our professional ranks are composed of some 2,400 accountants and auditors; about 100 lawyers; some 30 engineers, economists, and mathematicians; systems analysis specialists; and one newspaperman. In addition, our staff of technicians, claims adjudicators, secretaries, typists, editors, proofreaders, researchers, printers, and messengers — our sustainers — totals about 2,000.

### ***GAO Geography***

Our headquarters is in Washington, situated somewhat nearer to the U.S. Capitol than the President's house, as the White House was first called. From our office windows we have an unimpeded view of the Capitol Building and the dome, completed just over 100 years ago. This is a pleasant prospect. It is also a constant reminder of our duty and purpose in being. Less than half of the GAO staff works at headquarters. We have offices physically located in 45 departments and agencies of the executive branch of the Government.

We have 16 regional offices throughout the United States plus six sub-offices. Our Far East Branch office is in Honolulu and we have offices overseas in the Philippines, Vietnam, India, and West Germany. I hope you now have a visual picture of an organization centralized but dispersed. GAO can conduct surveys, audits, and reviews wherever U.S. Government operations are underway. It was not always so.

### **GAO History**

Congress established the General Accounting Office at the same time as the Bureau of the Budget, in 1921. The Budget Bureau was of course placed in the executive branch and became part of the Treasury Department. GAO was placed under the direction and control of the Comptroller General, responsible to the Congress and independent of the executive departments. GAO is vested with all the powers and duties formerly prescribed for the Comptroller of the Treasury by statutes extending back to the creation of the Treasury in 1789.

From 1921 until the end of World War II, GAO confined itself largely to auditing Government vouchers. We refer to this period as GAO's "green eyeshade" days, meaning that the General Accounting Office then was an agency devoted chiefly to making sure that public funds had been expended according to law and accounted for correctly. Today most of the voucher checking is done by auditors within each agency and GAO's duties have been substantially broadened and expanded.

GAO now conducts comprehensive audits of department and agency opera-

tions, more and more often directed to management and program effectiveness rather than being limited to financial questions. This trend has steadily broadened our work but with the same objective which GAO has always had, to promote the expenditure of public funds as effectively and efficiently as possible.

### **GAO and Its Purposes**

Recently the General Accounting Office published a booklet entitled *GAO—Purposes, Functions, Services*. If you will permit me to insert a commercial at this point, I recommend this booklet to any of you who would like to know in more precise detail how and why GAO operates. This can be summarized in three short paragraphs.

GAO—

- Examines into the manner in which nearly all Federal departments and agencies, using public funds, discharge their financial and management responsibilities.
- Reports its findings on matters in need of attention by the Congress or the Federal agencies.
- Recommends ways in which the executive departments and agencies can carry out programs and operations more efficiently and economically.

How GAO does these things is a subject that we could discuss for the rest of the day.

### **GAO, What It Does**

During this calendar year GAO has audited the Army's management of supplies in Vietnam; the procurement of

coal for Army use in Europe; Federal grants toward the purchase of land used in municipal airports for lighting facilities; use of computers for certain activities by the Defense Logistics Services Center in Battle Creek, Mich.; management of the Agency for International Development's program of capital investment for economic development projects in Brazil; need for improvement in airlift of military cargo in Southeast Asia by the Military Airlift Command; and a recommended control of peanut production by the Department of Agriculture on the basis of pounds produced instead of acres planted.

Does that sound like a sufficient variety of activities to be audited by one agency? I have just began this list; let us continue.

During this calendar year also GAO has issued reports on the management of Office of Economic Opportunity programs in Los Angeles, Chicago, Detroit, and Cleveland; the planning and management by the National Science Foundation of Project Mohole, designed to extend man's knowledge of the planet by drilling through the earth's outermost crust—about 25 miles thick; programs for maintenance of automatic data equipment by various Government agencies; the need for better procedures in the Army in planning for purchases of new weapons such as flamethrowers; the need for Federal departments and agencies to exercise more control over contractors such as Hudson Institute, Inc., engaged to make research studies; and the opportunity to improve U.S. balance-of-payments position through an increased agricultural barter program.

From the foregoing examples you can see that GAO is an evaluation organization; that GAO reports to Congress are public reports; that GAO strives to be objective in its work; but that objectiveness in all instances in such a large operation as GAO's can at times be very difficult. Of course we are continually mindful of this duty and constantly strive to be as fair as possible.

### ***Role of the Comptroller General***

The Comptroller General and the Assistant Comptroller General are appointed by the President with the advice and consent of the Senate. Each holds office for 15 years. We are subject to removal only by joint resolution of the Congress for specified causes or by impeachment. Our constant and unremitting duty is to serve the Congress by searching continually for means of achieving greater economy and efficiency throughout the Government. Heads of departments and agencies and disbursing and certifying officers in the executive branch have the right to request a decision from the Comptroller General on a variety of legal questions involving new programs, executing contracts, and disbursing public money.

Similarly, Government contracting and procurement officers as well as individuals and concerns doing business with the Government have the right to ask the General Accounting Office to resolve legal questions which arise incident to the award of Government contracts. Comptroller General decisions are final and conclusive on the executive branch. They are not binding, however, on the Congress or the courts. So, you see, there is an important de-

cisionmaking function attached to this office.

The Comptroller General cannot do his job without, sometimes, running into sharp cleavages of opinion. After all, no one likes to be evaluated by an outsider and that is what we of GAO are—to the executive branch. Finally, it is relatively easy to point out criticisms. It is not so easy to offer solutions, and this is as important a part of our job as any other aspect; in many ways it is the most important.

***GAO Covers Most Government Activities***

As you can see from the fact that its operations cover, one way or another, nearly all the activities of the executive branch, GAO is a singular agency. There are some exceptions to the range of our responsibility. We do not audit the Central Intelligence Agency, for example. These exceptions are few.

From whatever aspect of activity you look at the Federal Government—from its accounting procedures down to advice provided by the Commission on Fine Arts to Government agencies—the General Accounting Office at some point in time is likely to become involved. Not only is the position of Comptroller General unique and continually stimulating but the same holds true for the professional career man in the General Accounting Office. His is one of the most challenging to be found in the Federal service.

***GAO Sets Accounting Standards***

Of particular importance is the work GAO does to establish and uphold accounting principles and prac-

tices of the Federal agencies. The Comptroller General has four responsibilities in this area, each critical to effective Government operations. By law he must:

Prescribe accounting principles, standards, and related requirements;

Cooperate with Federal agencies in the development of their accounting systems;

Approve accounting systems that are adequate and in conformity with principles, standards, and related requirements prescribed by GAO; and,

Review and report on agency accounting systems.

For a number years, GAO has committed a substantial proportion of its manpower to carrying out these responsibilities.

Until recently, progress in improving Federal financial management systems—including accounting systems—has been slow. But now there is increasing awareness among agency officials that adequate accounting provides management with cost and other data necessary and essential to plan and to control operations *effectively*. This is, of course, fundamental to the development of cost-based budgets and to planning, programming, and budgeting systems as they are now used in the Government for its overall budget preparation.

To all of us here, it is one, two, three that no progressive business can keep in the forefront without the full and complete information which its accountants can provide. Accurate, complete information—*effectively communicated*—is the lifeblood of organization, the basis of sound decisions by

management. This is quite as true for a Federal department or agency—government at any level for that matter—as for business or industry. The main difference between Government and private enterprise on this subject is that Government may have been somewhat slower in understanding the service which the accounting profession can render in these matters.

### ***Need for Accrual Accounting***

A notable advance was made during the past year as a result of recommendations contained in the report of the President's Commission on Budget Concepts. The Commission, of which I was privileged to be a member, made 12 major proposals for budget improvement. While the primary thrust of the Commission's basic recommendations was adoption of a unified or single summary budget statement to include data on budget appropriations, receipts, expenditures, net lending, and financing, hardly less important was its recommendation that budget expenditures and receipts be reported on an accrual basis instead of a cash basis.

The General Accounting Office has upheld accrual accounting as basic for most Federal departments and agencies. The Commission's recommendation appeared to us to be a logical step. Conventional accrual accounting has been used by private enterprise for many years. The Commission's recommendation will require Federal agencies to use modern financial accounting and cost accounting systems, providing a more accurate measure of the effect of Government activities on the economy than ever before. The Commission fur-

ther recommended that the plan for reporting on an accrual basis be carried out beginning with the fiscal year 1971 budget which will be presented by the President to the Congress in January 1970.

In setting the timing for reporting on an accrual basis, the Commission on the one hand took an optimistic view on the status of accounting systems development in the Federal agencies. On the other hand, the Commission expressed concern that the Department of Defense would require—because of the size and nature of its program—more time and encounter more vexing problems in converting to a full accrual accounting basis than would other departments and agencies. This situation may exist also in the Department of Health, Education, and Welfare.

Members of my staff are working closely with staffs of the Budget Bureau and Treasury to furnish agencies with guidance and assistance necessary to bring about full accrual accounting and reporting within the time recommended by the Commission.

### ***Need for Qualified Accountants***

The supply of quality accounting students now being turned out each year from our colleges and universities does not meet the demand of the profession. What needs to be done in order to improve both the quantity and quality of accounting students? For one thing, we at GAO believe the curriculum of accounting is too heavily weighted in favor of the private sectors and not weighted heavily enough in favor of public sectors.



Moreover, the opinion held by too many teachers and counselors on the college campus is that the Federal Government as an employer is inadequate or even poor. The only relationship most accounting students have to government is that which they find in government accounting courses, many of which are directed toward municipal accounting. We believe a greater effort should be made by colleges and universities to introduce students to the Federal Government's accounting activities.

With the broad increase in responsibilities of the Federal Government described earlier it will need and will be able to absorb large numbers of qualified accountants. At the General Accounting Office we are continually seeking new talent and we can offer any college graduate as interesting, as varied, as broad, and as professionally rewarding a career as he may find.

Speaking as sincerely as I can, from a period of service in the Federal Government now stretching to 30 years, I know how necessary it is for the progress of our country, especially in these times, that our colleges and universities provide us all the support they can in interesting the coming graduating classes in public service.

At the General Accounting Office we are always seeking good people. Nevertheless, knowing that your organization has a strong university-based support, I come here today seeking your cooperation and your help. A former president of this organization, Mr. Robert Mautz, is serving as a member of the Comptroller General's Consultant Panel. Others of you, including your outgoing President Frank Kaulback, have served as members of our educator-consultant group. Still others have participated in our visiting professor program.

I am certain that there are other avenues of cooperation yet to be developed. Why not, for example, consider an exchange arrangement between the universities and the General Accounting Office for an academic year or an academic term?

And now I leave one final thought with you as to the real value and meaning to be gained from the public service which you may wish to pass on to young accountants as they look to their futures. The rewards of public service may be expressed in these words, derived from an ancient English epitaph:

What we had, we gave;  
 What we gave, we had;  
 What we kept, we lost.

# How to Prevent Organizational Dry Rot

By John W. Gardner

The following article summarizes in the form of nine rules the important principles that organizations need to observe to avoid stagnation and provide constant renewal of vitality and purpose. These principles are important to GAO staff members not only because of their applicability to the General Accounting Office as an organization but because of their applicability to other Federal agencies and organizations whose affairs are subject to GAO audit.

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The author, John W. Gardner, is well known as a former president of the Carnegie Corporation; Secretary of Health, Education, and Welfare during 1965-68; and currently as chairman of the Urban Coalition.

Like people and plants, organizations have a life cycle. They have a green and supple youth, a time of flourishing strength, and a gnarled old age. We have all seen organizations that are still going through the diseases of childhood, and others so far gone in the rigidities of age that they ought to be pensioned off and sent to Florida to live out their days.

But organizations differ from people and plants in that their cycle isn't even approximately predictable. An organization may go from youth to old age in two or three decades, or it may last for centuries. More important, it may go through a period of stagnation and then revive. In short, decline is not inevitable. Organizations need not stagnate. They often do, to be sure, but that is because the arts of organizational renewal are not yet widely understood. Organizations can

renew themselves continuously. That fact has far-reaching implications for our future.

We know at least some of the rules for organizational renewal. And those rules are relevant for all kinds of organizations—U.S. Steel, Yale University, the U.S. Navy, a government agency, or your local bank.

*The first rule* is that the organization must have an effective program for the recruitment and development of talent. People are the ultimate source of renewal. The shortage of able, highly trained, highly motivated men will be a permanent feature of our kind of society; and every organization that wants its share of the short supply is going to have to get out and fight for it. The organization must have the kind of recruitment policy that will bring in a steady flow of able and highly motivated individuals. And it cannot

afford to let those men go to seed, or get sidetracked or boxed in. There must be positive, constructive programs of career development. In this respect, local, state, and federal government agencies are particularly deficient, and have been so for many years. Their provisions for the recruitment and development of talent are seriously behind the times.

*The second rule* for the organization capable of continuous renewal is that it must be a hospitable environment for the individual. Organizations that have killed the spark of individuality in their members will have greatly diminished their capacity for change. Individuals who have been made to feel like cogs in the machine will behave like cogs in the machine. They will not produce ideas for change. On the contrary, they will resist such ideas when produced by others.

*The third rule* is that the organization must have built-in provisions for self-criticism. It must have an atmosphere in which uncomfortable questions can be asked. I would lay it down as a basic principle of human organization that the individuals who hold the reins of power in any enterprise cannot trust themselves to be adequately self-critical. For those in power the danger of self-deception is very great, the danger of failing to see the problems or refusing to see them is ever-present. And the only protection is to create an atmosphere in which anyone can speak up. The most enlightened top executives are well aware of this. Of course, I don't need to tell those readers who are below the loftiest level of management that even with enlightened executives

a certain amount of prudence is useful. The Turks have a proverb that says, "The man who tells the truth should have one foot in the stirrup."

But it depends on the individual executive. Some welcome criticism, others don't. Louis Armstrong once said, "There are some people that if they don't know, you can't tell 'em."

*The fourth requirement* for the organization that seeks continuous renewal is fluidity of internal structure. Obviously, no complex modern organization can exist without the structural arrangements of divisions, branches, departments, and so forth. I'm not one of those who imagine that the modern world can get away from specialization. Specialization and division of labor are at the heart of modern organization. In this connection I always recall a Marx Brothers movie in which Groucho played a shyster lawyer. When a client commented on the dozens of flies buzzing around his broken-down office, Groucho said, "We have a working agreement with them. They don't practice law and we don't climb the walls."

But jurisdictional boundaries tend to get set in concrete. Pretty soon, no solution to a problem is seriously considered if there is any danger that it will threaten jurisdictional lines. But those lines aren't sacred. They were established in some past time to achieve certain objectives. Perhaps the objectives are still valid, perhaps not. *Most organizations have a structure that was designed to solve problems that no longer exist.*

*The fifth rule* is that the organization must have an adequate system of internal communication. If I may make a

rather reckless generalization, I'd say that renewal is a little like creativity in this respect—that it depends on the existence of a large number of diverse elements in a situation that permits an infinite variety of combinations and recombinations. The enormous potentialities of the human brain are in part explainable in terms of such possibilities for combination and recombination. And such recombination is facilitated by easy communication, impeded by poor communication.

*The sixth rule:* The organization must have some means of combating the process by which men become prisoners of their procedures. The rule book grows fatter as the ideas grow fewer. Thus almost every well-established organization is a coral reef of procedures that were laid down to achieve some long-forgotten objective.

It is in our nature to develop an affection for customary ways of doing things. Some years ago a wholesale firm noted that some of its small shopkeeper customers were losing money because of antiquated merchandising methods. The firm decided that it would be good business to assist the shopkeepers in bringing their methods up-to-date, but soon discovered that many had no desire to modernize. They loved the old, money-losing ways.

Sometimes the organization procedures men devise to advance their purposes serve in the long run to block those purposes. This was apparent in an experience a friend of mine had in Germany in the last days of World War II. He was in Aachen, which had only recently been occupied by the American forces, when he received a message in-

structing him to proceed to London immediately. He went directly to U.S. Army headquarters, and showed the message to a sergeant in the Adjutant's office.

The sergeant said that the only plane for London within the next few days was leaving from the nearest airfield in thirty minutes. He added that the airfield was twenty-five minutes away.

It was discouraging news. My friend knew that he could not proceed to London without written orders, and that was a process that took from an hour to a couple of days in a well-established and smoothly functioning headquarters. The present headquarters had been opened the day before, and was in a totally unorganized state.

My friend explained his dilemma to the sergeant and handed over his papers. The sergeant scratched his head and left the room. Four minutes later he returned and said, "Here are your orders, sir."

My friend said he had never been in such an efficient headquarters. The sergeant looked at him with a twinkle in his eye and said, "Sir, it's just lucky for you we weren't organized!"

*The seventh rule:* The organization capable of continuous renewal will have found some means of combating the vested interests that grow up in every human institution. We commonly associate the term "vested interests" with people of wealth and power, but in an organization vested interests exist at every level. The lowest employees have their vested interests, every foreman has his, and every department head has his. Every change threatens someone's privileges, someone's authority, someone's

status. What wise managers try to do, of course, is to sell the idea that in the long run everyone's overriding vested interest is in the continuing vitality of the organization itself. If that fails, everyone loses. But it's a hard message to get across.

Nowhere can the operation of vested interests be more clearly seen than in the functioning of university departments. There are exceptions, of course: some departments rise above their vested interests. But the average department holds like grim death to its piece of intellectual terrain. It teaches its neophytes a jealous devotion to the boundaries of the field. It assesses the significance of intellectual questions by the extent to which they can be answered without going outside the sacred territory. Such vested interests effectively block most efforts to reform undergraduate instruction.

*The eighth rule* is that the organization capable of continuous renewal is interested in what it is going to become and not what it has been. When I moved to New London, Connecticut, in 1938 I was astonished at the attitude of New Londoners toward their city's future. Having grown up in California, I was accustomed to cities and towns that looked ahead habitually (often with an almost absurd optimism). I was not prepared for a city that, so far as I could discover, had no view of its future, though it had a clear view of its past.

The need to look to the future is the reason so many corporations today have research and development programs. But an organization cannot guarantee its future by ritualistic spending on re-

search. Its research-and-development program must be an outgrowth of a philosophy of innovation that guides the company in everything it does. The research program, which is a way of looking forward, cannot thrive if the rest of the organization has the habit of looking backward.

*The ninth rule* is obvious but difficult. An organization runs on motivation, on conviction, on morale. Men have to believe that it really makes a difference whether they do well or badly. They have to care. They have to believe that their efforts as individuals will mean something for the whole organization, and will be recognized by the whole organization.

Change is always risky, usually uncomfortable, often painful. It isn't accomplished by apathetic men and women. It requires high motivation to break through the rigidities of the aging organization.

So much for the rules.

One of the ominous facts about growth and decay is that the present success of an organization does not necessarily constitute grounds for optimism. In 1909 it would have been unwise to judge the future of the Central Leather Company by the fact that it ranked seventh in the nation in total assets. It would have been a disastrous long-term investment. A better bet would have been the relatively small Ford Motor Company which had been founded only six years earlier and was about to launch its Model T. As a company it wasn't huge or powerful, but to borrow a phrase from C.P. Snow, it had the future in its bones. (Not many of 1909's top twenty companies did—

only four of them are in the top twenty today.)

Businessmen are fond of saying that, unlike other executives, they have a clear measure of present performance—the profit-and-loss statement. But the profits of today *may* be traceable to wise decisions made a good many years earlier. And current company officers may be making bad decision that will spell disaster ten years from now.

I have collected many examples of organizations that experienced crises as a result of their failure to renew themselves. In the great majority, certainly nine out of ten, the trouble was not difficult to diagnose and there was ample warning of the coming catastrophe. In the case of a manufacturing concern that narrowly averted bankruptcy recently, the conditions that led to trouble were diagnosed by an outside consultant two years before the crisis came. In the case of another well-known organization, a published article outlined every essential difficulty that later led to disaster.

But if warning signals are plentiful, why doesn't the ailing organization take heed? The answer is clear: most ailing organizations have developed a functional blindness to their own defects. They are not suffering because they can't *solve* their problems but because they won't *see* their problems. They can look straight at their faults and rationalize them as virtues or necessities.

I was discussing these matters with a corporation president recently, and he said, "How do I know that *I* am not one of the blind ones? What do I do to find out? And if I am, what do I do about it?"

There are several ways to proceed. One way is to bring in an outside consultant who is not subject to the conditions that create functional blindness inside the organization.

A more direct approach, but one that is surrounded by subtle difficulties, is for the organization to encourage its internal critics. Every organization, no matter how far deteriorated, has a few stubbornly honest individuals who are not blinded by their own self-interest and have never quite accepted the rationalizations and self-deceptions shared by others in the organization. If they are encouraged to speak up they probably will. The head of a government agency said to me recently, "The shrewdest critics of this organization are right under this roof. But it would take a major change of atmosphere to get them to talk."

A somewhat more complicated solution is to bring new blood into at least a few of the key positions in the organization. If the top level of the organization is salted with vigorous individuals too new to be familiar with all the established ways of doing and thinking, they can be a source of fresh insights for the whole organization.

Still another means of getting fresh insights is rotation of personnel between parts of the organization. Not only is the individual broadened by the experience, but he brings a fresh point of view to his new post. After a few years of working together, men are likely to get so used to one another that the stimulus of intellectual conflict drops almost to zero. A fresh combination of individuals enlivens the atmosphere.

## HOW TO PREVENT ORGANIZATIONAL DRY ROT

In the last analysis, however, everything depends on the wisdom of those who shape the organization's policy. Most policy makers today understand that they must sponsor creative research. But not many of them understand that the spirit of creativity and innovation so necessary in the research program is just as essential to the rest of the organization.

The future of this nation depends on its capacity for self-renewal. And that in turn depends on the vitality of the organizations and individuals that

make it up. Americans have always been exceptionally gifted at organizational innovation. In fact, some observers say that this is the true American inventiveness. Thanks to that inventiveness we now stand on the threshold of new solutions to some of the problems that have destroyed the vitality of human institutions since the beginning of time. We have already made progress in discovering how we may keep our institutions vital and creative. We could do even better if we put our minds to it.

# New Budget Concepts: Expenditures on the Accrual Basis 721322

By Ellsworth H. Morse, Jr.

*Director, Office of Policy and Special Studies*

**The President's Commission on Budget Concepts completed its work in October 1967, and its report contains many far-reaching recommendations. A resumé of the Commission's recommendations was presented in the Winter 1968 issue of the *GAO Review*. The following article analyzes in more detail the Commission's recommendation to report budget expenditures on the accrual basis.**

The recommendation of the President's Commission on Budget Concepts that budget expenditures be reported on the accrual basis is the most important of the recommendations from the standpoint of the functions of the General Accounting Office. One of these functions is to promote better management and better accountability in the Federal agencies through such specific processes as:

- Prescribing principles and standards of accounting to be applied by the executive agencies.
- Cooperating with the executive agencies in the development of their accounting systems.
- Approving accounting systems of executive agencies when deemed to be adequate and in conformity with prescribed principles and standards.
- Reviewing from time to time accounting systems in operation.

Accounting in the Federal Government on the accrual basis has been a Government-wide statutory require-

ment since the Budget and Accounting Procedures Act of 1950 was enacted. However, the accounting systems for large segments of the Government's activities are still in process of conversion to this basis.

The Budget Commission's recommendation was aimed at obtaining better financial information for use in the formulation, consideration, and execution of the national budget. In making its recommendation that budget expenditures be stated on the accrual basis, the Commission provided a very important additional impetus to the on-going program of accounting systems improvement in the Federal agencies.

## ***Primary Reason for the Recommendation***

The primary reason for urging adoption of the accrual basis for reporting budget expenditures was to obtain a better periodic measure of the economic impact of Federal expenditures than



was produced by any of the three budgets that were in use.

- The *administrative budget*, which excluded trust funds, stated expenditures on a checks-issued basis. (Some interest expenditures were stated on the accrual basis.)
- The *consolidated cash budget*, which included trust funds, stated expenditures on a checks-paid basis.
- The *national income accounts budget*, which included all funds but excluded loan transactions, stated expenditures on different bases, depending upon the nature of the transactions. For example:
  - Expenditures for procurement of long-lead-time items were stated usually on a completion and delivery basis.
  - Construction expenditures were stated on a put-in-place basis, equivalent to accrued expenditures.
  - Interest expenditures were stated mainly on an accrual basis.
  - Transfer payments, grants-in-aid, and subsidies were stated on a checks-issued basis.

The Commission concluded that each of these bases, or combinations of bases, was deficient as an indicator of the time when Federal expenditures are actually made. Federal expenditures have a significant impact on the American economy, and reliable measures of those expenditures are important to reliable economic analyses and forecasts. The Commission therefore concluded that a more precise basis of

measuring and reporting those expenditures was needed. It accordingly recommended that:

Expenditures should be reflected in the budget and Federal financial reporting when the Government incurs liabilities to pay for goods and services—in other words, on an accrual rather than a cash basis.

In its deliberations, the Commission recognized that the reporting of expenditures for procurement of goods and services acquired and used in Federal programs and activities had the most significant impact on conclusions reached by analysts of Federal expenditure patterns. The Commission felt that data on obligations incurred and cash disbursements relating to major procurement transactions did not provide adequate or timely information on their impact on the economy. On the other hand, it did see that accrued expenditures would provide the best measure “since the accrual is the point of final commitment which has the largest and most direct economic impact on the private sector.”

The Commission recognized that for many types of financial transactions, such as employee pay and benefit payments, there was little practical difference in timing between accrued expenditures and cash disbursements. However, it also recognized the greater reliability of reporting expenditures for employee pay on the accrual basis. It cited, for example, the occasional “humps” that occur in monthly cash disbursement totals for Government payrolls which call for biweekly payments (26 pay periods within 12 months).

### ***Encouragement of Financial Management Improvements***

Another reason cited by the Commission for urging adoption of the accrued expenditure concept was that it would foster further advances in financial management practices in the Federal agencies by reason of the necessity of accelerating development of better accounting systems which can produce expenditure data that are reliable and prompt. The Commission stated that:

The accrual concept for budget purposes will foster the concept of cost control in all agencies, and especially in those not now on a cost system.

### ***Other Reasons***

Another reason that the Commission urged the accrual basis of expenditures was to bring closer together the official basis for recording Federal budget expenditures and the basis used by the Department of Commerce in reporting on the Federal sector of the national income and products accounts. The Commission felt that a common basis would eliminate a confusing discrepancy between the national income account estimates of Federal expenditures and the Federal budget itself.

Although not specifically mentioned in its published report, the Commission was also cognizant of the fact that a system of reporting of budget expenditures on the accrual basis would be less susceptible to possible juggling at year-end than would be the cash basis, under which expenditure levels and deficits could be affected by merely slowing down or speeding up the issuance of checks.

This factor is well recognized by Federal accountants. For example, in his article on "Appropriations and Funds," published in *The Federal Accountant* for December 1957, H. W. Bordner observed that:

Accountants hope, however, to see reduced emphasis on cash expenditure data as accrued expenditure reporting becomes established. Such data are more meaningful in that they are more current and they cannot be affected by withholding or accelerating payment of bills or payrolls, as cash expenditures can.

### ***Relation to Congressional Action on Budget***

The accrued expenditure concept reflected in the Commission's recommendation is not new. It has been a recognized part of Federal Government accounting concepts since the development of accrual procedures. The term was not given much emphasis in recent years although it was defined in Bureau of the Budget Circular No. A-34. For a number of years, this circular, which provides instructions relating to apportionments and reports on budget status, has required Federal agencies to report accrued expenditure data, when available, in their accounting records.

The term fell into some disrepute in the late 1950s after a controversial effort, growing out of recommendations of the Second Hoover Commission, was made to have congressional appropriations made on this basis rather than on an obligation basis. Public Law 85-759, which was approved August 25, 1958, provided that appropriations would continue to be made on the obligation basis but that each appropriation sup-

ported by a satisfactory system of accrual accounting could include a limitation on annual accrued expenditures. This procedure, however, was never actually put into operation by the Congress, and the act expired in 1962.<sup>1</sup>

In urging adoption of the accrual basis for budgeting and reporting of expenditures, the Commission on Budget Concepts made it very clear that it was not suggesting any change in the basis on which the Congress acts in authorizing expenditures through the appropriations process. The Commission's report emphasized clearly that "its intent is not to alter the basis of congressional expenditure authorization in any way."

### *Expenditures for Procurement*

Of particular concern during the Commission's studies were the expenditures of the Department of Defense, which represent such a substantial part of the Federal budget. A large part of the Department's expenditures are for procurement of equipment, materials, and other property—transactions of a type that can produce significant differences in expenditure measurements depending on whether the basis used is obligations incurred, performance, or cash disbursements.

The accounting systems of the Department of Defense do not produce accrued expenditure data for major procurement transactions. However, on the basis of discussions with Department officials, it was estimated that the

Department could be in position to have such data within 2 to 3 years. This estimate was the key to the Commission's proposal as to when a changeover to the accrued expenditure basis could feasibly be made for the entire Government. (Full implementation for the 1971 budget, to be transmitted to the Congress in January 1970.)

In connection with the staff studies in support of the Commission's review, particular attention was directed to defense contracts for major procurement, under which contractors may obtain financial support in the form of progress payments as work progresses. The policies and procedures of the Department of Defense for making progress payments to defense contractors are stated in detail in Appendix E of the Armed Services Procurement Regulation.

In general, where the appropriate provisions are included in the contract, payments may be made to the contractor before completion and acceptance of the materials being produced. While these arrangements vary, progress payments of as much as 80 percent of costs applicable to the contract which are incurred directly by the contractor plus payments made to subcontractors may be made. When progress payments are made, the Government obtains title to the inventories of materials, work in process, related tools and special equipment, et cetera.

Under existing reporting procedures, expenditures are reported on the cash basis, and thus progress payments as made are the measure of budget expenditures. The "holdback" portion of costs incurred by a contractor on a

<sup>1</sup> For an account of the enactment of this controversial legislation and subsequent action to implement it, see "Financial Management in the Federal Government," a report prepared by the staff of the Senate Government Operations Committee, Feb. 13, 1961. (S. Doc. 11, 87th Cong., 1st sess., pp. 98-110.)

Government contract is not included in budget expenditures stated on the cash basis until the contracting agency pays for completed performance.

On the other hand, expenditure data reported by the Office of Business Economics of the Department of Commerce for the national income and product accounts are essentially on a completion and delivery basis for defense contracts involving progress payments.

Neither the cash basis nor the completion and delivery basis provides a satisfactory current measure of expenditures under contracts that require an extended time to complete. However, where progress payments are being made, the cash basis provides a more current, although still incomplete, measure of expenditures.

In defining the concept of accrued expenditures, the Commission's staff emphasized that, where progress payment arrangements exist, accrued expenditure data should, at least, include the holdback portion of costs incurred by the contractor. In other words, the accruing liability to the contractor, based on his performance as measured by costs incurred, should be reflected in expenditure data irrespective of whether a final legal or contractual liability exists to pay or settle on the basis of completed or accepted performance.

### **Implementation**

The President of the United States approved most of the Budget Commission's recommendations in December 1967, including those pertaining to the accrual of budget receipts and expenditures. A special steering committee consisting of representatives of the Bureau

of the Budget, the Treasury Department, and the General Accounting Office was then designated to spearhead the follow-on work necessary to carry out this recommendation and certain other recommendations.<sup>2</sup>

Beginning in February 1968, numerous meetings were held by the steering committee with representatives of the major Federal agencies involved in adapting their accounting systems to produce prompt and reliable accrued expenditure data.

Growing out of these discussions and other work of the steering committee and the staffs of the central agencies, the Director of the Bureau of the Budget issued Bulletin No. 68-10 on April 26, 1968. This bulletin entitled "Reporting of Accrued Revenues and Expenditures to Treasury and the Bureau of the Budget," contains instructions for the executive agencies and a wealth of information about accrued expenditure concepts and accounting. It also includes a series of 32 questions which were raised by agency representatives about the application of these concepts in particular problem areas together with answers suggested by staffs of the central agencies.

On May 4, 1968, the Comptroller General issued an advance announcement as to the principal changes that were being incorporated in the GAO-prescribed accounting principles and standards for Federal agencies to reflect the additional emphasis on accrual

<sup>2</sup>The steering committee consists of Carl W. Tiller, Special Adviser on Budgetary Development, Bureau of the Budget; L. David Mossu, Assistant Commissioner of Accounts, Treasury Department; and E. H. Morse, Jr., Director, Office of Policy and Special Studies, General Accounting Office.

accounting for reporting budget results.

This announcement pointed out that some refinement in the application of GAO principles and standards was necessary to accommodate, primarily at the appropriation level, the reporting, in accordance with the Commission's recommendations, of revenues and expenditures in terms of accruals rather than in terms of receipts and disbursements. The principal refinements announced were:

1. Accrued revenue and expenditure data should be obtained on a monthly basis.
2. In the case of contractors performing work to the Government's specifications, accrued expenditures should be recognized in Federal accounts and reported on the basis of constructive receipt of goods and services, without awaiting physical delivery to or acceptance by the Government.

The Comptroller General's announcement also stated that the capability to produce accrued revenue and expenditure data was a specific requirement for all Federal agency accounting systems. Accordingly, all approved systems in operation must be revised as necessary to produce the required data. For all other systems, the necessary procedures for obtaining such data must be incorporated as a requisite to approval by the Comptroller General.

On June 20, 1968, the Treasury Department issued instructions to Federal departments and agencies explaining the procedures for implementing the new system to be followed on a test basis beginning as of July 1, 1968.

Two major problems have emerged during the implementation stage that require penetrating study. Special task forces composed of representatives of the central fiscal agencies and certain operating agencies were created to study these problems in depth.

### ***Constructive Delivery***

In adopting the accrued expenditure basis, the Budget Commission embraced the concept that, on work performed on contract for the Government to its order and specification, expenditures accrue *as the work is performed* and are not geared to completion, to delivery, or to cash payment. Although differences of opinion will be found on whether this is a good concept or a practical one, the fact remains that the 16-member Commission agreed — unanimously — that constructive delivery or receipt was an essential part of the accrued expenditure proposal if expenditure data were to be a sensitive and reasonably precise measure of the Government's outlays.

The constructive delivery concept goes beyond what many consider to be the proper measure of an accrued expenditure—that is, physical receipt of goods or services. It is not a new concept in Federal accounting since it has been practiced in the construction-type programs for many years. Good examples are the water resource projects of the Bureau of Reclamation and the Army Corps of Engineers, both of which have accounting systems that were originally approved by the Comptroller General in the 1950s.

The National Aeronautics and Space Administration, an agency making very extensive use of contractors in its

programs, also applies this concept. But the problems of applying this principle to all major procurement of goods and services produced to the Government's specifications were not given general recognition until the concept was highlighted by the Budget Commission's report.

A special interagency task force was established to study how to apply this concept.<sup>3</sup> It was charged with a two-fold responsibility:

1. To develop recommendations as to the most practicable methods of measuring performance of contractors that has not been billed to the Government (including exploration of sampling procedures).
2. To develop recommendations concerning criteria to be followed by Federal agencies in making judgments as to whether unbilled contractor performance is material enough to include in expenditure data reported on the accrual basis.

The task force has developed special forms for use by contractors to report financial performance data to the contracting Federal agencies. These forms have received Bureau of the Budget approval for use by a number of sponsoring civil agencies and are available for use by others.

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<sup>3</sup> The members of this task force were: Benjamin Selfon, Bureau of the Budget, chairman; *Susumu Uyeda*, assistant director, Office of Policy and Special Studies, and *Paul E. Lynch* and *Charles A. Smith, Jr.*, Defense Division, GAO; *Berwyn L. Miller*, Department of Defense; *Jerry Murphy* and *Dal Knepper*, Treasury Department; *Matthew J. Conrov*, Bureau of the Budget; *Charles L. Kelchner*, Atomic Energy Commission; *William D. Patrick*, National Aeronautics and Space Administration; and *J. S. Reece*, Department of the Interior.

As with so many problems in Federal Government management, the big problem on accrued expenditure accounting under the refined concept of constructive delivery is in the Department of Defense. A major part of the task force study was to make detailed test analyses of the materiality of unbilled contractor performance through the complex organizational and financial structure of the Department. The objective was to determine whether the amounts were material enough in relation to total monthly Defense expenditures to introduce procedures for collecting this information each month and, if they were determined to be material, to suggest the most efficient procedures for obtaining such data.<sup>4</sup>

### ***Expenditures Under Grant Programs***

The other major problem requiring detailed study is the accounting for the performance of grantees under the hundreds of Federal grant programs.

The Comptroller General's 1965 restatement of Federal agency accounting principles and standards established the clear requirement that payments under a grant program were not to be accounted for as costs unless, or until, the grantee performed in accordance with the grant agreement. This is the essence of the accrual basis of accounting as contrasted with the cash basis. The practical problem encountered, however, in working toward bringing all expenditure data under Federal grant programs together promptly and rea-

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<sup>4</sup> At the date this paper was prepared, the task force had not completed its work.

sonably accurately has at least two sides:

1. The sheer number of grant programs and grantees—there are hundreds of programs and many thousands of individual grantees.
2. The quality of the accounting of grantees and their capacity to report accrued cost information on the basis of whatever performance is called for by the terms of the grant agreements.

The special task force<sup>5</sup> formed to examine into this subject interviewed representatives of the major Federal agencies and many grantees. The task force found that generally the grantees visited did not have a good understanding of the nature of accrual accounting—at least as we want to apply it for Federal programs and activities—and that these grantees had a very limited capability to report accrued expenditure data.

In light of these observations, it was concluded that a system of monthly reporting of reliable accrued expenditure data by large numbers of grantees was a long way off. Accordingly, the task force concentrated its efforts on working with the Federal agencies concerned in grant programs to develop acceptable methods for making monthly estimates of accrued expenditures on

grant programs that they can report to the Treasury Department.

### *The Reliability Factor*

Occasionally, during the Budget Commission's study, doubts were expressed as to the reliability of accrued expenditure data produced by Federal agency accounting systems. These doubts were based largely on the fact that there had been little experience, on a Government-wide basis, in producing accrued expenditure data from accounts. This lack of experience was cited particularly as to the Department of Defense with its vast procurement expenditures and its widespread operations.

Partly in recognition of these doubts, the Commission suggested that a suitable period of testing take place before the revised basis of expenditure reporting was adopted and included in public reports. It suggested that the testing begin by July 1, 1968, which would permit a test period of about 2 years.

Another principle concerning reliability, which was brought out during the Commission's study, related to agency responsibility. It emphasized that it was the responsibility of each Federal agency involved to report accurate and reliable data for use in an expenditure reporting system. Prescribed accounting standards require the adoption of suitable internal checking and auditing procedures in the accounting systems of each agency, to ensure the production of accurate and reliable financial data. Adherence to this standard requires that agency internal audit organizations include in the

<sup>5</sup> The members of this task force were: Ivo G. Binder, assistant director, GAO Office of Policy and Special Studies, chairman; Edward G. Ballute, Department of Agriculture; Kent H. Crowther and Gerald P. Bush, Jr., Department of Housing and Urban Development; Thomas J. Cuny, Bureau of the Budget; Mortimer A. Dittenhofer, Department of Health, Education, and Welfare; Bennie M. Horton, Treasury Department; Paul A. Hynes, Department of Transportation; and Fred Koppenhafer, Department of Commerce.

scope of their audit work adequate tests of the functioning of agency accounting systems, including the reliability of required reports.

A further point registered concerned the independent audit work of the General Accounting Office. The Commission was informed that the General Accounting Office, as a part of its overall postaudit functions, would make appropriate tests, from time to time, of the accounting and reporting operations of the Federal agencies. The extent of this work as it relates to reporting of accrued expenditure data or any other data will be determined on the basis of evaluating the scope and findings of the work performed in each agency by its internal auditors.

### ***General Observations***

The Commission's recommendation on accrued expenditure accounting and reporting was a truly important milestone in the long-range movement to modernize Federal accounting processes. Federal accountants in all agencies will be affected by this recommendation and efforts to implement it; and it will provide a significant continuing boost to the overall program to improve the quality of Federal agency accounting.

The Commission recognized that expenditure accounting and reporting was only a part of the total process of accounting for Federal agency affairs. It fully recognized that Federal agency accounting systems should be further refined to provide for appropriate cost accounting, which goes beyond expenditure accounting. Its report recognized that program costs were being increasingly used to measure agency

performance and that most agencies were then, or would be, using costs for program management and agency control, and it fully endorsed this trend.

Accountants and auditors in the General Accounting Office have the responsibility for providing advice, assistance, and evaluation in all agency efforts to adapt their accounting systems to produce prompt and reliable expenditure data. There is need to accelerate efforts to extend accounting systems to incorporate cost accounting processes that will produce cost data by organization structure, by budget activities, and in support of the program structure adopted under the planning-programming-budgeting system.

Then there is the matter of credibility of Federal financial reports and the processes by which the needed sense of confidence in the fairness and reliability of those reports is provided. An important tenet here is that independent auditing by the General Accounting Office cannot and should not be relied upon to provide the necessary assurance that financial data produced by Federal agency accounting systems are accurate and reliable. We in the General Accounting Office need to emphasize that this assurance must come from Federal agency managements who are responsible—by law and as a management duty—for providing adequate systems of accounting and internal control. In this connection, internal audit organizations in all agencies should be involved in the independent testing of the reliability of financial data produced by agency accounting systems and reported not only for internal management use but also for external Federal Government reports.



# Computerized Audit of Transportation Bills

By John M. Loxton

**A review of the policies and practices of the GAO Transportation Division in carrying out its centralized transportation rate audit operations prepared by the then deputy director of the Division, Joseph P. Normile, appeared in the Fall 1967 issue of the *Review*.**

**The following article provides a description of the computerized system developed in the Transportation Division for auditing bills for shipments of household goods. This is the first computerized system for determining the shortest mileage and the transportation charges between any two points in the United States.**

For nearly a decade, many segments of the transportation industry have studied the application of computers to retrieval of transportation tariff information to serve a variety of purposes. No one yet, however, has overcome the complexities of the tariff terms and tables and the size of the data base required for these applications, variously estimated to range from 43 trillion to 1.4 septillion items of information. Most transportation specialists and systems designers working on the problem agree that the computerization of complete freight tariffs, in retrievable form, for widespread routing and pricing purposes is not economically feasible in the face of these complexities.

The practical application of computers to tariff information retrieval, therefore, has been primarily in the form of abstracting relatively limited portions of tariffs that have a high fre-

quency of use by the individual carriers and shippers designing these applications. This type of abstracted data, known as a "pony," is constructed by manual research of tariff information and the manual preparation of the needed information in a computer-acceptable form peculiar to the particular requirements of the using organization.

The continuing "state of the art" surveys conducted by the Transportation Division over the past several years demonstrated to our satisfaction that the "pony" approach to tariff computerization would not meet our requirements for auditing transportation charges. Although this approach has worked well for the carriers and shippers that adopted it, tariff abstracts would be both too costly to construct and too narrow in scope for the enormous range of transportation pricing

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situations encountered in the GAO rate audit.

The Government freight and passenger traffic that we audit involves all types of carriers, all geographical regions in the United States, international as well as domestic routes, nearly every freight commodity and passenger travel situation, and special rates available only to the Federal Government in addition to public tariff rates. For these reasons, we have concluded that our systems design work should be concentrated on modes of transportation with comparatively simple tariff structures, but which involve numerous arithmetic computations and multiple references to the tariffs.

### ***The Household Goods Problem***

An analysis of the Transportation Division's audit experience in the various modes of transportation led to the determination that a computerized audit of domestic shipments of uncrated household goods of the Department of Defense would produce the greatest payoff, with the least developmental and operational costs.<sup>1</sup> This mode involves approximately 500,000 shipments a year at a transportation cost of about \$250 million. Recent experience shows that we may anticipate an increase of about 10 percent per year in this volume over the next 2 or 3 years.

Domestic household goods shipping charges represent approximately 10 percent of the total transportation pay-

ments we audit. However, in the manual audit of these payments the transportation specialists must search several different tariff sources to obtain the various factors by which the rates are constructed, and this greatly limits the range of shipments which can be economically audited. Our analysis of the results and effectiveness of our audit indicates that the shipments which cannot be economically audited manually contain a large number of small overcharges due to erroneous mileage and rate computations by the carriers. We estimate that about 5 percent of the shipments for audit contain overcharges and that about 80 percent of these overcharges are due to mileage or rate errors.

Although the construction of the applicable rate involves references to several tariffs or sections of tariffs and multiple arithmetic calculations, the individual steps are relatively simple and the tariffs do not require complex interpretations.

Two of the large household goods carriers have previously attempted partial computerization of their billing procedures. One has computerized only the charges for packing, storage, extra labor, and other charges incidental to the transportation of household goods, known collectively as accessorial charges. Another carrier has automated the charges for the basic transportation charge between origin and destination, commonly known as line-haul charges, although the carrier's system involves a relatively small number of points. Neither of the systems appears adaptable to the needs of the GAO Transportation Division.

<sup>1</sup> Most domestic shipments of household goods for employees of the civilian agencies move under private arrangements made by the employees, who are reimbursed on a commuted mileage basis. These reimbursements are audited by GAO on site and are not sent to the Transportation Division for central audit.

Most household goods shipments are rated on a mileage-weight basis. The official highway mileages are published in several mileage guides, filed as tariffs with the Interstate Commerce Commission by the household goods carriers' tariff agents, although all are based on a common set of maps and mileage tables compiled and printed for them by the Rand McNally Company. These tariff mileages are the only legal mileages for use in computing the charges involved. The tables show point-to-point mileages between 800 principal points in the United States and Canada. These are referred to as key points.

To obtain the mileage from or to any other point, the mileage from such point to a key point in the general direction of the movement is obtained from maps and added to the key-point-to-key-point mileage. The total mileage obtained in either instance is the mileage used with the weight to obtain the shipping rate in the appropriate tariff. Our studies show that approximately one-third of the Government shipments (primarily military) are between key points; another third are between a military installation and a key point; and the balance are between points, neither or only one of which is a key point.

### ***The Mini-Mileage System***

In developing a system to compute mileages, we discarded the idea of preparing and storing mileage tables for all possible pairs of points (origin/destination) in the United States. We estimate that as many as 20,000 separate points in the United States may be involved over the range of shipments we audit,

which would require a table of approximately 200 million mileage combinations. This mass of mileage data would require large storage capacity and expensive peripheral computer equipment.

Our alternative is to actually compute the shortest point-to-point mileage for each shipment, using two master tape files which we have constructed and which are unique to our system. We use a 24K Honeywell H-200 with five tape drives, card reader, card punch, and high-speed printer. Approximately 20 hours of computer time will be required to audit a complete month's account of about 40,000 shipments when the system is in full operation early in 1969.

The first master tape file is an atlas, which ultimately will contain every named point in the United States together with all the surrounding key points that could reasonably be used for calculating mileage to any other point. This master file contains for each named point the direction and mileages to its associated key points. In constructing this atlas tape, we have not found it necessary to relate any geographic point to more than 11 key points, and most points are related to fewer than that number of key points.

The second master file contains the 320,000 mileage combinations from the Rand McNally key-point-to-key-point table, together with 180,000 mileage combinations between the 800 standard key points and about 200 principal military installations. The addition of these military installation mileages to the master file substantially reduces use of the computer because about one-third of the shipments to be audited involve these particular points as origin and/or destination.

The system has three important features necessary for effective operation: (1) generation of a complete audit trail during processing, stored in tape form for later retrieval, (2) printout of all data found unacceptable during processing, and (3) technical evaluation of the printout by transportation specialists and systems analysts to make necessary corrections for future runs. Thus, through a combination of man and machine, we have developed a dynamic and virtually self-correcting system.

The complete system involves about 30 programs written principally in compiler languages, COBOL and FORTRAN. Most computers have compilers available for these languages, thereby making our programs compatible without reprogramming if a change to another computer becomes necessary. Functionally, the system is divided into six subsystems as shown in the flow chart on page 35.

### ***Edit Subsystem***

We will receive payment data from the key military disbursing offices on magnetic tape, which includes the coded origin and destination of the shipment, the date of movement, the weight, the charges billed by the carrier, and any other pertinent information. As the tape is read, the computer determines if all information required for audit is present. Incomplete records are rejected and a suitable notation is entered on a printout list of rejected shipments.

Since different items of information are required for each of the audit processes to follow, two records are created from the input data. One record contains information that is required to

audit the line-haul charges and the other contains the information required to audit accessorial charges. The edited input tape of accepted shipments is retained for further use in the Analysis Subsystem. This process of data extraction shortens the overall processing time by keeping the audit records small.

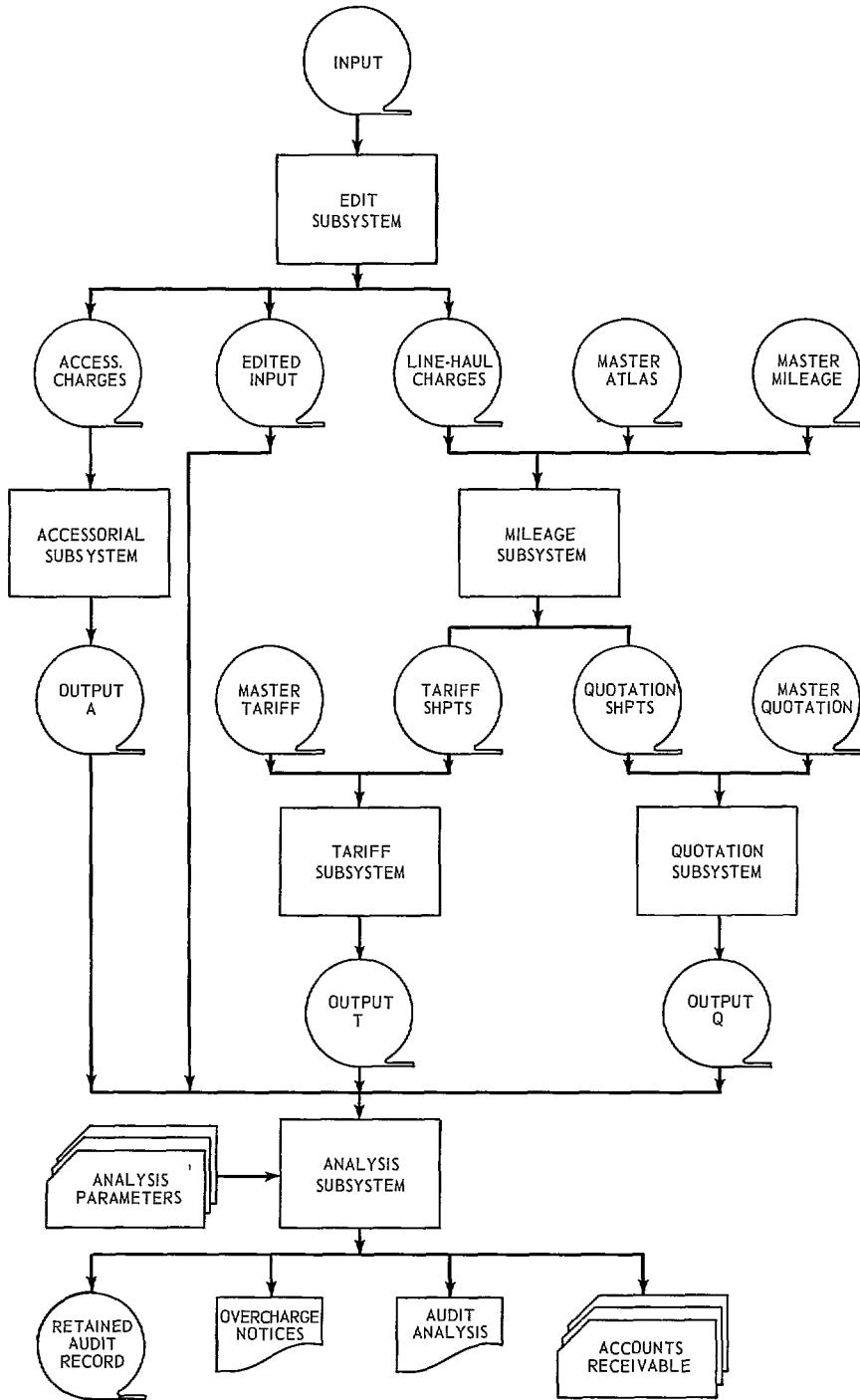
### ***Accessorial Subsystem***

After the edit, the accessorial charge data is statistically analyzed by the Accessorial Subsystem to locate potential errors that will be manually checked after the computer run. We are not planning to audit accessorial charges by computer because experience has shown that there are relatively few such overcharges and the input data cost would probably exceed the recoveries. The statistical analysis programs are designed to facilitate the manual audit of accessorial charges and they will be adjusted on the basis of experience.

### ***Mileage Subsystem***

In the Mileage Subsystem two records are created for each input record, one describing the origin and the other the destination. These records contain all data needed for audit of the line-haul charges and subsequent reassembly of the complete record. Each origin and destination record is searched in the master atlas file to identify the point geographically relative to one or more key points for which mileages are published in the mileage guides. The atlas also contains (1) the full names of the origin and destination for use if an overcharge is found, and (2) information about special Government rates which are filed by the carriers under

COMPUTERIZED AUDIT OF TRANSPORTATION BILLS  
 MINI-MILEAGE SYSTEM



section 22 of the Interstate Commerce Act for any of the points in the atlas to which such rates apply. In locating a point, the computer constructs a separate record for each key point shown in the atlas for the named origin or destination.

The origin and destination records for each bill of lading are cross-matched, and the computer compares the longitude and latitude of the key points used to determine the approximate direction from origin to destination. All origin-destination key points combinations which would create illogical routes between the origin and destination (i.e., backhauling) are eliminated. This geographical logic substantially reduces the number of origin and destination key points to be considered in the mileage calculations. Our tests of the Mileage Subsystem show that an average of only three routes need be constructed per shipment.

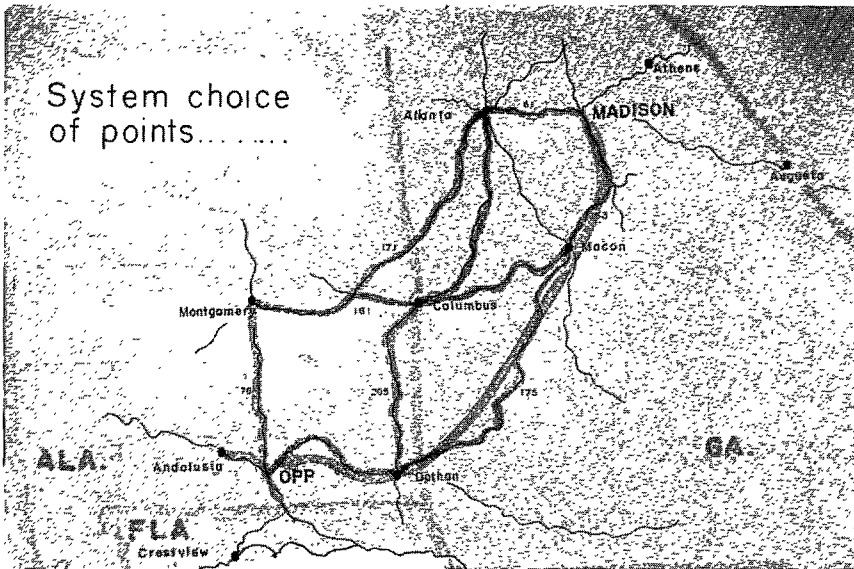
After computing the mileage over all logical routes, the computer selects the shortest mileage for subsequent processing since this is the legal mileage for computation of the rate and charges. Separate output records are created for input to the Tariff Subsystem and, when applicable, to the Quotation Subsystem.

*Simplified illustration of mileage calculations*

A simplified illustration of the Mileage Subsystem operation, with all nonapplicable roads eliminated for simplicity, is shown in the following map excerpt.

In this illustration we must determine the shortest mileage between Opp, Ala., and Madison, Ga. Neither is a key point shown in the mileage guides, and each is located with reference to four key points.

The key points related to Opp are: Crestview, 47 miles south; Dothan, 60



miles east; Montgomery, 78 miles north; and Andalusia, 15 miles west. For Madison the related key points are: Atlanta, 61 miles west; Athens, 30 miles northeast; Augusta, 103 miles east; and Macon, 63 miles south. By comparing the longitude and latitude of the origin and destination key points, geographical logic determines that Madison, Ga., lies approximately northeast of Opp, Ala. Thus, the Madison-related key points of Athens and Augusta are eliminated because they lie northeast and east of Madison and would involve a backhaul to Opp. Similarly, Andalusia and Crestview are eliminated as key points for Opp, Ala., because they lie to the west and south.

The 16 potentially available routes in the illustration are therefore reduced to four: over Atlanta and Montgomery, 310 miles; over Atlanta and Dothan, 326 miles; over Macon and Dothan, 298 miles; and over Macon and Montgomery, 322 miles. The shortest, and therefore legal, mileage of 298 miles over Macon and Dothan is selected for further processing.

### ***Quotation Subsystem***

If it has been determined by the computer that one or more section 22 quotations are in effect for the origin and/or destination of a shipment, the audit record for the shipment is then processed to the Quotation Subsystem. At this point an index of all special section 22 quotations is searched to determine if there is a quotation between the origin and destination for the carrier involved and for the date of the movement. If a quotation is applicable, it will take precedence over charges computed

in general military rate tenders or tariffs and the appropriate quotation record will be called from file for use in auditing the shipment record.

### ***Tariff Subsystem***

If no quotation rate is indicated, the audit record passes to the Tariff Subsystem, where the carrier and the date of shipment are analyzed. In this process we determine the proper tariff or military rate tender applicable to each shipment. The record of the appropriate tariff or tender is called from the tariff tape file. The computer obtains the applicable rates from the proper table of the tariff and computes the charges for the shipment, both at the actual weight of the shipment and at the minimum weight for the next higher weight bracket. If there are any bridge or ferry charges applicable via the route over which the mileage was computed, these are computed and added to the line-haul charges. Any other special charges, such as congested area charges, are also computed and added to the line-haul charges.

### ***Analysis Subsystem***

In the Analysis Subsystem, all the data contained in the output tapes of the three audit subsystems are reassembled. The complete record of each audited shipment is compared with the carrier's billing information contained in the original input tape to determine where discrepancies exist. The output is a series of worksheets prepared on the high-speed printer.

If overcharges exist, the output includes the printing of overcharge claim forms addressed to the carriers involved

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and the punching of accounts receivable cards. To control the quality of the audit, we also print the complete bill of lading and audit records for a sample of the bills of lading audited. The tape containing the complete records of each

shipment audited is retained.

When an overcharge is identified, it is printed out in the following format. (Carrier's name, file references, and other identifying information are omitted for the purposes of this illustration.)

RETURN ONE COPY OF THIS FORM WITH YOUR REMITTANCE

---

B/L OR T/R	D0885286	DATE	6 14 67	AMT DUE US
FROM	RANTOUL, IL	TO	LOMPOC, CA	
PAID \$	508.45	S/BE \$	496.61	\$ 11.84
HHGOODS PROPERTY OF Major John J. Jones				
2133 MILES				
2960 LBS @ \$16.60 CWT \$ 491.36				
ACCES/SIT AS BILLED \$ 5.25				
TOTAL \$ 496.61				
<hr/>				
	AGENCY	TRF	ICC	TAB
AUTHORITY	HHCGB MRT	1D	23	3
<hr/>				
KEYPOINT MILES				
MILES TO SPRIN 90				
SPRIN TO SANTA 1988				
MILES BYD SANTA 55				
TOTAL MILES 2133				

**Value of New System**

When our atlas tapes have been constructed for all essential geographical points, we will be in a position for the first time of being able to determine the shortest mileage and to check the correct rate on substantially all shipments. This is not economically feasible in a manual audit. We therefore will have a more effective audit of shipping charges for domestic household goods. We estimate that the computer system will return to the United States Treasury

several hundreds of thousands of dollars more per year than the manual audit does, at no additional operating cost. The cost of computer time, systems design, programming, and operation are offset by the reduced requirement for transportation specialists, who can be reassigned to other audit work. The computer system will also enable us to complete the audit and to deposit collected overcharges about 6 months earlier than is possible by a manual audit.



# The Interview as an Audit Technique 721324

By Robert W. Ford

**An essential process in effective accounting, auditing, and investigative work is the obtaining of needed information from others. This is done most often by interviewing. The author discusses some principles of good interview techniques.**

The effectiveness of dialogue between the professional staff of the General Accounting Office and officials of Federal agencies and other persons in and out of Government is a very important aspect of our audit work.

As a matter of practice, GAO staff participation in meetings ranges from those at the commencement of an audit where agency officials are apprised of the scope and objectives of the audit; through the seeking of information and technical discussions both in and out of Government, the thrashing out of differences of opinion arising in the audit, and draft report discussions; to the closeout review; and, sometimes, to discussions with press, radio, and television people.

Like most organizations engaged in auditing and investigative work, GAO maintains manual material to guide its staff and, in addition, holds regular training seminars to impress upon trainees and others the importance of the interview. Effective interviewing, however, is not something that can be drilled into people; while some have

natural talent for it, others' talents become effective only after years of experience. Nevertheless, there are some fundamental principles and techniques concerning interviewing which may be readily understood and utilized by staff at all levels.

Much of the success of our audits depends upon foundations built in the many discussions carried out during the course of our reviews. In consideration of the nature of staff background and the intensity of the GAO training programs, consistently sound results should be achieved. However, there are times when the expected results are not achieved because participants did not—perhaps unconsciously—apply the principles of successful interviewing.

There is a great deal of material on the subject, and the principles of successful interviewing should be reviewed from time to time even by those who seem to know instinctively how to converse with others. For those who find it difficult to interview or conduct meetings, some deeper study is indicated.

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**Mr. Ford is a supervisory auditor in the Civil Division currently assigned to the Office of the Director. He holds a B.C.S. degree from Southeastern University and is active in the National Association of Accountants.**

A brief refresher on interviewing follows.

### ***Interviewing as an Art***

Professional writers on the subject of interviewing describe the subject as an art and generally agree that it is not a science in the sense that science is a knowledge covering general truths or the operation of general laws, especially as obtained and tested through scientific method. The writers view interviewing as not having those characteristics.

As an art, interviewing is in part creative and in part natural talent. Excellence in interviewing may be achieved more easily by one person than by another just as there are degrees of success in salesmanship or in the ability to incline people to one's way of thinking.

Although everyone cannot expect to possess the highest creative and natural talent in the art of interviewing any more than participants in any form of art endeavor can expect to give stellar performances, nevertheless, thought, study, and practice can do much to bring about improvement.

### ***Interviewers Need To Understand Human Behavior***

Most interviews conducted in the course of the Nation's business are by highly trained practitioners in special fields of endeavor, such as (1) an employment specialist screening applicants, (2) a pollster sampling public opinion, (3) a reporter gathering material for a story, (4) a lawyer with his client, (5) a medical doctor or psychia-

trist attempting to identify the ills of a patient, (6) a law-enforcement officer interrogating a suspect or witness, and (7) an efficiency expert or business consultant working with his clients' staff.

As a rule, GAO staff, and probably also staff in similar endeavors in the private sector, are not specially trained in human behavior and rely mostly on common sense and a knowledge of their work for success in interviewing. This is perhaps how it should be.

Nevertheless, human behavior and personality traits sometimes have a profound effect on the outcome of an interview, and some reflection and reading on the subject can be immensely helpful to understand not only the person or persons to be interviewed but also oneself. In fact, before psychiatrists venture to psychoanalyze humans they often submit to psychoanalysis themselves so that they may guard against allowing unconscious bias or prejudice to affect the interview.

Whether we realize it or not, we all have certain prejudices and preconceived notions about individuals and groups or how some program should be conducted.

It may be that we just don't like people who smoke pipes or have too much hair or possess some personality trait we find offensive. On the other hand, the person to be interviewed may have similar thoughts about the interviewer.

It is important then that the interviewer understand something about himself and others and tone down as much as possible his built-in prejudices, while hoping that the interviewee does the same.

### ***Aptitude Plus Training for Interviewing***

Although it may not be necessary for a management review staff member to be as highly trained in interviewing as a pollster or a psychiatrist, something more than just aptitude and determination are necessary for successful use of the interview in audit assignments.

In *How to Interview* the authors<sup>1</sup> stated:

The ability to interview rests not on any single trait, but on a vast complex of them. Habits, skills, techniques, and attitudes are all involved. Competence in interviewing is acquired only after careful and diligent study, prolonged practice (preferably under supervision), and a good bit of trial and error; for interviewing is not an exact science; it is an art. Like many other arts, however, it can and must draw on science in several of its aspects.

There is always a place for individual initiative, for imaginative innovations, and for new combinations of old approaches. The skilled interviewer cannot be bound by a set of rules. Likewise, there is no set of rules which can guarantee to the novice that his interviewing will be successful. There are, however, some accepted, general guideposts which may help the beginner to avoid mistakes, learn how to conserve his efforts, and establish effective working relationships with interviewees; to accomplish in short what he sets out to do.

These guideposts are discussed later in this paper.

### ***Purpose of the Interview in GAO Assignments***

Fundamentally, there are three uses of the interview: factfinding; informing; and altering opinions, feelings, and

behavior. In other words, interviews are to find out something, to tell something, or to effect some changes.

The application of interviews in the GAO audit process follows the above-stated fundamentals. Specifically, interviews arranged by GAO staff are for the purpose of:

- Seeking general information and facts in surveys and reviews of agency activities.
- Explaining the nature and purpose of our work.
- Discussing results of our work, seeking clarification of controversial points, and resolving differences of opinions.
- Obtaining technical advice and assistance of specialists.
- Obtaining agency views of specific allegations made against the agency which we are investigating.
- Obtaining information for replying to congressional requests and obtaining cooperation of the agency in solving problems arising in our work.
- Creating and maintaining good working relations between GAO and agencies under review and assuring that this relationship results in better understanding of our reports and more expeditious processing by the agency of its comments on our findings.
- Influencing agency action in taking corrective action on deficiencies found in our audits.

### ***Guideposts to Interviewing***

The following guideposts are taken from some of the writings on the subject of interviewing.

<sup>1</sup> W. V. Bingham and B. V. Moore, New York: Harper & Brothers.

1. *Establishing the objective*

The objective of the interview, usually one of those listed above, should be established and interviewers and interviewees decided upon. A knowledge of the agency and its organizational staffing is essential in this regard as is an understanding of protocol. Some agency officials may resent being interviewed by other than persons at or near their own level.

2. *Preparation*

It is extremely important that the interviewer be as conversant as possible with the subject matter to be discussed without appearing to know more about it than the one being interviewed. Probably nothing will cool the air any quicker than a show of superiority. At the same time, the interviewee should be expected to appreciate that the interviewer has taken time to become conversant with his area of responsibility, making it unnecessary for him to cover elementary matters in connection with the subject being discussed.

If possible, a plan should be prepared and written down, or at least thought out in advance. A plan will conserve the time of all participants.

3. *Do not teach*

Most people have little appreciation for those outside their special field telling them how to do their work. Haranguing or moralizing should be avoided, but polite differences of opinion may be expressed to get the interviewee to state his opinions or release his feelings.

4. *Avoid shrewdness or cleverness*

The authors of *How To Interview*, cited earlier, comment as follows on the

need to be straightforward and frank rather than to be shrewd and clever:

*Do not try to adopt astute methods.* A person whose statements are worth securing is seldom deceived by cleverness; the interviewer only invites deceit and gets fooled himself. When you undertake to be subtle and shrewd, you make it difficult to assume the best in the person you are questioning, and thus to secure the best. Then, too, if you try to deceive or trick the interviewee, it becomes more difficult for you to discriminate between truth and deviations from it, and to remain loyal to accuracy in your report.

5. *Listening*

Although there is expected to be dialogue during an interview—certainly at the beginning when a pleasant association and a relationship of confidence and rapport is desired—listening is an important technique. This does not mean passive listening where the words of the interviewee may merely be absorbed with little response to cues by the interviewee who may be deliberately inviting responses.

Cues may take the form of hesitation, voice inflections, the interviewee's stress on certain points, or his facial expressions. The alert interviewer picks up cues to show the interviewee that he is being listened to and that there is interest in what he is saying; as a result, the interviewee may disclose important facts or feelings he might not otherwise volunteer.

For example, a Government official responsible for major construction may be answering the interviewer's questions about delays in construction and the resultant loss to the Government. In doing so, he may be generally non-committal as to whether his agency can do anything to prevent the delays, but

at a strategic point he may pause and shrug as if to say that "delays are inevitable, but could be controlled, if \* \* \*."

#### 6. *Length of interview*

Some interviewers follow a tight line on the length of an interview and skillfully manage to keep the meeting within an hour's duration. While the rule may not be rigid, an hour seems long enough to permit the proper atmosphere to be established and to achieve the objective sought. A corollary benefit is that, if properly used, an hour is not overly long, restlessness is contained, and the feeling hopefully prevails that participants are not unnecessarily kept away from their work.

In practice, the length of the interview can usually be determined by the feel of the situation. If the interviewer can accomplish his purpose in a short time without creating an impression of wanting to terminate the matter too rapidly, he should do so. On the other hand, dawdling may create a feeling of unsureness and may raise the resentment of the interviewee and cause the interview to lose direction or fall apart completely.

#### 7. *Controlling the interview*

A skilled interviewer, particularly if there are several persons present, will guard against the conferees going off on extended tangents or discussing irrelevant matters. Sometimes going off on tangents is a technique on the part of the principal interviewee to avoid painful or disturbing topics, and sometimes persons other than the principals are prone to express themselves on some favorite but irrelevant subject or

to ramble. All of these actions may adversely affect the conference.

#### 8. *Recording results of the interview in working papers*

It is essential that all facts disclosed and important matters discussed during the interview be reduced to writing as soon as possible. Restatement or recall at a later time, unassisted by written notes, may be full of omissions and of incorrect additions.

It is generally not the practice to electronically record an interview or even to attempt to take extensive notes during the meeting. The appearance of formal recording may so inhibit the parties that it will have an adverse effect on objectives set for the interview. However, when the subject of the interview is sufficiently important and a procedure is agreed to by all parties concerned, a mechanical recording device may be employed. In other cases, consideration may be given to the use of notes and having the person or persons interviewed signify approval of the notes, particularly where the information given is controversial.

At the time a memorandum is made of the meeting, the actual writing may raise questions in the participant's mind about the material he is working with. It might also occur to the writer that the objectives sought were not really achieved. Looking at the results in retrospect, digesting the facts brought out in the oral interview, and taking advantage of afterthoughts and providing for corrections, additions, and clarifications, it may be advisable for him to arrange for a follow-up interview to obtain confirmation and to assure a meet-

ing of the minds between interviewer and interviewee.

9. *Reliance upon interview results*

Since our audit work is primarily for the purpose of acquiring material for use in reporting to the Congress, conclusions based on information obtained from interviews should be evaluated thoroughly.

Interpretations which tend to reflect adversely on agency policy and procedures or against management in general should be corroborated to be sure that the situation does not exist only in the mind of the interviewee or, worse still, only in the mind of the interviewer.

Without corroborative evidence, the results of the interview, if used, may be flatly denied, termed hearsay, or regarded only as opinion.

10. *Some pointers*

The following pointers on interviewing are taken from the text of *How to Interview*:

- Ask only one question at a time.
- Keep on the subject.
- Avoid the role of teacher.
- Be straightforward and frank rather than shrewd or clever.
- Avoid impertinence.
- Give the interviewee opportunity to qualify his answers.
- Record all data at once, or at the very earliest opportunity.
- Practice separating facts from inferences.
- Use interviews discriminatingly.

- Make sure your problem is significant.

• • • •

This article on interviewing is presented mainly to call attention to the subject itself and to suggest that staff at all levels be more conversant with benefits which flow from effective use of the interview. The interview is a potent technique not only for obtaining information to use in the audit, but also for establishing and maintaining excellent working relations between our Office and other Federal agencies. Good relationships can accelerate audit work and report processing and can reduce audit costs.

Numerous texts on the subject of the interview and the conference have been published. A list of some of these texts which were consulted in preparing this article is presented below:

Bingham, W. V., and Moore, B. V., *How to Interview*; New York: Harper and Brothers, 1959.

Keltner, John W., *Group Discussion Processes*; New York: David McKay Co., Inc., 1957.

Lee, Irving J., *How to Talk with People*; New York: Harper and Row, 1952.

Maier, Norman R. F., *Problem-Solving Discussions and Conferences*; New York: McGraw-Hill, 1963.

Morgan, John S., *Practical Guide to Conference Leadership*; New York: McGraw-Hill, 1966.

Strauss, Bert and Frances, *New Ways to Better Meetings*; New York: The Viking Press, 1964.

# Auditing for Material Accountability Under 7.21325 Cost-Type Contracts

By Dominic F. Ruggiero

**The author discusses some of the significant factors requiring the auditor's attention in reviewing performance with respect to material costs under cost-type contracts with the Government.**

The cost of materials used by contractors in the performance of cost-type contracts will, on many occasions, represent a significant part of the total contract price. Generally, title to material procured under cost-type contracts is vested in the Government at the time the material costs are charged to the contract. Accordingly, a review of costs of material, particularly hi-dollar-value items, charged to cost-type contracts ought to be performed at contractors' plants periodically to ensure that the procedures and practices being followed are designed to result in charging cost-type contracts for the least cost possible commensurate with total contractual requirements.

The purpose of this article is to draw attention to the opportunities which may exist for improving agency and contractor procedures in the area of material accountability under cost-type contracts and serve to reduce the costs that may otherwise be incurred for material.

In looking at a large contractor's operation, the auditor might ask himself:

- How does the contractor know what material he has on hand?
- Where is it located?
- How is it being used at any given time?

In connection with hi-dollar-value items acquired by a contractor for use under cost-type contracts, the answers to the foregoing questions may prove significantly interesting. The fact that the material was received, the price paid was in accordance with purchase terms, and the material is included in the inventory account if still on hand may suffice from a financial auditing point of view. However, from the management viewpoint, we also would wish to satisfy ourselves that the material was purchased on the basis of the existence of a valid requirement; current requirements still dictate a need for the same quantity of material as originally purchased or still planned to be purchased; and, in planning for total material re-

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quirements, consideration was given to potential reuse of material no longer needed for the purpose originally acquired. Examples of such items, which might be reusable, are test program articles that have been used without serious damage and might be reused with minor alteration or refurbishment.

***Importance of Procuring Agency Policies and Procedures***

Generally, at a large contractor's plant, the Government has resident representatives who are responsible for monitoring the contractor's material accountability procedures and practices. These representatives should be operating under the framework of overall agency policies and procedures governing property accountability. Familiarization with these policies and procedures would be a prerequisite in making an evaluation of how well the cognizant agency is discharging its responsibilities in the area of material accountability.

In addition, with respect to a large program, such as a new missile weapon system, the cognizant agency should probably develop special material accountability procedures for use in the program which implement in greater detail the agency's overall policies and procedures. Contracts awarded by the agency under a particular program may and probably should incorporate these special material accountability procedures as a contractual requirement. In any event, a contractual requirement should exist for the establishment by the contractor of an adequate system for controlling and accounting for material, together with the requirement that the

system established be approved at least annually by the cognizant Government agency.

***Agency Plant Representatives***

In evaluating the effectiveness of the agency's management controls, we would also need to examine into whether the cognizant agency's representatives located in residency at contractors' plants are efficiently and effectively discharging their responsibilities in reviewing, approving, and continually monitoring contractors' material accountability systems. Particular attention might be warranted for examining into the basis for any waivers granted contractors to deviate from the agency's policies and procedures.

We should also have an interest in the degree of follow-up exercised by the agency's resident representatives in obtaining corrective action on matters noted to need improvement in reports furnished to contractors. In any event, our prime objective at this level should be to evaluate the basis upon which the resident Government representatives approve a contractor's system of material accountability.

***System Changes***

Particular care should be exercised in this area when a system has been initially approved several years earlier and the current approval is based on the initial review combined with approvals of individual changes in written procedures through the years. This is emphasized because, with the new and different programs in which a contractor may have become engaged since the establishment of the original material



accountability system, the system in operation may no longer be fully responsive to the needs of the Government. Attempts to "patch" a system by various revisions to instructions may have produced pitfalls unless the effects of each change to the system were fully evaluated before and after implementation of the change.

Information on the adequacy of the plans and procedures as established by an agency and as implemented by the contractors under the terms of their contracts might be obtained through a sample test of items. A separate sample of low-dollar-value and hi-dollar-value material may be appropriate, as the procedures followed for accountability generally will vary, because greater emphasis will usually be placed on more closely managing hi-dollar-value inventory items.

#### ***Examples of Inadequate Systems***

In a recent audit, involving a review of materials valued at about \$25 million acquired by a contractor for use under cost-type contracts, the control and management of materials acquired by the contractor for a particular program were found to be inadequate to provide for efficient and economical material utilization. The contractor was contractually required to maintain an adequate property control system which had to be approved by the cognizant Government agency. The approved system was to be used as the official record for control of contractor-acquired Government property.

The property control manual of the cognizant agency provided the basic requirements to be observed by con-

tractors in establishing and maintaining control over Government property in their possession, together with the detailed procedures to be followed. It also outlined the duties and responsibilities of agency personnel engaged in the administration of contracts and of contractor personnel charged with the control of Government property. In short, this manual represented the plan which top agency officials had developed and approved for establishing an effective system for the control of contractor-acquired Government property, designed to provide both agency and contractor management greater assurance of the efficient and economical procurement, use, and disposal of material.

The system was found to be in need of improvement in that it did not readily provide complete, current, and accurate accountability data essential for effective management of assets and, in certain cases, accountability was completely lacking. Several reviews performed by agency personnel relating to the contractor's property control system disclosed a similar situation. Nevertheless, the agency approved the contractor's system as being adequate to properly protect the interests of the Government. Results of reviews performed by the agency's representatives were provided to the contractor and in each case the contractor advised that corrective action had been or would be taken. However, the agency representatives did not employ a systematic follow-up procedure to determine whether previously noted deficiencies had been satisfactorily corrected. In addition, top management personnel of

the agency did not take the necessary actions to assure themselves that lower echelon personnel were discharging their responsibilities in the manner intended.

### ***Some Evaluation Principles***

An evaluation of how well the cognizant Government agency is discharging its responsibilities for managing material acquired by contractors on its behalf requires a determination as to whether the agency has (1) developed a plan to manage this facet of its operation, (2) implemented the plan, (3) reviewed the results of the plan, and (4) adjusted or revised the plan as required.

In a large contractor operation, flow charts depicting the receipt and movement of material within the organization, together with identification of the documents used in moving material at any given time, should be prepared to facilitate gaining an understanding of the system employed. This may even show that, within a contractor's organization, different documents are being used for purposes which are basically the same. Such a situation could possibly cause problems by bringing about confusion among operating personnel as to the appropriate form to use in moving material under varying circumstances. Also, the nature of the information required to be shown on a designated form may be beyond the level of competence of the individuals required to complete the form, which would result in the accumulation of incomplete, inaccurate, and misleading information. Accordingly, as part of a review of a system for material accountability,

it is of prime importance that the auditor, in addition to becoming knowledgeable about the policies and procedures required to be followed from topside in an agency down through the agency and contractor operating levels, have a detailed knowledge of how the system is designed to operate, of the forms used, and of the accuracy and reliability of information accumulated by the system.

Systems for material accountability which categorize similar material by the manner intended to be used, that is, operational spares support, production spares, test program articles, and so forth, should be carefully scrutinized to ascertain whether adequate procedures have been established to ensure that total assets on hand within the entire organization are fully considered prior to the purchase of additional quantities of the same material. In the case previously mentioned, no single organizational entity within the contractor's organization maintained summary or central property control records which readily identified the total quantity of material received, issued, and on hand and the current location or disposition of all contractor-acquired Government materials.

One department, which was responsible for material control functions, maintained accountability for only those materials received and stored at the contractor's central receiving unit and warehouse. However, all incoming material from vendors did not flow through the central receiving unit and warehouse. In some cases, materials, such as items procured for research and development programs and spare

parts, were delivered by vendors directly to using departments. In these cases, the department responsible for material control functions did not maintain a record of accountability for the materials. Also, the department responsible for material control functions did not maintain accountability or traceability of items after they were issued from the warehouse to using departments. Under the system used by the contractor, each using department was responsible for accountability control of material it received from another organizational entity or directly from a vendor. With this diffusion of accountability responsibility for material, the system did not provide sufficient overall visibility for ascertaining the amount of a particular item on hand at any given time and information as to how the items were currently being used or intended to be used.

For example, in the case in point, GAO auditors were confronted with a difference while attempting to reconcile the quantities of a certain item received by the contractor's central receiving unit and currently on hand. With the assistance of contractor personnel, the items in question which could not be accounted for from the recorded information were located in one of the contractor's manufacturing storage areas. These items had originally been procured to fill valid requirements which were subsequently canceled. These items had not been declared excess to the using department's need nor reported to the department responsible for material control functions as being available to fill other valid program requirements, although the items had been

in the storage area for periods of over 18 months. After this matter was brought to the contractor's attention, the items were used to meet current requirements, and procurement requisitions for a like number of items, valued at over \$300,000, were canceled.

### ***Cost Reduction Possibilities***

An opportunity may exist in a particular program to substantially reduce the costs that would otherwise be incurred for the procurement of high-dollar-value spare parts. This may be accomplished by accelerating the delivery schedule of production units and relying on production units to fulfill any spare part requirements that develop. This procedure can permit deferral of the decision to buy spare parts until a later date in the program. It may also provide management with an opportunity to gather failure rate data on parts and afford a more meaningful basis upon which management can determine spare parts requirements. The decision to procure spares under this method must be properly timed to ensure that the quantity to be purchased as spare parts may be added to the supplier's manufacturing schedule in an orderly manner. The proper use of this technique affords the opportunity to substantially reduce the costs that may otherwise be incurred for spare parts. This is particularly true when programs are cut back due to subsequent funding problems or when the number of end items to be produced is decreased because a greater degree of success has been achieved in test programs than was originally anticipated.

***Excess Materials***

The method used by contractors to declare material excess and the manner in which such material is disposed of are integral parts of a material accountability review. Transactions in this area should be examined to ascertain whether any like materials being disposed of are also being purchased. Ludicrous as it may sound, this has occurred in the past. It could happen, for example, if the material accountability system did not provide appropriate identification of hi-dollar-value items incorporated into assemblies so as to permit their recapture when the assemblies were declared excess.

***Summary***

In summation, a material accountability system should readily provide essential data to management for use in achieving efficient and economical operations and should enable management to satisfactorily report on the status and use of material resources. A reliable record of materials on hand is fundamental to a responsible determination affecting procurement, use, and disposal of materials. Such a record requires a properly maintained and controlled system of property accounting which accurately accounts for Government material in the possession of contractors.

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## Assisting a Congressional Committee

By Earl J. Ogolin

**The author describes the general approach taken in preparing for testimony and providing assistance in connection with a congressional committee hearing. Assistance of this kind is an important part of GAO work. The article describes briefly what it takes to do a satisfactory job of providing valuable assistance during a congressional committee hearing.**

Having never testified before a congressional committee, we found ourselves in a new experience in June 1968 when we received a call in the Kansas City Regional Office from the associate director of the procurement group, Defense Division. He advised us that *LeRoy Zenk* and I had been requested to work with the Military Operations Subcommittee, House Committee on Government Operations, and also to testify at its hearings.

We learned later that the subcommittee made the original request to the Office of Legislative Liaison, which arranged and participated in an initial meeting with the subcommittee staff. Thereafter, overall coordination was provided by the associate director of the procurement group, Defense Division.

When we received the request, our immediate thought was: Are we prepared for this? In mid-1965, at a sole-source contractor's plant, we had inquired into the reasonableness of prices

paid by the Navy and into the effectiveness of the Navy's administration of the contracts. As a result of this work we issued a report to the Navy, pointing out certain questionable practices at the contractor's plant, the lack of adequate records to support price proposals, and the failure of the contractor to include in its subcontracts the cost and pricing data clauses or the examination of records clause required by its contracts with the Navy. By not including these clauses, the contractor had not fulfilled a contractual obligation. Because the contractor had failed to include these clauses and the data required to be furnished under the cost and pricing data clause, we were not in a position to obtain data necessary to make an evaluation of subcontract pricing. We were, therefore, unable to examine into whether the prices paid by the Navy were fair and reasonable.

We did not receive a final reply from the Navy because the Department of Justice entered the case and the Navy

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was holding its reply in abeyance until completion of the Justice Department work.

Three years had passed since we completed our study, and we had no way of anticipating what the subcommittee might require or the trend of its investigation. We were merely advised that the subcommittee's interest was in the procurement practices of the military services for the end item in question.

Our first objective was to learn what our specific responsibilities were, now that we had this assignment. We reviewed Comptroller General's Order No. 1.4 on congressional correspondence, inquiries, contacts, and liaison. Our review and discussions with the Defense Division, procurement staff, quickly revealed why we had been selected for this particular assignment. The report of our earlier study resulted from work initiated by the regional office, and the report had been processed entirely by the regional office, except for the associate director's review. We, therefore, met the criteria contained in the Comptroller General's Order that: " \* \* \* Generally, the principal witness for the General Accounting Office will be a representative of the division or office most directly involved in the subject matter of the hearing." In addition, as we learned subsequently, the subcommittee had requested the designation of staff members who had worked on this job to assist in the subcommittee investigations and in preparing for the hearings.

Immediately, questions arose as to the purpose of the committee and the subcommittee, its makeup, how it operated, and the end product expected from

the hearings. From the Congressional Directory and from telephone calls to our Washington staff, we learned the makeup of the committee and subcommittee, including the administrative staffs. Our Washington staff furnished us data on the purpose of the subcommittee.

In broad terms, the subcommittee was to look into military operations. Its interests at this time were military procurement practices related to continued dealings with a sole source over a long period of time and, more particularly, the handling of procurement related to the end item and contractor involved. From our Washington staff, we obtained a general outline of the subcommittee approach to the problem being examined and the end product expected from the hearings. We first contacted the subcommittee staff on June 11, 1968, to firm up our understanding of its objectives and goals.

Our next step was to review our previous work to refamiliarize ourselves with available background data and the results of our study. The Department of Justice had become involved after our 1965 work, and officials from that Department had conferred with us on several occasions during 1967. In early 1968 they had requested and obtained our files for their use. Accordingly, in order to retrieve our working papers and review our previous work, we arranged for a conference with Justice Department officials in Washington. They agreed to our temporary use of the working papers which we brought back to St. Louis.

A chronology of the job and a synopsis of our objectives, findings,

conclusions, and recommendations were prepared. With these tools we felt that we were conversant with the pertinent events to the time of the issuance of our report and thus were prepared to assist in the hearings.

Our first meeting with the subcommittee staff resulted in an exchange of information and a firming up of our understanding as to the additional data required to meet the objective of the hearings. Also, at that time contact was made with the Department of Justice staff by the subcommittee staff and ourselves. The subcommittee staff and the Department of Justice staff agreed on how to proceed so as to not prejudice any subsequent prosecution. In addition, we obtained clearance through proper channels, within both GAO and the Navy, to reproduce for use by the subcommittee staff certain of our working papers and certain documents obtained from Navy files.

The subcommittee staff then advised us as to the matters to be covered by our testimony and the additional information which would be needed. We agreed to obtain selected data from the military services' files in order to (1) update certain portions of our work and (2) answer specific questions to be asked by the subcommittee staff members.

Our work required 1 week of concerted effort, since the hearings were scheduled for June 20, within 8 days. We updated our previous work as we reasoned necessary and met with the

subcommittee staff immediately preceding the 2 days of hearings. By this time the subcommittee had received copies of prepared statements from each of the services. Using the information we had and combining the information obtained by the subcommittee staff, we were able to assist them in formulating questions to be asked of military witnesses.

Our testimony was recorded primarily at the morning session on the second day of the hearings. We had prepared two statements which we read into the record, under oath.

One pattern became obvious from this work. The subcommittee's objective was more government for less money. We found that, basically, techniques of the subcommittee staff for gathering evidence and reporting were similar to ours, the end product of which was a report containing conclusions and recommendations. One of the primary differences was that the subcommittee made extensive use of oral interrogation under oath in closed-session hearings.

In retrospect, we are firm in our conviction that our GAO training served us well for this assignment. Although it was new to us and might be considered unusual by many, we realize that the preparation for this assignment started when we entered the world of GAO; and, because we were prepared, we believe that we were responsive to the subcommittee's needs.

# An Effective College Recruiting Procedure

By Vincent J. Palazzolo

**Interesting college students in a career with the General Accounting Office is a continuing need and challenge to GAO staff members who assist in recruiting efforts. The author discusses one procedure which has proved to be effective.**

With the approach of each recruiting season, the thoughts that come into the mind of a recruiter are about the techniques that will prove to be most effective in recruiting college seniors. As in past years, the trained college man is widely sought after and he commands a good starting salary. In order for the Government recruiter to compete with industry and various other businesses looking for college graduates, he must make the students aware of the existence of the Government agency and the work it does to at least give him a fighting chance for a share of the graduating students.

What are the most effective techniques and how successful have they been in today's highly competitive recruiting market? Our experience has been that previously arranged meetings for the purpose of talking with college students on a personal level to tell them about the General Accounting Office and the work we do is the only real way to generate student interest. These meetings, of course, must be

of sufficient duration to allow enough time to properly discuss our Office and provide examples of our work. Such meetings have proved to be an opportune time to discuss the challenging aspects of GAO work, the advancement possibilities, diversification of our work, and our contribution to better government.

Meetings with students can be arranged during formal business club sessions, informal group "get-togethers," and during regularly scheduled classes. The business club and informal group meetings are excellent meeting places and are well worth whatever time and effort is needed to arrange them. At these types of meetings, the recruiter has the opportunity of reaching those students seriously interested in a business career who may be weighing other job offers.

As for classroom meetings, it should be emphasized that they must not be used to make spot commercials which may do more harm than good. The ideal situation is where the instructor is will-

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ing to surrender his 40 or 50 minutes of classroom time for the meeting. At some schools the use of such time for meetings is never permitted, but many schools have no objections if the instructors permit it. When given an opportunity to address a class, the GAO recruiter can make his talk interesting by discussing Government organization and how GAO fits into its overall operations, the types of reports that we prepare, and an explanation of how our findings are developed.

Copies of issued reports can be used for the purpose of showing the students the actual end result of some of our reviews. Discussing specific reports in detail, and highlighting the fact that the reviews we perform are mainly in the area of management, will help the students gain a better insight into the scope and nature of the work we do, and make the meeting and talk more interesting. This approach will also tend to encourage student participation and generate questions, which is one indication of a successful meeting.

At this point one can readily see the importance of making the proper contacts with the people associated with colleges and universities. One big help has been the 2-day college faculty conferences and the 2-day student faculty conferences held from time to time at various regional offices and in Washington. At each of these conferences, GAO plays host to a selected group of college professors, placement directors, and students from different colleges. These conferences have been a very effective means of acquainting faculty members and students with the operations of our organization. They afford us the means

of conveying information concerning the functions and the work of the Office to the participants. Emphasis is placed on our contribution to improve financial management procedures in the Federal Government. The conferences are quite informative and their objective is to generate a real understanding of GAO.

While these conferences have proven to be an excellent means of presenting our professional image and personally meeting faculty members and students, they are not enough because of the relatively small number of college representatives who can be accommodated in a year's time. Individual recruiters must also make personal contact with the instructors on the college campuses—which, of course, is more easily said than done. The school placement officer can help to arrange preinterview meetings with the students, and at times can arrange meetings with the faculty members. Visits may be made to faculty members during office hours when an invitation to luncheon may be made by the recruiter. This is also an ideal time to arrange a date to meet and talk with the instructor's students.

In conclusion, it can be repeated that one of the best procedures to use in recruiting college seniors is to talk to them at a group meeting prior to individual interview dates. Almost all recruiters, whether they represent Government, private industry, or public accounting firms, are very interested in talking directly with the student groups. Experienced recruiters know the value of such meetings and try to participate in as many as possible during the recruiting season.

AN EFFECTIVE COLLEGE RECRUITING PROCEDURE

However, the schools are unable to accommodate all such requests without seriously affecting their normal classroom schedules. One can see, therefore, that to make the most of this technique a recruiter must combine the attributes of a salesman and talent scout. He must have the persuasiveness, ingenuity, and optimism of the salesman and also be selective, persistent, and yet inoffensive.

# The Day President Wilson Vetoed the Budget and Accounting Bill

By Margaret L. Macfarlane

**The Winter 1968 issue of the *Review* contained an account of the enactment of the Budget and Accounting Act, 1921, which created the General Accounting Office, the appointment of its first leaders, and some of the competing news events of 1921. In the following article, the author reviews the fate of an earlier budget and accounting bill which failed to become law.**

What was the day like when the bill to create the General Accounting Office was vetoed? It was Friday, June 4, 1920, a rainy day in Washington when President Wilson, with reluctance, set forth in a very short message his opinion that the provision for removal of the Comptroller General and Assistant Comptroller General was unconstitutional.

The Nats, who had been scheduled to play the Red Sox that day, were rained out. Only the day before Walter Johnson had to divide pitching honors with hitter Stan Harris when the "Griffs" beat the Sox 2 to 1. Sir Thomas Lipton's captain had piloted the *Shamrock IV* for the first time in U.S. waters for a trial run preparatory to attempting to beat the U.S.S. *Vanity* and return the coveted racing cup to England.

At the time, Washington was a city of 437,571 persons. Earlier in the week of the veto an oil boom had been ex-

perienced in Washington as a result of a well gushing oil 5 miles outside of Marlboro.

A nationwide manhunt was on to locate the millionaire draft dodger, Grover Cleveland Bergdoll, who had escaped from prison at Fort Jay, N.J.

Harry Wardman, the Conrad Hilton of the twenties, had broken ground at Woodley and Connecticut Avenues for what was advertised in the real estate sections of the local papers as the largest apartment in the East.

Sacred Heart Church was undertaking a drive for a new church and each day the generous contributors were listed in the *Evening Star*.

Government employees despite large reduction-in-force rumors—5,000 in the War Department were to be dismissed July 1—had achieved a major victory that week when the first civil service retirement bill was rushed to the White House for approval. Immedi-

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ately after the signing, President Wilson appointed John S. Beach of New York to head the newly created Commission of Pensions and Retirement.

In education that week, Emma M. Gillett, Dean of Washington College of Law, awarded degrees to 63 students. It was rumored that George Washington University and American University were considering a merger, and Catholic University School of Law consummated the purchase of the Old Department of Justice building located on McPherson Square at 1435 K Street. On the next day, when Congress was debating the veto, Columbia University awarded honorary degrees to General Pershing, Admiral Sims, and Herbert Hoover.

The country was in the midst of a hot political campaign. The Republicans were converging on Chicago and the Democrats were planning to convene in San Francisco later. Virginia, the week before the veto, pledged its electors to Senator Carter Glass and against tampering with the Volstead Act.

Although the *Star* listed the leading pretenders to the Presidency as Frank O. Lowden, William Gibbs McAdoo, Henry Cabot Lodge, Carter Glass, Hiram Johnson, and Leonard Wood, it also noted that the Ohio delegation was backing Senator Warren G. Harding, and Governor Coolidge was being quietly but energetically suggested for the Presidency. Another publicized "dark horse" was Charles Evans Hughes. Similarly, Attorney General Palmer and Governor James M. Cox were prominently mentioned. The

League of Nations was the political issue on the Oregon primary ballot.

The Congress, which had only this year changed from a Democratic to a Republican leadership, had been uncertain about whether to adjourn or recess so that the Members could attend the political conventions. A final decision to adjourn was not made until 3 days before the adjournment date. A Special Senate Presidential Campaign Investigating Committee had summoned Bernard Baruch and Frank H. Hitchcock, a former Postmaster General, to explain contributions for McAdoo and other prominently mentioned Democrats. The House was threatening a filibuster on the soldiers' bonus bill at the same time that the Secretary of the Treasury was saying that the ex-soldiers would not insist on a bonus if they understood the situation.

On June 2, 1920, the House by vote of 200 to 116 adopted a resolution as a part of the budget reform package—later to include the Budget and Accounting Act—to centralize the power of appropriating money in one committee to be composed of 35 members. By this action, seven existing committees were shorn of their power to report out bills specifically providing for the expenditure of money.

Although President Wilson had been in ill health for some time, the newspapers reported that, on the day the Congress completed action on the Budget and Accounting bill, he had taken a ride with his brother in Rock Creek Park and doffed his straw hat to people along the way who saluted him. Because of his poor health, the newspapers speculated that President

Wilson would not continue the custom of going to Capitol Hill on the day of adjournment to sign the many bills that would be passed in the usual preadjournment rush.

The budget reform concept had been a promise in both the Republican and Democratic party platforms as early as 1916. President Wilson had urged its enactment in his 1917 message to the Congress. Congress had deliberated and now some 4 years later—and shortly before adjournment in a national election year—a bill was ready for presentation to the President for approval.

That President Wilson, as a law professor and author of *Congressional Government* as well as an expert in the field of constitutional law, would be troubled by the enrolled bill had not been anticipated. President Wilson had not vetoed many bills during his terms as President. Since the bill had the salutary effect of improving the budget process and establishing the General Accounting Office as an arm of the Congress, approval seemed assured. Although President Wilson was in agreement with the objectives of the bill, he strongly believed that the provision preventing removal of the Comptroller General and the Assistant Comptroller General except by impeachment or by concurrent resolution of the Congress flaunted the powers of the President. So, on the evening of Friday, June 4, 1920, President Wilson wrote a short veto message indicating his reluctance at having to veto the bill.

The President based his objections to the bill on the accepted construction of the Constitution that the power to appoint carries with it the power to re-

move. President Wilson stated, "I am convinced that the Congress is without constitutional power to limit the appointment power and its incident, the power of removal, derived under the Constitution \* \* \*. Regarding as I do the power of removal from office as an essential incident of the appointing power, I cannot escape the conclusion that the vesting of this power of removal in the Congress is unconstitutional and, therefore, I am unable to approve the bill."

The President promptly dispatched his Chief Clerk, Joseph M. Sharkey, to take the veto message returning the bill to the House, then meeting in night session, so that the defective removal provision could be corrected and the bill reenacted before the adjournment deadline scheduled for next day. When Mr. Sharkey presented himself at the door of the House chamber, the House was debating the controversial conference report on a bill which was to become the Merchant Marine Act of 1920. When the veto message was laid on the table in front of the Speaker, some of the Members congregated at the front of the House to read it. Congressman Thomas L. Blanton of Abilene, Tex., immediately raised a point of order against certain Members' having an advance look at the President's veto message before it was actually read to the House.

It was nearly midnight when the veto message was read to the entire House. Immediately Chairman James W. Good, who had shepherded the bill through the House, presented his arguments against the veto, stating:

I regret more than I can express that the President has thought it necessary to veto the

## DAY OF VETO OF BUDGET AND ACCOUNTING BILL

budget bill. I cannot arrive at any conclusion other than that the legal advice he has received is faulty. In creating the General Accounting Office and providing for the Comptroller General and the Assistant Comptroller General, the committee was guided by a single thought, and that was that these two officers should be placed upon a plane somewhat comparable to the position occupied by Federal judges. . . . We should remove them as far as possible from political considerations. It was considered that as to the President's appointment, if it was made a political office, the President would in all likelihood appoint someone of his own political faith. If the political situation should change and a President of some other political faith should assume the duties of that office, then that succeeding President would likewise appoint someone of his political belief. It was the desire of the committee that that situation should be avoided if possible.

Congressman Robert W. Moore of Alexandria, Va., and Congressman Alben W. Barkley, later to become Vice President, questioned the chairman's construction. But Congressman Good maintained that the provision for removal was a power of the Congress and consistent with the interpretations of the Supreme Court. Congressman Good concluded that the Comptroller General as an agent of the Congress should be independent of the executive branch so that he could "render decisions according to law and let the chips fall where they may."

It was after midnight when a motion to pass the bill was made, the objections of the President to the contrary notwithstanding. On a roll call vote of 178 yeas to 103 nays, the necessary two-thirds required for overriding the President's veto was not obtained. The

chairman then moved to refer the veto message to the Committee on the Budget, and no objection was made.

As soon as the House convened the next day—Saturday, June 5, 1920—Chairman Good introduced a new bill (H.R. 14441) and explained that it was in all respects like the bill that had been vetoed "except that it provides that the Comptroller General shall be appointed by the Supreme Court and the removal shall be vested in the Supreme Court." The bill did not give the Senate the right of confirmation. Many doubts were expressed as to the propriety of conferring such an administrative function on the Supreme Court.

The amended version of the bill met with a storm of protest in the House, and the leaders were required to accede to the consensus and amend the new bill placing the appointment power over the two offices in the President with the advice and consent of the Senate. Although accepting the change, Chairman Good declared that the measure was weakened thereby. The House passed the measure and sent it to the Senate. The Senate, however, following an impassioned speech by Senator James A. Reed of Missouri, calling the new bill a "misnomer" and an "abdication of the rights of Congress," prevented the bill from coming to a vote.

And so it was that the Budget and Accounting bill was not returned to President Wilson for approval and a new bill had to await the convening of a new Congress and the inauguration of a new President in another year.

# National Association of Accountants Conference Report

The 49th annual international conference of the National Association of Accountants held in New Orleans, La., from June 16 to 19, 1968, provided a technical and social program in a unique atmosphere which was both old and new.

The following GAO staff members attended the conference:

A. T. Samuelson, director, Civil Division.

Max Neuwirth, assistant director, Civil Division.

William D. Martin, supervisory auditor, Civil Division.

Jack L. Mertz, special assistant to the director, Civil Division.

Donald M. Mutzabaugh, assistant to the director, Civil Division.

Gerald J. Wilker, supervisory auditor, Civil Division.

The 1968 conference program emphasized topics in management accounting. These topics ranged from the keynote address on "Changing Patterns in the Economic Environment" to seven technical sessions including the controversial line-of-business reporting issue, profit planning and inventory policy, and mathematical modeling and simulation.

The highlight of the conference for GAO staff members was the address by the Comptroller General, *Elmer B. Staats*, on "Management Information Needs in an Era of Change."

## *Changing Patterns in the Economic Environment*

Presiding: Donald C. Brabston, Ernst & Ernst, Birmingham, Ala.

Speaker: Paul W. McCracken, Edmund Ezra Day University, professor of business conditions, University of Michigan.

Dr. McCracken said that the United States is "too soft" in world trade affairs and it is time for the United States to give up its role as "Uncle Soft" in its trade relations with other nations.

Germany and Japan have exceptionally strong economies but they do not put up the foreign exchange cost of the military shield of protection furnished by our troops. Professor McCracken would offer them the choice—the United States continue the shield if they put up the direct foreign exchange costs. If the shield is not worth that much to them then the United States will bring back the troops.

Professor McCracken said that U.S. production is now shut out of nations enjoying full access to American markets. For example, while foreign cars readily enter the United States, special tax and tariff barriers virtually exclude U.S. cars from some foreign markets. Professor McCracken said, "What is sauce for the goose must be sauce for the gander."

Dr. McCracken said that developments indicate our potential for eco-

conomic progress and rising material levels of living is excellent and that the decade ahead should see a particularly favorable economic performance. The economy in the next decade will have to provide 1,500,000 new jobs a year as compared to the present rate of 700,000 new jobs a year. However, he warned that the United States must watch its step or it will drift inexorably toward a world of competitive deflation and an increasingly restrictive and illiberal international financial and trading system—a world, in short, where economic and monetary forces are nudging nations toward economic warfare.

Our strategy, he added, must be to make the present economic and monetary system work if it is possible. We should move boldly and directly toward a more liberal world economic policy—toward a free and open economic system. Greater flexibility of exchange rates should then provide some of the adjustment to stresses and strains among world economies.

### ***Management Information Needs in an Era of Change***

Presiding: Robert P. Bryarly, Orbit Valve Co., Little Rock, Ark.

Speaker: *Elmer B. Staats*, Comptroller General of the United States.

Advanced management information systems are essential to the efficiency and economy of business and Government, Mr. Staats stated. He said that management-oriented accountants are the logical choices to direct and operate such systems. He cited as an example of the advanced information systems in Government the changes recom-

mended in the submission of the national budget by the President's Commission on Budget Concepts. One of the most notable was the unified budget which replaced the former separate administrative budget, the consolidated cash budget, and the national income accounts budget. The former three budgets tended to confuse more than to enlighten. The present unified budget gives the Congress direct information on new appropriations required and the amount becoming available through prior congressional action.

Mr. Staats also said that the recommendation for the adoption of an accrual basis rather than a cash basis for reporting expenditures and receipts is of great significance. This change would provide more timely and accurate information for assessing the economic impact of the budget than either cash disbursements, as reflected in former budgets, or deliveries, as recorded in the national income accounts.

He stated that business management in the United States is looking increasingly to formalized systems to produce the information necessary to alternative choices in decisionmaking, for efficient and economical operation, and for future planning. Although the computer is an important element of a modern information system, systems analysis is an equally important element. Systems analysis is a process involving predictions of results and measurement of performance against plans and may marshall the talents of all relevant disciplines including engineers, scientists, mathematicians, psychologists, sociologists, economists, and accountants.



***The Descriptive, Comparative, Predictive, and Normative Uses of Business Information—A Framework for Systems Design***

Presiding: Robert P. Bryarly, Orbit Valve Co., Little Rock, Ark.

Speaker: Dr. Paul B. Henderson, Allis-Chalmers Manufacturing Co.

Dr. Henderson, who is director of corporate systems and data processing at his company, described the uses of business information by classifying these uses into the four categories—descriptive, comparative, predictive, and normative—of increasing sophistication. He stated that managements are essentially pragmatic and, therefore, a systems designer has to determine the requirements and needs for each stage in the development, making sure that the choices on types of service meet those requirements and needs.

Dr. Henderson favored the design of an information system by segments on the basis of needs, stating that a design of a complete monolithic integrated system would never get done. The problem is not to get the optimum, but to get a good result. With respect to real time, Dr. Henderson cautioned that the designer has to determine how fast management needs the information, and then the designer has to design and operate the system that will satisfy the user.

***The Dynamics of Human Change: Our Most Significant Challenge***

Presiding: Grant U. Meyers, Oil City Iron Works, Corsicana, Tex.

Speaker: Jerome Barnum, Jerome Barnum Associates, Inc.

Mr. Barnum stressed that even though we are living in an automated world the basic tool of the accountant—questions—can never be replaced by machines. He said that management is a process which is made up of four basic phases—planning, organizing, executing, and measuring. It is necessary for management to clearly define its objectives, coordinate and supervise the related work, and to establish criteria against which to compare performance in order to do an effective and efficient job.

Mr. Barnum emphasized that a manager must be a “change agent.” He must be aware of the methods of changing the behavior of his staff members and he should become skilled in employing these methods. He stressed that if a manager wants to change the behavior of his employees, he must change the image that resulted in the behavior. Since behavior is based on images rather than the “reality” they represent, no real revision in performance can be accomplished until the images upon which the existing practices are based are changed.

Mr. Barnum stated that accounting reports or computer output does not automatically change behavior. Properly used they should become action triggers for change which results in improvement. He explained this as meaning that to fulfill his final responsibility, the accountant must become a behavioral scientist working in the laboratory of humanity.

***Technical Sessions***

The third and final day of the conference was reserved for technical ses-

sions on seven subjects of significant interest:

Corporate financial reporting by line of business.

Mergers and acquisitions.

Profit planning.

Costs for decisionmaking.

Corporate cash management.

Management reports that communicate.

Optimal inventory policy through mathematical modeling and simulation.

Of major interest to GAO staff members and other NAA members was the session on management reports that communicate. This interest was evidenced by the great number who attended this discussion.

### ***Management Reports That Communicate***

Speaker: W. Robert Widener, president, Information Management Facilities, Inc., New York, N.Y.

Mr. Widener pointed out convincingly how a seemingly effective system of reporting operating results to management was capable of being made more effective while reducing the number and complexity of reports. He emphasized his points on the necessity for effective communication through reports by use of a case study. By eliminating redundant breakdown of figures and extraneous and detailed data from a complex and conglomerate operating

report, Mr. Widener showed how salient facts could be emphasized for management's instant use in formulating a course of action.

Mr. Widener stressed that a good system of management reports can lead to more effective management control by (1) employing formalized profit planning and budgeting, (2) assigning performance responsibility authority, (3) establishing control limits, (4) measuring performance against budgets, and (5) reporting only those variances that approach or exceed control limits.

He emphasized management's need for timely and useful reporting of the results of operations by illustrating through slides synchronized with pre-recorded tapes the action in the board room of a manufacturing corporation during a meeting in which the board was reviewing operations. This corporation had its reporting system "on-line" with its computer and, in a matter of seconds, a desired graph or chart was flashed on the screen which contained the production or sales data requested by one of the board members. Mr. Widener stated, however, that merely having such information available is not a panacea for a corporation's ills. The ability to interpret this data and to act accordingly is still a primary requisite of managers occupying positions of responsibility within any organization.

# NEWS and NOTES

## ***Rewards of Federal Career Service***

Speaking before the Dallas Federal Business Association on June 18, 1968, the Comptroller General *Elmer B. Staats*, commented on the financial and other rewards of Government service.

Noting that the successful career civil service employee could not match in terms of salary the successful individual in private enterprise, he emphasized the nonfinancial rewards.

There are many people in our society and in all societies who are interested in professional activities far beyond the aspect of financial return. If the Government salary is sufficient to provide them a suitable base, the rewards that come in stimulating work and public service responsibilities would be found sufficient. There may be secondary reasons, such as the government's relatively liberal retirement and annual leave and sick leave policies. But the primary magnet is involvement in the art or science of government.

If it were just one person making a statement such as that a listener might be justified in questioning its authenticity. But I could name for you at least 140 senior career service men and women who have almost precisely such convictions. These are the past recipients of the National Civil Service League Career Service Awards, bestowed annually for outstanding performance in their work for the Government. These are people who have sought—and found—meaning as well as success in their careers in the Government together with a sufficient salary and the opportunity of creating a retirement purse ample enough for their senior years.

## ***Review of Sentinel Program***

The Joint Committee on Atomic Energy has requested the General Ac-

counting Office to make on behalf of the Committee a continuing review of the Sentinel Program. The Sentinel Program calls for developing and deploying an initial version of the NIKE-X antiballistic missile system for protection against the possibility of a Chinese Communist intercontinental ballistic missile attack. The Sentinel system's development and investment costs are estimated at about \$5 billion. The principal components are two missile interceptors called Spartan and Sprint, two types of radars, and data processing equipment to control the radars and the missile interceptors.

The purpose of the GAO review as stated in the Committee's written request dated April 29, 1968, and published in the Congressional Record for June 24 is as follows:

The purpose of having the General Accounting Office review the Sentinel Program is to provide the means for continuing surveillance of the economy, efficiency, and effectiveness of the program within the reasonable availability of manpower of the General Accounting Office coincident with the high security nature of the program. By raising questions where it appears appropriate, the General Accounting Office can aid the Systems Manager, the Atomic Energy Commission, and the Joint Committee and provide the opportunity for taking timely corrective action to avoid or minimize large overruns, delays or other management problems. The Joint Committee, therefore, requests the Comptroller General to initiate this review and furnish reports to the Committee at such intervals as may be appropriate to keep the Committee informed in a timely manner of the progress of the review.

### ***Congressional Views on Scope of GAO Audit Work***

In reporting on the GAO appropriation in the Legislative Branch Appropriation Bill, 1969, the House Appropriations Committee evaluated the work of the General Accounting Office in the following terms:

The General Accounting Office is a highly essential instrumentality of legislative oversight in checking the efficiency of government operations and procedures and the propriety of government expenditures and in assistance to Congress and its committees otherwise. In recent years, under general authority of the Budget and Accounting Act of 1921, the Budget and Accounting Procedures Act of 1950, and related legislation, the Office has been giving increasing attention to the effectiveness of activities carried on by government agencies, as well as their economy and efficiency.

The committee also called attention to the statutory assignment in the Economic Opportunity Act Amendments of 1967, which directed the General Accounting Office to investigate the economic opportunity programs in sufficient depth to determine:

1. The efficiency of the administration of such programs and activities by the Office of Economic Opportunity and by local public and private agencies carrying out such programs and activities.
2. The extent to which such programs and activities achieve the objectives set forth in the relevant part or title of the Economic Opportunity Act of 1964 authorizing such programs or activities.

The House Appropriations Committee noted that:

In the OEO (anti-poverty) extension legislation enacted last year, the GAO was di-

rected to not only study the efficiency of administration by both the OEO and local public and private agencies, but the extent to which OEO activities achieve the objectives of the legislation. This calls for an evaluation of the effectiveness of the entire program, and recommendations for additional legislation, as GAO may deem advisable, with a final reporting deadline of December 1, 1968.

The committee also raised a question about statutory assignments of this broad nature to the GAO. It stated:

As a general proposition, it strikes the committee that there may be a valid question whether the Congress, in future consideration of program authorization legislation, ought to follow the precedent established in the OEO amendments of placing, by statute, specific responsibilities on the Comptroller General for evaluating the efficiency and effectiveness of entire major programs with statutory reporting deadlines. To do so would tend to diminish the flexibility of the Office in examining all the programs and expenditures of the Government, now estimated at upwards of \$186 billion for fiscal 1969. And if carried too far, it would in substance considerably duplicate the expense of oversight staffs and special "investigative" committee expenditures.

A somewhat different view on the desired scope of GAO audits was stated by the Senate Committee on Labor and Public Welfare. This committee, in reporting on S. 2938 to extend expiring provisions of the Manpower Development and Training Act of 1962, stated:

The committee feels that, in addition to improved evaluation of manpower programs by the executive branch, the Congress itself needs independent judgments on these matters. In this regard, the committee urges the General Accounting Office to continue and broaden its evaluation of manpower programs already begun in connection with its investigation of the antipoverty program authorized last year in the economic opportunity amendments. The committee feels that the GAO

should broaden its activities in this area of program evaluation, as opposed to its traditional auditing emphasis, in order to give the Congress independent reviews of the performance of the executive agencies. This is especially important in the area of manpower programs, which a number of different agencies are involved and where it has proved difficult to develop objective data comparing different programs.

(S. Rept. 1445, 90th Cong., 2d sess., p. 3.)

### ***Uniform Cost Accounting Standards***

By amendment to the Defense Production Act of 1950, signed by the President on July 1, 1968, the Congress assigned an important new responsibility to the Comptroller General. This assignment is to study the feasibility of developing uniform cost accounting standards for use in the negotiation and administration of defense contracts.

The specific language of this statutory assignment is as follows:

The Comptroller General, in cooperation with the Secretary of Defense and the Director of the Bureau of the Budget, shall undertake a study to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contract and subcontract defense procurements of \$100,000 or more. In carrying out such study the Comptroller General shall consult with representatives of the accounting profession and with representatives of that segment of American industry which is actively engaged in defense contracting. The results of such study shall be reported to the Committees on Banking and Currency and the Committees on Armed Services of the Senate and House of Representatives at the earliest practicable date but in no event later than eighteen months after the date of enactment of this section.

This is an important piece of legislation—one which presents a great

challenge not only to the General Accounting Office but also to the accounting profession as a whole. It is an opportunity to contribute to the art of accounting through an intensive conceptual study of the nature of cost accounting principles or standards, their limits, criteria for their usage in specific circumstances, and their relationship to generally accepted accounting principles for management decision-making purposes.

The study will be carried on under the direction of *William A. Newman, Jr.*, formerly director of the Defense Division. Mr. Newman was designated Special Assistant to the Comptroller General effective July 15, 1968, to conduct this study (see page 84).

Mr. Newman will be assisted by *Ralph M. Kee*, assistant director, Defense Division.

As a part of the study, meetings have been held with representatives of professional accounting societies, industry associations, and other interested parties, many of whom testified before congressional committees concerning the enacted legislation. A close working relationship has also been established with the Office of the Assistant Secretary of Defense (Comptroller), the Office of the Assistant Secretary of Defense (Installations & Logistics), the Defense Contract Audit Agency, and the Bureau of the Budget.

The Comptroller General is not charged with the responsibility of developing uniform cost accounting standards nor in any way of revising any current cost accounting principles in use. His responsibility under the law is to determine the feasibility of applying

uniform cost accounting principles and standards. Following completion of the required report on the study, it will be the responsibility of the Congress to say what the next step, if any, will be.

### ***Cost Principles for State and Local Governments***

Bureau of the Budget Circular No. A-87 dated May 9, 1968, sets forth principles for determining costs applicable to grants and contracts with State and local governments.

The purpose of this new circular is to provide a uniform approach to the problem of determining costs on grants for contracts with State and local governments. The circular applies to all Federal agencies responsible for administering programs with State and local governments. It does not apply to grants covered under Circular No. A-21 nor to publicly owned hospitals and other providers of medical care subject to requirements of other sponsoring agencies.

The principles may be used immediately by Federal agencies but in any event must be used no later than January 1, 1969, for State governments and January 1, 1970, for local governments. The circular is divided into two parts, Attachments A and B. Attachment A sets forth principles for determining costs and Attachment B sets forth standards for selected items of cost.

Of special interest in Attachment A (principles) is the provision for approval of cost allocation plans for central support services. At the State level, the Department of Health, Education, and Welfare has been given responsibility for the negotiation and approval

of such plans. Other agencies are to accept HEW's approval unless the plan would result in significant inequitable or improper charges to programs for which it is responsible. For local governments the circular merely states that Federal agencies will work toward the objective of designating a single Federal agency for negotiation.

Of interest in Attachment B (standards for selected items of cost) is the provision providing that cost of audits necessary for the administration and management of functions related to grant programs is allowable. There is currently some discussion as to the audit scope required in State audits on Federal programs. One Federal agency has *already informally stated that they will only allow audit costs if the audit fully complies with the agency's requirements.*

In summary, the circular appears to be comprehensive and clear, but there will undoubtedly be numerous questions raised as it is implemented.

### ***Joint Study of Financial Administrations of Federal Grants-In-Aid***

A joint project has been organized under the Joint Financial Management Improvement Program to study and make recommendations for simplifying the financial administration of Federal grants-in-aid to State and local governments.

Chairman of the study group is *Ivo G. Binder*, assistant director, Office of Policy and Special Studies, GAO. Other members of the group are:

Paul A. Hynes—Department of Transportation.

Wilson B. Smith—Department of the Treasury.

Arthur W. Powell—Department of Health, Education, and Welfare.

Robert A. Stein—Bureau of the Budget.

R. C. Goins—Department of Housing and Urban Development.

Curtis E. Staudte—Office of Economic Opportunity.

Leslie D. Thorn—Department of Labor.

The study to be undertaken will include efforts to develop recommendations to simplify procedures and eliminate duplication in the reporting, accounting and auditing requirements imposed by granting agencies of the Federal Government on grantees.

Expenditures for Federal grant-in-aid programs are estimated at \$18.4 billion for fiscal year 1968 and at \$20.3 billion for 1969. In 1955 these expenditures were only \$3.3 billion. It has been estimated that there are statutory authorizations for over 400 separate programs, administered by 21 departments and agencies, and 150 bureaus and divisions.

Many administrative problems have arisen from the fact that the programs are so numerous and have originated from such various sources that State and local governments are presented with multiple administrative and financial reporting requirements.

The study will cover the following eight agencies:

Interior,

Labor,

Agriculture,

Commerce,

Health, Education, and Welfare,

Housing and Urban Development, Transportation, and

Office of Economic Opportunity.

These agencies have the preponderance of the programs with grants-in-aid.

The study will also cover a representative number of State and local governments to ascertain their problems as recipients of the grants.

The study team began work on a full-time basis in September 1968.

### ***Congressional Comment on the GAO Role***

During the hearing by the Senate Post Office and Civil Service Committee on March 11, 1968, on additional supergrade positions for the General Accounting Office, the chairman of the committee, Senator A. S. Mike Monroney, commented as follows to the Comptroller General on the worth to the Congress of GAO work:

How you do it I don't know, to come up with the facts and figures of the report. This is a great comfort, I think, to the Members of the Congress who realize that we have wisely, as a result of the wisdom of our forefathers in this body, created an agency which has performed through all of my 30 years on a nonpartisan, absolutely strict basis of accountability and judgment and fairness.

It is something we don't want to lose. I think if we lose this because of overload or underpay, that we would be paying a hundred or maybe a thousand times more than the cost of the relief the staffing would require.

This view is also reflected in the committee's report on the supergrade bill as follows:

The committee believes that no money is better spent than that allocated to the General Accounting Office for its extremely effective work in auditing the books of the Government

and in ascertaining that the policies and programs designed by the Congress are properly, fairly, and efficiently administered by the executive branch.

### ***The GAO General Counsel***

On October 3, 1968, *Robert F. Keller* completed 10 years service as General Counsel of the General Accounting Office. Mr. Keller is only the fourth person to hold this office since 1921 when GAO was first established. Although the length of his tenure in this office is not unusual in GAO, it might be considered unusual in the legal offices of other Government departments and agencies. Mr. Keller was preceded in office by Rudolph L. Golze who served from 1921 to 1939; John C. McFarland who served from 1939 until his retirement in 1947; and Edwin Lyle Fisher who served from 1947 to 1958.

Mr. Keller was appointed General Counsel by Comptroller General Joseph Campbell on October 3, 1958. At the time, he was serving as principal Assistant to the Comptroller General in charge of congressional liaison activities. Mr. Keller began his service with GAO in 1935 in the Claims Division. He served in positions of increasing responsibility in the Claims Division until World War II when he entered the Navy. From 1942 to 1945 he served on active duty in the capacity of Assistant to the Officer-in-Charge of the Navy Purchasing Office, San Francisco, Calif., and later as General Counsel of that office. Upon release from active duty, Mr. Keller returned to GAO and was appointed to an attorney position in the Office of the Comptroller General where he served with Frank H. Weitzel who was then Assistant to the Comptroller

General. In 1950 Comptroller General Lindsay C. Warren designated Mr. Keller as an Assistant to the Comptroller General and in 1953 he was appointed as principal Assistant to the Comptroller General.

### ***Management Information System Principles***

The Comptroller General, *Elmer B. Staats*, addressed the 49th Annual International Conference of the National Association of Accountants in New Orleans on June 17, 1968, on the subject "Management Information Needs in an Era of Change." (See also page 62.)

Included in his address were a number of principles important in the planning of a modern management information system.

Planning a modern management information system is a formidable undertaking. Stakes are high and responsibilities are comparable. As the result of experiences—some pleasant, some unpleasant—a body of principles is beginning to emerge. Let me list some of the principles that appear to be most significant:

- Management's needs must be ascertained.
- A knowledge of the environment in which the business operates, as well as a knowledge of internal operations, is required to meet management's needs.
- All levels of management must be served and reports must be tailor-made to suit the needs of each level.
- Reports must be designed for measuring progress against planned performance.
- Data must be provided to assist in examining the expected effects of alternative courses of action.
- Reports of "exceptions" or "out-of-line" conditions should be used to the fullest extent appropriate.
- Reports must be timely for effective action. Some may be required daily; others, weekly, monthly or quarterly.



—The information system should be planned centrally to avoid fragmented, disparate systems that will ultimately have to be redesigned.

### ***Criteria for Support Service Cost Comparisons***

The House Committee on Government Operations has reported on its study of Government agency practices in making cost comparisons relating to support services that may be obtained either through contract or with the use of civil service personnel.

The committee's report (H. Rept. 1850, 90th Cong., 2d sess.) recorded the following findings, conclusions, and recommendations:

#### ***Findings and Conclusions***

1. Revised Budget Bureau Circular A-76 still—
  - (a) does not provide sufficient guidance for making cost comparisons of support services;
  - (b) does not require a cost comparison before a contract is made for support services;
  - (c) does not contain specific criteria for determining the proper cost-saving differential to justify award of a contract for support services;
  - (d) does not clearly exclude common costs from cost comparisons, thereby permitting an administrator to increase the base on which savings must be computed.
2. There seems to have been some confusion in the minds of different witnesses about the real meaning of "substantial savings" referred to in paragraph 7.b(3) of Circular A-76 and particularly with respect to the 10 percent differential set forth in that paragraph.
 

This committee, without regard to the propriety of that percentage figure, understands the savings differential to mean a specific advantage which is permissible to the contractor. It seems to us that in making cost comparisons, the opportunity for error would be as great in the computation of the Government's costs as in the costs of the contractor. As a consequence, this differential has no relationship whatsoever to such errors, but would accurately reflect the amount that the Government is willing to pay to private industry in excess of the cost which it is anticipated would be incurred by performing the service in-house.
3. Evidence developed by the committee indicates that it is fallacious to contend that any agency's overhead above the installation level exceeds 2 percent or, above the agency level, one-tenth of 1 percent.
4. A simplified cost comparison based on direct labor costs and fringe benefits appears possible for most support services involving little or no capital investment. Testimony shows that these costs represent 75 percent of total costs, and the differential between civil service and contract costs for these items is usually indicative of the total by which one method of procurement is less expensive than the other.
5. The rigid application of ceilings to limit civil service personnel can force the use of contracts to achieve agency missions and sometimes result in substantially increased costs. Likewise, rigid application of the October 1967 opinion of the General Counsel of the Civil Service Commission can force the use of civil service personnel in cases where contracting might be more desirable and less costly.

#### ***Recommendations***

1. The Bureau of the Budget should issue a circular, or sufficiently revise Circular A-76, to provide specific criteria governing cost comparisons of support services. Only in this manner can a determination be made as to whether such

services can be obtained on a more economical basis by contract or by in-house performance.

2. Except in special situations, A-76, or a new circular, should, in addition to the triennial review now provided for, require the making of a cost comparison for support services, before a "new start" or a contract is made.
  - (a) All decisions made without a cost comparison should be immediately reviewed by the agency's top management and the Bureau of the Budget.
  - (b) For guidance, the Bureau of the Budget should carefully delineate the circumstances in which a decision to go in-house or to contract may be made without a cost comparison.
3. A-76, or a new circular, should specify the range of cost differential between Government and contract operation and the criteria for applying this range to support service determinations.
4. Common costs (meaning costs paid by the Government under either alternative), should be excluded from cost comparisons in determining differentials in support services if a true percentage differential is to be determined.
5. At least on a trial basis, A-76, or a new circular, should specify that unless a support service involves a capital investment or some other special significant factor that would not be a common cost, the cost comparison should be limited to a comparison of direct labor costs and fringe benefits, to determine if a more detailed cost analysis is unnecessary.
6. Cost comparisons must be based on carefully determined staffing plans.
7. The legislative committees having jurisdiction should consider whether the rigid application of personnel ceilings and of rulings of the Civil Service Commission relating to support services is in the Government's interest and whether appropriate changes should be made in the relevant laws.

### ***GAO Visit To Activated Reserve Units***

At the request of Ernest L. Massad, Deputy Assistant Secretary of Defense for Manpower and Reserve Affairs, *Andrew B. McConnell*, assistant director, manpower group, Defense Division, accompanied the Secretary and his party, from August 12-17, 1968, on a trip to visit activated reserve units in the Seattle, Wash., and Honolulu, Hawaii, areas.

Included in the Secretary's party were the following: the Deputy Chief of the National Guard Bureau, representatives from the Office of the Air Force Reserve and the Department of the Army, the senior budget examiner from the Bureau of the Budget for Manpower and Reserve Affairs, and two members of the Secretary's staff. Approximately 27 Army, Navy, and Air Force Reserve and Guard units were visited.

### ***Urban Institute***

The Urban Institute was incorporated in Delaware on April 24, 1968. It is a private, nonprofit, research organization created at the suggestion of President Johnson in his message of March 14, 1967, on urban and rural poverty to help find solutions to the problems and concerns of American cities.

According to a prospectus issued soon after its establishment, the Urban Institute will:

- Study the problems common to cities and the ways in which they can be solved;
- Work with individual cities, studying their particular problems, developing strategies for action and providing technical as-

sistance in carrying out such strategies;

- Provide continuing independent evaluation of Federal, State, local and private programs aimed at meeting urban problems;
- Provide a center of knowledge about city problems, action programs, experiments and effective solutions to city problems.

The work of the Institute will be followed with interest in the General Accounting Office since it will be concerned with many of the same broad areas that will be the subject of GAO reviews of Federal agency programs, particularly in the fields of health, education, welfare, pollution, manpower training and other areas which center heavily in urban areas.

The Institute has a 15-member Board of Trustees, the chairman of which is Mr. Arjay Miller, Vice Chairman of the Ford Motor Company. The president of the Institute and chief executive officer is Mr. William Gorham, a former Assistant Secretary of Health, Education, and Welfare.

The Institute is expected to be financed in part by the Ford Foundation and in part by contracts and grants with Federal, State, and local government agencies. Federal agencies concerned include the Office of Economic Opportunity and the Departments of Housing and Urban Development; Health, Education, and Welfare; Labor; Transportation; and Commerce.

The headquarters of the Institute will be in Washington, D.C. City centers are expected to be established in a number of cities over the next several years.

### ***Productivity Accounting in the Department of Commerce***

The Department of Commerce, through its Office of Administrative Services, has developed a productivity accounting system for promoting greater efficiency and economy, particularly in administrative-type services. The system is described in a short booklet published by the Department entitled "Productivity Accounting." The program is represented as one which can help managers focus on the relationship between workload and staffing requirements; be instrumental in ferreting out weaknesses in line activities and in middle management; and provide top management a bold-relief look at major problems of resource administration.

Under the sponsorship of the Joint Financial Management Improvement Program, officials of the Department of Commerce provided a briefing on this system on September 4, 1968, to the Comptroller General and members of his staff, top officials of a number of other Federal agencies, and congressional staff members. The explanation was conducted by David R. Baldwin, Assistant Secretary for Administration, Department of Commerce, and Donald B. Moore, Director of the Department's Office of Administrative Services.

Copies of the Department's booklet are available in all GAO offices.

### ***Comptroller General Decisions on Benefits Provided for Transferred Employees***

The Office of General Counsel has published a compilation of the digests of significant decisions of the Comptroller General interpreting Public Law

89-156 and related regulations, which authorized relocation expense reimbursement to civilian employees transferred in the interests of the Government.

The compilation has been made available to heads of Federal departments and agencies and others concerned.

### ***User Charges***

In reporting on the Independent Offices and Department of Housing and Urban Development appropriation bill for 1969, the Senate Appropriations Committee commented as follows concerning the adequacy of Federal agency user charges:

The committee joins with the House committee in its concern that the Federal Government is not receiving sufficient return for all the services which it renders to special beneficiaries, and in its recommendation that the applicable agencies review their schedule of fees and charges with a view to making increases or adjustments as may be warranted, taking into consideration beneficial certificates and privileges granted, to offset in part the increasing needs for direct appropriations for operating costs of the agencies concerned.

(S. Rept. 1375, 90th Cong., 2d sess.)

### ***About Silver Coins***

In the current data sheet about the U.S. Mint in Denver, which is made available to visitors, the following information about the future of silver coins appears:

Since July 1967, when the Treasury Department ceased its sales of silver at \$1.29 per ounce, the Treasury and the Federal Reserve Banks have been issuing clad dimes and quarters only, and holding in inventory

mixed silver and clad dimes and quarters as they normally flow back to the Federal Reserve Banks. When these are separated, the clad coins will be returned to circulation and the silver coins will be held at the Mints for melting. The coin-silver bullion will be made available for industrial use through weekly sales by the General Services Administration.

It is expected to take about two years to complete the separation of the total mixed coin now held in inventories. The Treasury and Federal Reserve Banks are cooperating in this effort in order that (1) the silver can be made available for industrial use; (2) the clad coins can be returned to circulation as quickly as they are needed; (3) storage space at the Banks and Mints can be freed; and (4) it will be possible to return to normal production and distribution of coins now that the coin shortage has passed, and the transition to clad coins has been completed.

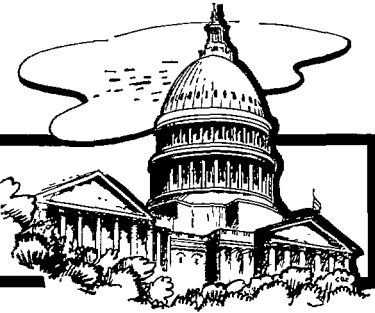
### ***Financial Management in the Bureau of Engraving and Printing***

This agency, a part of the Treasury Department, has published a booklet describing its financial management system. The booklet, dated May 1968, is an outgrowth of a project begun under the Joint Financial Management Improvement Program, to disseminate more widely examples of well-developed financial management systems, with special emphasis on the use of cost data by managers.

The booklet describes briefly the Bureau's mission, its organization, financing, accounting system, use of cost information, preparation of budget estimates, and technological improvement programs.

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# HEARINGS *and* LEGISLATION



By MARGARET L. MACFARLANE  
*Chief, Legal Reference Services, Office of the General Counsel*

Any review of GAO relationships with the 90th Congress will most assuredly show that not only were more activities of GAO geared to the needs of Congress but that the Congress responded to the information furnished by GAO to a greater degree. As the adjournment approached, considerable legislation in which GAO was especially interested was either enacted or nearing enactment into law. Such measures include the study of the feasibility of uniform cost accounting standards for Government contractors and subcontractors,<sup>1</sup> an amendment to the Truth-in-Negotiations Act, and authority for the Department of Defense to enter into multiyear contracts for procurement of support services outside the United States.

## ***Multiyear Procurement***

Six years ago the Department of the Air Force was advised in the so-called Wake Island decision<sup>2</sup> that a 3-year contract for aircraft maintenance services incident to the landing of Government aircraft at Wake Island entered

into under a single-year appropriation was in contravention of the statutes prohibiting contracts beyond the extent and availability of existing appropriations. In this case it was recognized that procurement problems in isolated or remote areas might present administrative difficulties and that long-term contracts in such areas might elicit more favorable bid prices for the Government. It was, therefore, suggested that the matter be presented to the Congress for appropriate authority.

Last year, upon review of another multiyear contract for guard and related services to be performed at the Los Angeles Air Force Station, it was shown that the Government would have benefited by an award on a 1-year basis rather than on the 3-year basis, as was done.<sup>3</sup> In this case involving no-year appropriations, it was recommended that such long-term contracts—multiyear-type and contracts with renewal options—for domestic services to be performed in densely populated areas should be discontinued pending further study of the desirability of this type of contract and until appropriate guidelines could be issued.

<sup>1</sup> See page 67 of this issue.  
<sup>2</sup> 42 Comp. Gen. 272 (1962).

<sup>3</sup> 46 Comp. Gen. 819 (1967).

Following the 1962 Wake Island decision, the Air Force submitted to the Congress a proposed draft of legislation providing authority for long-term contracts. GAO submitted comments to the Bureau of the Budget on the draft, suggested additional clarifying language to the House Committee on Armed Services and testified on two different occasions at hearings before the Special Investigations Subcommittee considering the legislation. Subsequently, the committee in reporting out the legislation, recommended limiting multiyear procurement to offshore or remote area situations and incorporated several recommendations of GAO. This legislation passed the Senate and was signed into law on July 5, 1968.<sup>4</sup> The law has the effect of providing the necessary congressional sanction for multiyear procurements for support service contracts at remote overseas locations.

### ***Truth-in-Negotiations Act Amendment***

Another measure reported out by the Armed Services Committee that originated as a result of a GAO report to the Congress in 1966<sup>5</sup> was H.R. 10573, to increase the effectiveness of the Truth-in-Negotiations Act. The bill provides auditing rights so that the Government under firm fixed-price negotiated contracts can have access to performance records. This legislation will enable the Government in a post-award audit to determine whether the

cost and price data furnished during negotiations were accurate, complete, and current. *J. Edward Welch*, deputy general counsel, presented the Office recommendations at a hearing before the Senate Armed Services Committee on June 20, 1968.

Subsequently, the bill passed the Senate and, in recommending Executive approval, GAO stated that it is important to establish the auditing rights in the Truth-in-Negotiations Act itself, notwithstanding that the Department of Defense has amended its regulations to provide such auditing rights.

### ***M-16 Rifles***

Various aspects of the M-16 rifle have been under legislative oversight for several years.

On June 18, 1968, *Robert F. Keller*, general counsel, testified at the request of the Special Subcommittee on the M-16 Rifle Program, House Armed Services Committee, to present the opinion of the Office on the legality of contracts awarded to General Motors and to Harrington and Richardson by the Army Weapons Command. The purpose of these two contracts was to provide additional sources for production of the urgently needed rifle. Since the Army awarded the contracts under its national defense authority and justified its determination that two of the four competing manufacturers who offered lower prices were not within competitive range for further negotiations under the statute and implementing Armed Services Procurement Regulation, there was no basis to hold that the contracts were illegal. The Senate Armed Services Committee, also con-

<sup>4</sup> Public Law 90-378, approved July 5, 1968. 82 Stat. 289.

<sup>5</sup> Report on "Need for Post-Award Pricing Data Available Prior to Contract Negotiation and Award," dated Feb. 23, 1966, B-158193.

sidering the matter, issued a report which included a review of the additional source contracts, and while not questioning the legal position of GAO was quite critical of the procurement actions taken by the Army.<sup>6</sup>

### **Department of Defense Procurement**

The Subcommittee on Antitrust and Monopoly Legislation of the Senate Judiciary Committee invited the Comptroller General to testify on the effect of Department of Defense procurement on competition and concentration on June 21, 1968. *Mr. Staats* detailed for the subcommittee the various types of procurements, the policies of Defense and NASA with respect to participation in the cost of contractors' independent research and development, and GAO reviews. (Other participants at the hearings: Messrs. *Welch, Hammond, Hall, Lincicome, Bohan, Eberlein, Eibetz, Van Kirk, and Robert H. Hunter.*)

### **Military Operations Subcommittee**

On June 21, 1968, the Subcommittee on Military Operations of the House Government Operations Committee held a closed-session hearing for the purpose of receiving information on the procurement of rocket launchers. *Earl J. Ogolin*, audit manager of the Kansas City office testified. (Other participants: Messrs. *Wolin, McCarter, and Zenk.*)

A few days later the subcommittee heard representatives of GAO on the subject of military supply systems. At

this hearing, which was an open hearing, *J. Kenneth Fasick*, associate director, Defense Division, discussed some of the observations of GAO resulting from reviews of logistics matters, supply problems, and the need for improved controls over inventories, and for standardization and simplification of the various supply systems. (Other participants: Messrs. *Stolarow, Colbs, and Landicho.*)

### **Subcontractor Relief**

GAO was invited to testify at hearings before the House Judiciary Committee's Subcommittee No. 2 on several bills which would provide payments to certain firms and individuals who furnished labor and materials to a prime contractor supplying prefabricated family housing units for shipment to foreign locations for the Department of the Army. Since the prime contractor did not pay its subcontractors and the subcontractors were not covered by any payment bond, they sought assistance through private relief legislation. *Mr. Welch* presented the Office views on such legislation on June 13, 1968, and answered questions concerning the applicability of the Miller Act to lower level subcontractors. (Other participant: *Mr. Schwartz.*)

### **Public Buildings**

The Comptroller General appeared on July 18, 1968, before the Subcommittee on Public Buildings and Grounds of the Senate Public Works Committee to present comments on a bill to provide for financing Federal building construction and operation and for construction and operation of parking

<sup>6</sup> Senate Armed Services Committee, Committee print, "Additional Procurement of M-16 Rifles," Sept. 2, 1968.

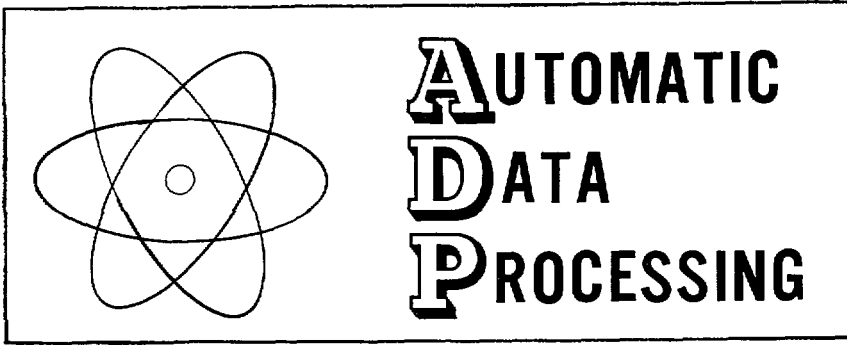
HEARINGS AND LEGISLATION

facilities.<sup>7</sup> *Mr. Staats* concluded his statement by indicating that not only would the bill “permit the executive branch greater latitude in carrying on public buildings activities and would significantly affect the budgets pre-

<sup>7</sup> 90th Cong., S. 3706.

vented to Congress,” but would, with the inclusion of certain additional requirements, provide “an opportunity for regular congressional review of public building activities.” (Other participants: Messrs. *Ahart*, *Smith*, and *Moore*.)





***Use of Computers in Auditing—  
S. D. Leidesdorf & Co.***

On September 11, 1968, representatives of the public accounting firm of S. D. Leidesdorf & Co. of New York City met with the Comptroller General and top GAO officials to discuss efforts being made by them to use computer methods in their auditing activities.

Stanley Halper, partner; Elliot Green of the management services department; and William Aaron, manager of the EDP audit group, presented basic information on their audit philosophy, operational methods, review procedures, and training methods employed by their firm in utilizing computer techniques in their audit work. Their basic concept in auditing clients who have EDP systems involves analysis of proposed audit programs in relation to the client's use of EDP methods and then determining how to use computer techniques in carrying out actual routine auditing steps. Also, analysis is made in depth of details of clients' computer programs as they affect the accounting system or the audit. This phase involves a review of systems documentation, program logic, flow charts, etc., and in some cases, actual programs. After this review, a decision is made as to how to utilize the computer in performing the audit.

In the actual computer operations performed by the firm at either its own computer facility (IBM 360-30; 360-50 on order) or on the client's computer system, various approaches are used. Extensive use is made of comparison routines to see if clients' programs are operating properly. Also, some reprocessing of clients' data is performed by the firm. The key to this entire effort involves:

- Knowing the system being used.
- Testing the system.
- Analyzing system performance and results.
- Preparing report to the client on system performance.
- Preparing material for inclusion in next audit review folder.

In its testing work Leidesdorf uses standard modules of computer programs to the extent possible. Additional programming as needed is performed by a staff of about 20 programmers. At times the programs are inserted in client EDP systems, particularly where real-time operations are involved.

Prior to performing actual computer work on the firm's equipment, an internal questionnaire is used to provide basic information on adequacy of control procedures used by clients to provide control over the EDP systems. In

this process Leidesdorf reviews not only the controls over computer processing but reviews also the controls over data origination and processing and over computer program changes.

Extensive training programs either have been developed or are under development utilizing advanced training methods to update company staff members in EDP auditing methods.

### ***Automatic Attendance Reporting***

Automatic time and attendance reporting systems are now a reality. GAO auditors can be expected to encounter more of these automatic attendance reporting systems during audit assignments. An example of such a system may be found at the McDonnell Douglas Corp. in St. Louis, Mo. The following explanation of the system was provided by officials of the corporation.

Employees at this plant use identification badges for automatic attendance reporting by inserting the badges directly into the data collection system. The main purpose of this system is to eliminate the volume of clock card preparation, handling, and keypunching, thereby reducing manual timekeeping. Company officials say that more accurate job-time reporting results because of the mechanical audit in lieu of a manual audit. Also, the time span to assemble attendance data for subsequent payroll and labor report processing is shortened to minutes instead of days.

When an employee reports for or leaves work, he inserts his identification badge into a badge reader which reads the holes punched in the badge as the employee's number and transmits the

number to a central control station where it is recorded in punched-card form. An automatic timing device records the date and time in the same card. Employees are assigned specific badge-reader stations for the purpose of establishing a control which is also punched in the card. Variations in attendance reporting are produced in card format and returned to timekeeping for correction on a daily basis. The attendance data is then processed against an employee master tape to edit the incoming data for correctness and to develop a record for entry into the payroll system for paycheck preparation and labor hours and cost reporting.

Monitoring reports of reader usage are produced for use in maintaining and establishing evenly balanced reader loads. Reports are produced for timekeeping to aid in making variation corrections and to maintain a follow-up on uncorrected data. Miscellaneous reports provide information on vendor personnel working at McDonnell Automation Co., reference lists of all employees on this system, overhead (indirect) labor hours, and final documentation of each employee for payroll records.

Advantages of this system are said to include:

- Ability to allow employees to "clock in" at more than one location if the nature of their work requires them to move between locations on various days or during the same day.
- Elimination of prepunched time cards.
- Rapid reaction to daily variations of time reported by employees.

- Supervisory review by exception reports of all clocked overtime.

### ***Auditape Training***

The second 2-day training course on the Haskins & Sells Auditape system was conducted in Washington, D.C., on July 18 and 19, 1963. The primary purpose of the course was to train selected individuals from GAO's Civil, Defense, and International Divisions in the use of this system. Over 50 staff members attended.

*E. H. Morse, Jr.*, director, Office of Policy and Special Studies, opened the training session and discussed the development of the Auditape system and GAO interest in it and other new auditing techniques.

*Joseph L. Boyd* and *Leonard J. Koczur* of OPSS conducted the training session which included an exercise in all Auditape routines and a live demonstration on an IBM 1401 computer.

Visiting dignitaries, Akio Ohmoto, administrative planner for the Japanese Board of Audit, and Professor J. C. Ray of California State College at Los Angeles, were briefed on using the computer in auditing, including the Auditape system, by *Edward J. Mahoney*, associate director, and *Joseph L. Boyd* of OPSS.

Mr. Ohmoto visited the General Accounting Office at the invitation of the Comptroller General made during the Sixth International Congress of Supreme Audit Institutions held in Tokyo in May 1968. In the ADP environment, Mr. Ohmoto was interested in GAO's efforts to solve the problems presented by the computer in management audits.

Mr. Ray, a professor of accounting, spent part of his sabbatical leave with GAO to become familiar with new techniques of auditing in an ADP environment.

### ***Using the Computer To Save Audit Time***

A specific example of the use of computer processing in carrying out an audit assignment is described below.

The supply management group of the Defense Division under the direction of *J. Kenneth Fasick*, associate director, decided that it should use ADP equipment to assist in the performance of audit work in the supply management area. Discussions were held with the OPSS staff and the determination was made to use Auditape for certain operations and to enter into a contract for the development of a computer program that will match and compare supply management data from two or more inventory control points and print out specific selected items.

While this new program is designed to do a specific job, it will be general enough to permit its use on many different supply management audits.

The program will be first used to compare records maintained by the Defense Logistics Services Center located in Battle Creek, Mich., with those maintained by nine Department of Defense inventory control points. The results and details of the use of this and other ADP audit programs will appear in future issues of the *Review*.

### ***ADP Controls***

The General Accounting Office has made available to Federal agencies its

Review Guide for Evaluating Internal Controls in Automatic Data Processing Systems. This guide was originally designed for use by GAO staffs in evaluating internal controls in ADP systems being reviewed.

Several Federal agency officials had expressed interest in obtaining this guide for use in their systems development and audit work. Accordingly, copies of the guide were printed in pamphlet form for use by other agencies.

### ***GAO Talks With Computers***

The professional staff members of the General Accounting Office are introduced to the latest sampling, analytical, and forecasting techniques through various training programs and publications. Complicated statistical formulae, lengthy time-consuming calculations, and tedious verifications are often inhibiting factors in the optimum use of these techniques where manual methods are employed. In order to develop greater confidence in and wider use of advanced audit techniques, GAO is exploring methods of utilizing electronic computers to perform much of the detailed work involved in using such methods.

In September 1968 a computer time-shared terminal was installed in the Office of Policy and Special Studies on an experimental basis. The terminal is a model 33 teletypewriter connected by a telephone line to the central processors and stored-program libraries of two General Electric computers located at Control Data Corporation-CEIR, Inc., whose offices are located in nearby Maryland. By dialing an appropriate

number and identifying himself as one of a family of Multi-Access Computer (MAC) Service users, the GAO auditor has the capability of the computer at the tips of his fingers for solving some of his problems.

The computer programs written in the BASIC (Beginner's All-purpose Symbolic Instruction Code), ALGOL, or FORTRAN languages with a limited quantity of data may be entered manually at the keyboard or more rapidly by means of a punched paper tape reader. A program stored in the "canned program" computer library or in GAO's own "save storage" area may be accessed by entering the appropriate call name for the program. One library program, for example, automatically computes 31 statistical measures, including the variance, standard deviation of the mean, and coefficient of variance for up to 500 data elements entered, either manually or on paper tape. Results, computed in a few seconds, are printed and paper tape punched by the teletypewriter.

Time-sharing is generally described as the ability of a computer system to accept multiple requests from independent users, perform complex computations, and deliver results so rapidly that each user feels that the entire computer is at his disposal.

Management decisionmaking functions based either on statistical or mathematical techniques are natural applications for the time-shared terminal. Case studies, tailored to the interests of GAO professional staff, are being developed by OPSS for training courses to demonstrate a few potential specific

applications. Professional staff members will not have to wait for such demonstrations before using the time-sharing system. Brief courses in BASIC programming and terminal operations will be conducted to encourage all GAO divisions to use this equipment wherever it will suit their needs to produce results in an accurate, scientific, and timely manner.

## GAO Staff Changes



**William A. Newman, Jr.**

William A. Newman, Jr., was designated as Special Assistant to the Comptroller General, effective July 15, 1968. In this position, Mr. Newman will be principally responsible for the assignment of the General Accounting Office contained in the amendments to the Defense Production Act of 1950 signed by the President on July 1. This assignment is to study the feasibility of prescribing uniform cost standards applicable to defense contracts (see page 67).

Mr. Newman is a graduate of Syracuse University where he was awarded a B.S. degree in accounting and was a member of the faculty at the University for 2 years teaching advanced accounting. He is a member—and past president—of the Federal Government Accountants Association, the American Institute of Certified Public Accountants, the New York State Society of Certified Public Accountants, the Institute of Internal Auditors, the American Accounting Association, and the American Society of Military Comptrollers.

For 12 years, Mr. Newman was in public accounting with Arthur Andersen & Co., New York; Phagan, Tillison & Tremble; and a partner of Stover, Butler, Murphy and Newman, Syracuse, N.Y. He is a CPA (New York) and, for several years, was controller and treasurer of a manufacturing concern. In 1942, Mr.

Newman entered the civilian service of the Federal Government and served as Assistant District Auditor, Eastern Audit District, Army Air Force. In 1943, Mr. Newman entered the military service and served as District Auditor, Los Angeles, and as Assistant Chief, Contract Audit Division, Headquarters, Army Air Force, Dayton, Ohio.

Upon his discharge from the Air Force in 1946, with rank of lieutenant colonel, Mr. Newman joined the U.S. General Accounting Office. From 1959 to his re-assignment, he was director of the Defense Division, which performs the accounting, auditing, and investigative work of the General Accounting Office as it relates to expenditure and application of appropriated funds of the Department of Defense and the three military departments.



**Charles M. Bailey**

Charles M. Bailey was designated director, Defense Division, effective July 15, 1968, succeeding William A. Newman, Jr., who was made Special Assistant to the Comptroller General. In this position, Mr. Bailey is responsible for the overall direction of the accounting, auditing, and investigative work (except for transportation and traffic management work handled by the Transportation Division and certain international programs handled by the International Division) conducted by the General Accounting Office in the Department of Defense, including the Departments of the Army, the Navy, and the Air Force and their contractors.

Prior to his joining the General Accounting Office in 1935, Mr. Bailey was an accountant in private industry. He attended the University of Denver.

Mr. Bailey has had broad experience in the accounting and auditing activities of the General Accounting Office. He performed extensive work in the area of war contract audits for the General Accounting Office and, in 1944, became chief auditor for GAO's Western Zone which, at that time, covered the 11 Western States, and the territories of Alaska and Hawaii. In 1952 he was promoted to assistant director of audits in charge of field operations. In July 1954 he was appointed director of GAO's European Branch with headquarters in Paris. During this period he also served as the United States representative on the North Atlantic Treaty Organization's International Board of Auditors for Infrastructure. Upon completion of a 2 $\frac{1}{2}$ -year tour of duty at this foreign post, he



was assigned in July 1956 to the Defense Division of the General Accounting Office. In June 1958 he was promoted to associate director and became the deputy director in 1960.

Mr. Bailey received the GAO Meritorious Service Award in 1958 and 1960 and the GAO Distinguished Service Award in 1968.



**Richard W. Gutmann**

Richard W. Gutmann was designated deputy director of the Defense Division, effective September 16, 1968.

Mr. Gutmann served in the U.S. Navy from 1942 to 1945. He is a CPA (Kansas) and prior to joining the General Accounting Office in 1954, he was a partner in a public accounting firm in Dodge City, Kans. He is a graduate of George Washington University and attended the Advanced Management Program of the Harvard University Graduate School of Business Administration in 1962.

Mr. Gutmann's service in the General Accounting Office has been primarily with the Defense Division. He was the associate director responsible for the auditing and investigative work in the Department of the Army from 1962 to 1966. Upon reorganization of the Defense Division, he was assigned responsibility for review of the supply management functions throughout the Defense establishment.

As of July 11, 1967, he was designated director of the European Branch, International Division, in which position he served until his designation as deputy director of the Defense Division.



**Lawrence V. Denney**

Lawrence V. Denney, director of the Claims Division for the past 11 years, retired from active service on September 18, 1968.

Mr. Denney is a native of Washington, D.C., where he attended Columbus University, receiving the LL.B. degree in 1934 and the B.C.S. degree in 1938.

He joined the General Accounting Office in 1935 as an auditor in the former Audit Division. In 1940 he moved to the Claims Division where he served as a claims examiner. In 1943 he joined the Office of the General Counsel as an attorney where he remained for 13 years. In 1951 he was made an assistant general counsel and during the years 1951-1955 he rendered special service as legal advisor to the Director of Audits. During 1955 and 1956, Mr. Denney headed the claims unit in the Office of the General Counsel.

Late in 1956, Mr. Denney returned to the Claims Division for special duties and in April 1957 he was designated by Comptroller General Joseph Campbell as director of that division, succeeding A. Banks Thomas who retired as director.

In announcing Mr. Denney's retirement, Comptroller General Elmer B. Staats stated: "He has served the Office with distinction and loyalty, and I know the best wishes of all of his associates are extended to him. . . ."



**Dean Crowther**

Dean Crowther was designated an assistant director in the Civil Division effective July 14, 1968. As an assistant director, Mr. Crowther will be responsible for GAO work at the Atomic Energy Commission and for the work performed for the Joint Committee on Atomic Energy.

Before joining the General Accounting Office in 1955, Mr. Crowther was associated with the public accounting firm of Arthur Andersen & Co. in Los Angeles. He was also associated with Hot Shoppes, Inc., for 3 years as the assistant to the executive vice president and with Evelyn Wood Reading Dynamics, Inc., for 2 years as comptroller and vice president.

In the General Accounting Office he has had a wide variety of assignments at Treasury, Post Office, Health, Education, and Welfare, and the Atomic Energy Commission.

He attended George Washington University and Benjamin Franklin University and holds a B.C.S. degree and an M.C.S. degree from Benjamin Franklin University. He is active in civic, community, and religious activities and is a member of the American Institute of CPAs, the District of Columbia Institute of CPAs, and the Virginia Society of CPAs.



**Chester S. Daniels**

Chester S. Daniels was designated an assistant director in the Defense Division effective July 14, 1968. As a member of the management control staff, he will be in charge of work relating to the implementation of project PRIME in the Department of the Army and other systems work on a Defense-wide basis.

Since joining the General Accounting Office in 1951, Mr. Daniels' assignments have included auditing of activities of Government corporations, Veterans Administration, United States Information Agency, and the Department of the Army. He received a Meritorious Service Award in 1964.

Mr. Daniels graduated from King's College in 1951 with a B.S. degree. He served in the U.S. Navy from April 1943 through February 1946. He is a member of the Federal Government Accountants Association.



**John A. Dowell**

John A. Dowell was designated as assistant manager of the Detroit Regional Office, effective July 14, 1968.

Mr. Dowell graduated from the University of Detroit with a bachelor of science degree (accounting) in 1949. He is a CPA (Michigan) and a member of the American Institute of CPAs and the Michigan Association of CPAs. In 1962 he attended the Executive Development Program at the University of Michigan.

Prior to joining the General Accounting Office in 1957, Mr. Dowell was associated with a public accounting firm and engaged in the private practice of accounting. He served in the U.S. Army from November 1951 to October 1953.



**David S. Glickman**

David S. Glickman was designated an assistant director in the Defense Division, effective July 14, 1968. As a member of the research and development staff, he is concerned with planning and directing examinations of the Department of Defense's acquisition of new, major weapon systems.

Mr. Glickman received the bachelor of arts (public accounting) degree from the George Washington University School of Government in 1943. He is a CPA (District of Columbia, 1947) and a member of the D.C. Institute of CPAs and the Federal Government Accountants Association, presently serving on that organization's Committee on Cooperation with Other Professional Organizations.

Mr. Glickman's service in the General Accounting Office includes an assignment in the European Branch from 1962 to 1964. He received a Meritorious Service Award in 1967.

Before joining the General Accounting Office in 1957, Mr. Glickman had extensive experience in industry and government as a corporation controller, public accountant, and as an accountant with the Renegotiation Board and the U.S. Army Signal Corps Contract Settlement Agency. He served in the Army during World War II.



**Arland N. Berry**

Arland N. Berry was designated an assistant director in the Civil Division effective July 14, 1968. In this position he will be responsible for the GAO accounting, auditing, and investigative work in the Farm Credit Administration, Agricultural Stabilization and Conservation Service, Commodity Credit Corporation, and Federal Crop Insurance Corporation in the Department of Agriculture.

Mr. Berry served in the U.S. Army from 1942 to 1946. Prior to joining the General Accounting Office in 1951, he was employed by the Veterans Administration. His service in the General Accounting Office includes a wide variety of experience in both the Civil Division and the European Branch, International Division.

Mr. Berry received a bachelor of arts degree in accounting from George Washington University in 1951. He received a Superior Performance Award in 1966. He is a member of the National Association of Accountants.



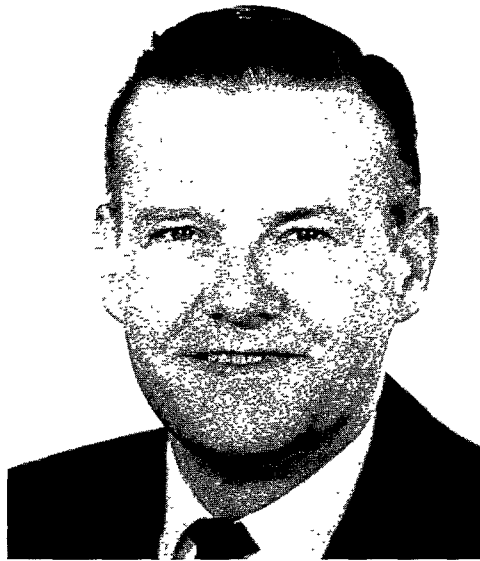


**Robert W. Hanlon**

Robert W. Hanlon was designated as assistant regional manager of the Washington Regional Office, effective July 14, 1968.

From 1954 to 1956, Mr. Hanlon served in the U.S. Army. In 1958 he received a bachelor of science degree from Northeastern University, Boston, Mass., and in 1960 he received a bachelor of commercial science degree from Benjamin Franklin University, Washington, D.C. He joined the Defense Accounting and Auditing Division of the General Accounting Office in 1958. In 1965 he transferred to the Washington Regional Office.

Mr. Hanlon is a member of the Society for Advancement of Management and in May 1968 he completed the 8th Advanced Management Course sponsored by the Washington, D.C., Chapter of the Society for Advancement of Management. Mr. Hanlon received the Meritorious Service Award in 1964, 1966, and 1967.



**Frank M. Mikus**

Frank M. Mikus was designated as assistant director of the European Branch of the International Division effective July 14, 1968.

Mr. Mikus was graduated from New York University with a B.S. degree in 1950. Prior to coming with the General Accounting Office in 1952, he was employed by a national public accounting firm in New York and by private industry. He served in the U.S. Navy from 1943 to 1946.

Prior to his assignment in the International Division, Mr. Mikus had a wide range of experience in the Civil Division.



**Joseph P. Normile**

Joseph P. Normile was designated director of the European Branch, effective September 16, 1968.

Mr. Normile served in the U.S. Army Air Corps from 1942 through 1945. He received a B.S. degree in industrial and labor relations from Cornell University in 1948, and an M.A. degree in economics from Catholic University in 1951. Since joining the General Accounting Office in 1953, Mr. Normile has attended the executive seminar conducted by the Brookings Institution, and the Executive Development Course conducted by the University of Michigan Graduate School of Business Administration. He is a CPA (District of Columbia), and a member of the American Institute of CPAs and of the American Economic Association.

Before his GAO service, Mr. Normile worked for a public accounting firm in Washington. From 1953 until his appointment as Director, European Branch, Mr. Normile had broad experience including planning and conducting reviews in the Civil and Defense Divisions and in the Transportation Division where he served as deputy director from March 1967.



**Harold Pichney**

Harold Pichney was designated an assistant director in the Civil Division, effective July 14, 1968. In this position he will serve on the program and report review staff in the Office of the Director.

During World War II, he served in the U.S. Navy. Before joining the General Accounting Office in 1954, Mr. Pichney was employed as a staff accountant with a large corporation and was associated with several public accounting firms in Philadelphia. He joined the Field Operations Division of GAO in the former Richmond, Va., Regional Office and has a wide range of experience in both the Field Operations Division and the Civil Division.

Mr. Pichney was graduated with honors with a B.S. degree from Temple University in 1950. He holds a CPA certificate (Pennsylvania) and is a member of the American Institute of Certified Public Accountants. In 1966, Mr. Pichney received a Superior Performance Award.



**Sam Pines**

Sam Pines was designated an assistant director of the Defense Division, effective July 14, 1968. As a member of the procurement staff, he will be responsible for work relating to procurement systems within the Department of Defense.

Prior to joining the Office, Mr. Pines had several years of public accounting experience. He also served in the U.S. Army from 1942 to 1946.

Mr. Pines joined the General Accounting Office in 1952. His assignments have included auditing of activities of the Bureau of Public Roads, General Services Administration, Commodity Credit Corporation, military housing and defense contracts in both the Field Operations Division, Kansas City Region, and the Defense Division.

Mr. Pines graduated from the University of Kansas with a degree in business administration. He is a certified public accountant in the States of Kansas and Missouri. He is a member of the Missouri Society for Certified Public Accountants and is a past president of the Kansas City Chapter of the Federal Government Accountants Association.



**Fred J. Shafer**

Fred J. Shafer has been advanced to the position of deputy director, Transportation Division, replacing Joseph P. Normile, who was designated director of the European Branch.

Mr. Shafer entered Government service in 1941 and served in the U.S. Army during World War II. He has received degrees in accounting from Southeastern University and in economics from American University. He has completed the executive programs of the Brookings Institution and the University of Michigan Graduate School of Business Administration.

Since joining the General Accounting Office in 1946, Mr. Shafer has held positions of increasing responsibility in the transportation work of the General Accounting Office. Most recently he has been associate director responsible for GAO reviews of transportation and traffic management activities—foreign and domestic—in all agencies of the Federal Government.



**Paul T. Smith**

Paul T. Smith was advanced to the position of assistant director in the Transportation Division on July 15, 1968. He will be in charge of various staff and support functions within the division.

Prior to joining the General Accounting Office, Mr. Smith was employed by a large eastern motor carrier. He attended service school at Yale University, and served in the Army Air Force from 1943 to 1946. He is a retired member of the Air Force Reserve, having served duty as a staff transportation officer with the Headquarters, U.S. Air Force, and the Military Traffic Management and Terminal Service.

Since joining the General Accounting Office in 1942, Mr. Smith has held supervisory and staff positions involving increasing responsibility in the various phases of transportation work.



**George M. Sullivan**

George M. Sullivan, manager of the Report Department, retired from the General Accounting Office on July 16, 1968.

Mr. Sullivan is a graduate of Western Maryland University and did post-graduate study at the University of Virginia and Johns Hopkins University. Before coming to the General Accounting Office, Mr. Sullivan served in the Army as a first lieutenant. He was a teacher in Laurel High School and a vocational instructor and coach at H. C. Turner Masonic School.

Mr. Sullivan joined the General Accounting Office in 1936 as an auditor in the travel section of the Audit Division. He steadily advanced in various positions in the Division of Audits, Field Operations Division, and Civil Accounting and Auditing Division. He was designated as manager of the Report Department in 1964 and occupied that position until he retired.

In June 1968 Mr. Sullivan received the GAO Distinguished Service Award.

Mr. Sullivan's contributions to the efficient and effective management of the Report Department and his loyalty and devotion to the General Accounting Office were well known and he will be greatly missed by his numerous friends and coworkers.





**Ralph E. West**

Ralph E. West was designated as an assistant director in the Transportation Division, effective July 15, 1968. He is in charge of the audit and settlement of transportation payments made by the United States to foreign and domestic freight and passenger carriers.

Mr. West served in the U.S. Navy from 1942 to 1945. He received a degree in accounting from Columbus University in 1948.

Since joining the General Accounting Office in 1945, Mr. West has held positions of increasing responsibility in the various phases of the transportation audit, management, and planning activities of the Office. He received the GAO Meritorious Service Award in 1961 and 1962.

## Professional Activities

### *Office of the Comptroller General*

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

The National Advisory Council on Economic Opportunity, June 24 (informal briefing).

Institute for Budget and Management Training of the National Association of State Budget Officers; Kentucky Department of Finance; and Office of Development Services and Business Research, Lexington, Ky., on "Budget Reform and Overall Executive Management," July 10.

Committee on Court Administration of the Judicial Conference of the United States, San Francisco, Calif., August 26.

Annual Convention of the American Accounting Association, San Diego, Calif., on "The Manager, the Government, and the Accounting Profession," August 27. Mr. Staats' address appears in this issue of the *Review*.

Kansas Society of Certified Public Accountants, Wichita, Kans., on "The Growing Importance of the Accountant to Better Management of Public Affairs in the United States," September 12.

Mr. Staats was chairman of the Training Evaluation and Advisory Committee, National Association of State Budget Officers, meeting in Washington, D.C., September 17.

Mr. Staats' speech on "The Growing Importance of Internal Auditing in

Government," delivered at the Annual International Conference of the Institute of Internal Auditors on June 19, is printed in the September/October 1968 issue of *The Internal Auditor*.

A paper entitled "Making the 1967 Science Budget," by Mr. Staats, appears in the book recently published by the Brookings Institution on "Science Policy and the University." The book is a compilation of papers and summaries of discussions held by a group of scientists, governmental officials, Members of Congress, and academic administrators in a series of seminars held at the Brookings Institution.

*The Public Administration Review* for September/October 1968 carries an article by Mr. Staats entitled "The GAO: Present and Future."

The Assistant Comptroller General, *Frank H. Weitzel*, addressed the following groups:

Brookings Institution Conferences for Business Executives at GAO Building, Washington, D.C., on "The Role of the General Accounting Office," June 10, June 24, and July 15.

Advisory Council of Federal Contracts Reporter on "Uniform Accounting Standards," National Lawyers Club, July 17.

Financial Management Institute for State Fiscal Officers, Bureau of Employment Security, Department of Labor, at Airlie House, Warrenton, Va., July 21.

On June 19, Mr. Weitzel presented the annual leadership awards of the Federal Government Accountants Association at the national symposium held in Denver, Colo.

Mr. Weitzel's address before the annual conference of the Municipal Finance Officers Association in New Orleans, La., on June 3 on "State and Local Accounting for Federally Sponsored Programs" has been printed by the Association in its Special Bulletin 1968B, dated July 16, 1968.

### ***Office of the General Counsel***

*Robert F. Keller*, general counsel, participated in a program of the American Bar Association, National Institute on the Law of Public Contracts, Lawyers Club, June 13, at a mock trial before the Armed Services Board of Contract Appeals—Appeal of Per-Plexed Electronics, Inc., ASBCA No. 15198.

On August 5, Mr. Keller attended a meeting of the American Bar Association in Philadelphia, Pa. He was elected as a member of the Council of the Public Contract Section.

*Melvin E. Miller*, assistant general counsel, spoke before the Defense Procurement Management Course on "The Role of the GAO in Defense Procurement," August 27, at Fort Lee, Va.

*Paul Shnitzer*, deputy assistant general counsel, spoke before Government Contracts Council of the Machinery and Allied Products Institute at the Madison Hotel, Washington, D.C., June 18, on "Truth-in-Negotiations Act and the GAO."

On August 15, Mr. Shnitzer addressed the Defense Advanced Procurement Management Course, at Fort Lee, Va., on "Problems in Formal Advertising."

*Milton J. Socolar* attended the seminar conducted by the Civil Service Commission August 5–16, at Kings Point, N.Y., on "Management of Organizations."

### ***Office of Policy and Special Studies***

*E. H. Morse, Jr.*, director, was elected vice president of the Washington Chapter of FGAA for 1968–69. Mr. Morse is also serving on committees of other accounting organizations as follows:

District of Columbia Institute of CPAs, Governmental Accounting Committee, chairman.

American Institute of CPAs, Committee on Education and Experience Requirements for CPAs.

*The Federal Accountant* for September 1968 carries an article by Mr. Morse entitled "A New Look at Accountants' Contributions to Management."

*Frederic H. Smith*, deputy director, is serving as a member of the Board of Governors of the District of Columbia Institute of CPAs.

Mr. Smith is also a member of the Committee on State Legislation, American Institute of CPAs.

*Francis W. Lyle*, assistant director, was elected president-elect of the Washington Chapter of FGAA for 1968–69.

*William L. Campfield*, assistant director, is on leave of absence from the General Accounting Office for the 1968–69 academic year. Mr. Campfield is teaching at the University of Missouri School of Business and Public Administration during the fall semester and will teach at the University of Illinois College of Commerce and Business Administration during the spring semester.

## PROFESSIONAL ACTIVITIES

*Donald J. Horan*, supervisory accountant, spoke on "Federal Auditing—Status, Problems, and Future," at the Institute on Management of Government Finances of the U.S. Civil Service Commission on June 20.

*Douglas E. Cameron*, supervisory accountant, has been appointed to serve on the Accounting Principles Committee of the D.C. Institute of CPAs for 1968–69.

*The Florida Certified Public Accountant* for June 1968 includes a paper by *Leo Herbert*, deputy director for staff development, entitled "What the Professional Staff Member in the United States General Accounting Office Must Know in the Future." This paper was delivered by Mr. Herbert in December 1967 at the Sixth Annual Conference on Management Advisory Services, Florida State University, Tallahassee.

### **Civil Division**

*A. T. Samuelson*, director, is serving as a national director of the National Association of Accountants. Mr. Samuelson has also been designated as vice chairman, Governmental Accounting Committee, D.C. Institute of CPAs, for 1968–69.

*Henry Eschwege*, associate director, spoke to the Anne Arundel-Southern Maryland Chapter of the Associated Builders and Contractors, Inc., on September 10. He discussed the GAO role with emphasis on reviews of the predetermination of prevailing wage rates by the Secretary of Labor for construction of federally financed and assisted projects.

*Max Hirschhorn*, associate director, spoke at the regional managers conven-

tion, Department of Housing and Urban Development, in Washington, D.C., on August 14. His subject was "The Relationship Between HUD Internal Audit and the GAO."

*Irving T. Boker*, supervisory auditor, attended a seminar on the Effects of Technological Development conducted by the Civil Service Commission on September 9–20, in Kings Point, N.Y.

### **Defense Division**

*Charles M. Bailey*, director, addressed the professional military comptroller course at the Air University, Maxwell Air Force Base, on August 19. He discussed the organization and functions of the General Accounting Office, with emphasis on the work of the different functional groups of the Defense Division.

*Daniel Borth*, associate director, was recently appointed chairman, Publications Policy Committee, of the Federal Government Accountants Association.

*Harold H. Rubin*, associate director, on September 18, addressed the Cleveland Chapter of the Federal Government Accountants Association on "An Approach to Audit of Research and Development Activities."

*Mathew Gradet*, assistant director, was appointed to serve on the Membership Committee of the District of Columbia Institute of CPAs.

*Donald L. Eirich*, assistant director, on July 23, spoke at the monthly Cost Reduction Program luncheon of the Department of Defense at Fort Myer, Va. His address covered highlights of the GAO review of certain features of the Department's Cost Reduction Program.

*Max Stettner*, assistant director, attended the 12th Annual Summer Institute for Federal Executives, held at the Center for Advanced Study in Organization Sciences, University of Wisconsin, Madison, Wis., during the period July 15–August 9.

*Charles S. Collins*, assistant director, attended the Executive Development Program at the Graduate School of Business and Public Administration at Cornell University during June and July.

### **International Division**

*Louis W. Hunter*, associate director, spoke on June 13 at the meeting of the Latin American Mission Directors of the Agency for International Development held in Washington to discuss the Alliance for Progress. Mr. Hunter described the current reporting concepts of the General Accounting Office.

*Gilbert F. Stromvall*, assistant director, completed in June a 6-month course in economic studies at the Foreign Service Institute, Department of State. In forwarding a training evaluation report to the Comptroller General, the director of the Foreign Service Institute commended Mr. Stromvall's overall performance, his generally excellent record, and his genuine contribution as a person to the training program.

### **Field Operations Division**

*Mitchell E. McLaughlin*, supervisory auditor, Atlanta, has been elected to serve as treasurer of the Macon and Warner Robins, Ga., Chapter of FGAA for fiscal year 1969.

*Zane Geier*, supervisory auditor, Atlanta, has been admitted to membership in the American Academy of Political and Social Science.

*W. C. Herrmann, Jr.*, and *J. L. Silvati*, supervisory auditors, Cincinnati, have been elected to serve as directors, and *W. A. Broadus*, supervisory auditor, Cincinnati, has been elected secretary-treasurer of the Cincinnati Chapter of FGAA for fiscal year 1969.

The Colorado Society of CPAs has appointed the following supervisory auditors of the Denver staff to serve on committees: *George D. Doyle* on the United Fund Committee, *James A. Reardon* on the Planning Committee, and *George T. Kropp, Jr.* on the Public Information Committee.

*John A. Dowell*, assistant regional manager, Detroit, was appointed to the Advisory Committee on Legislation of the Michigan Association of CPAs for fiscal year 1969.

*Eugene G. Horwitz*, supervisory auditor, Los Angeles, spoke before the auditing class at the Long Beach, California State College in May 1968 on "The Role of the General Accounting Office."

*H. L. Krieger*, regional manager, Los Angeles, was appointed to the Intergovernmental Relations Committee of the Los Angeles Federal Executive Board in June 1968.

*Edwin J. Kolakowski*, assistant regional manager, and *Milo L. Wietstock*, supervisory auditor, Los Angeles, have been elected vice president and director, respectively, of the Los Angeles Chapter of FGAA for fiscal year 1969.

The Louisiana Society of CPAs has recently appointed the following super-

## PROFESSIONAL ACTIVITIES

visory auditors of the New Orleans staff to serve on committees: *Paul C. deLasus* as a member of the Management Services Committee, *Homer D. Eaton* and *William D. Sims* as members of the Education Committee, and *Malcolm J. Ledet* as a member of the Government and Industry Committee.

*Herbert E. Larson*, assistant regional manager, and *Robert Barbieri*, supervisory auditor, New York, have been elected first and second vice president, respectively, and *Val Tomicich* and *Andrew Macyko*, supervisory auditors, New York, have been elected as directors of the Long Island Chapter of FGAA for fiscal year 1969.

*Felix Brunner* and *George Choos*, supervisory auditors, San Francisco, have been accepted as members of the California Society of CPAs. Mr. Choos has become a member also of the Accounting Research Association.

The Washington State Society of CPAs has recently appointed the following members of the Seattle staff to serve on committees: *William N. Conrardy*, regional manager, as a member of the Government Accounting Committee, and *L. Neil Rutherford*, supervisory auditor, as a member of the Legislative Committee. Mr. Rutherford has been elected for a 3-year term to the Council of the Puget Sound Chapter of the American Society for Public Administration.

The Oregon Society of CPAs has appointed the following supervisory auditors of the Portland suboffice, Seattle region, to serve on committees: *Walter A. Choruby* as a member of the Government Accounting and Auditing

Committee, and *Leo H. Kenyon* as a member of the Management Services Committee.

*D. L. Scantlebury*, regional manager, Washington, has been elected as a director of the Northern Virginia Chapter of FGAA for fiscal year 1969.

*R. W. Hanlon*, assistant regional manager, Washington, has completed an 8-month advanced management course sponsored by the D.C. Chapter of the Society for Advancement of Management.

*Kenneth Updegraff*, auditor, Washington, received a master of science degree in accounting from the Wharton School of Business.

*J. D. Sconce*, supervisory auditor, Washington, recently completed a full year of graduate work at the University of Virginia studying public administration. This study was sponsored by the National Institute of Public Affairs. In recognition of this accomplishment, the Comptroller General, Mr. Staats, in a ceremony in his office presented a certificate to Mr. Sconce on September 6, 1968, certifying that he is a fellow of the National Institute of Public Affairs.

### **Transportation Division**

*J. P. Normile*, deputy director, and *E. B. Eberhart*, staff assistant to the assistant director (audits), attended the semiannual meetings of the Cargo and Passenger Revenue Committees of the Airline Finance and Accounting Conference in Washington, September 16 and 17. They discussed various billing problems encountered by the carriers on Government traffic, the simplification of Government freight forms and

PROFESSIONAL ACTIVITIES

procedures, and the development of computer systems in the industry.

*J. C. Shovlin*, supervisory traffic management specialist, attended the Trans-

portation Management Program at the Stanford University Graduate School of Business held from June 23 through July 20.

## Successful Candidates—May 1968 CPA Examination

Listed below are the employees who passed the May 1968 CPA examination:

### REGIONAL OFFICE

<i>Name</i>	<i>Regional Office</i>	<i>State</i>
Julian C. Ackley . . . . .	Cincinnati . . . . .	Ohio.
Simon Bonderow . . . . .	Philadelphia . . . . .	Pennsylvania.
W. A. Broadus, Jr. . . . .	Cincinnati . . . . .	Ohio.
Cecil B. Carter . . . . .	Kansas City . . . . .	Oklahoma.
Floyd L. Dunn . . . . .	Los Angeles . . . . .	California.
Samuel N. Gilman . . . . .	San Francisco . . . . .	California.
William E. Hanson . . . . .	Seattle . . . . .	Washington.
Lindsay B. Harwood . . . . .	Norfolk . . . . .	Virginia.
Frederick E. Harzer . . . . .	Philadelphia . . . . .	Pennsylvania.
Michael G. Hebert . . . . .	Seattle . . . . .	Oregon.
Ernest G. Hinck . . . . .	Seattle . . . . .	Washington.
Donley E. Johnson . . . . .	Chicago . . . . .	Minnesota.
Richard A. Karle . . . . .	Los Angeles . . . . .	California.
Ronald L. King . . . . .	San Francisco . . . . .	California.
John R. Kingery . . . . .	San Francisco . . . . .	California.
Cleamont D. Palmer . . . . .	Denver . . . . .	Utah.
George J. Rizzo . . . . .	Boston . . . . .	Massachusetts.
Kenneth E. Updegraff, Jr . . . . .	Washington . . . . .	Virginia.

### WASHINGTON

<i>Name</i>	<i>Division</i>	<i>State</i>
Ronald A. Coen . . . . .	Civil Division . . . . .	Virginia.
David L. Jones . . . . .	Civil Division . . . . .	Virginia.
Roy J. Kirk . . . . .	Civil Division . . . . .	California.
Leonard J. Koczur . . . . .	Office of Policy & Special Studies.	Virginia.
Thomas F. Rider . . . . .	Civil Division . . . . .	Virginia.
James K. Seidlinger . . . . .	Civil Division . . . . .	Virginia.
Gene P. Spory . . . . .	Civil Division . . . . .	Virginia.



## New Staff Members

The following professional staff members joined the accounting and auditing divisions and reported for work during the period June 16, 1968, through September 15, 1968.

***Civil  
Division***

Andrews, Ronald W.	Columbia Union College
Beauch, Stephen R.	Benjamin Franklin University
Bell, James A.	Texas A. & I. University
Bell, Wilfred S.	Troy State College
Bialas, Gerald J.	University of Pittsburgh
Bittman, Thomas C.	University of Connecticut
Blades, Daniel W.	Baltimore College of Commerce
Boivin, Linda L. (Miss)	Bryant College
Bonner, Lucille B. (Mrs.)	University of Maryland
Eminhizer, Darrell E., Jr.	Juniata College
Faustman, William R.	Baltimore College of Commerce
Ferber, Martin M.	University of Maryland
Focht, John C.	Columbia Union College
Ford, Blanchard F., III	Pembroke State College
Franklin, Donald G.	State University of New York at Buffalo
Fritzingler, Carl J., Jr.	Moravian College
Gloystein, Joseph E.	Gannon College
Heim, Darrell L.	University of Montana
Hess, Walter J.	University of Pittsburgh
Hoffman, Clair A., Jr.	University of Baltimore
Honcharik, Joseph	University of Scranton
Ingram, Ronald H.	Tusculum College
Jackson, Polly A. (Mrs.)	Virginia State College
Jacobs, William T.	Benjamin Franklin University
Jennings, Glenn E., Jr.	University of Maryland
Jozefczyk, Joseph E.	Gannon College
Killgore, Andrew N.	American University
Kleine, Douglas M.	University of Pittsburgh
Levin, Michael H.	Lehigh University
Lyons, John B.	University of Maryland
McKee, Benny H., Sr.	University of Hawaii
Miller, Thomas E.	Wheeling College
Modliszewski, Louis V.	Geneva College
Pelletier, Robert L.	Providence College
Pepin, Roland O.	Providence College
Pierce, Curtis R.	Pembroke State College
Rea, Rita L. (Miss)	Virginia Polytechnic Institute
Rey, Charles F.	Baltimore College of Commerce
Ryder, Arnold F.	Husson College
Schnaars, Donald R.	Bloomsburg State College
Schwyn, John A.	University of Toledo

NEW STAFF MEMBERS

**Civil  
Division—Con.**

Shiplett, Dennis D.	Youngstown State University
Stevens, Carrie M. (Miss)	Livingstone College
Thompson, Franklin D.	Marshall University
Warren, Debora O. (Mrs.)	Baltimore College of Commerce
Weaver, Joanne E. (Miss)	Indiana University of Pennsylvania
Wesolowski, Robert J.	Youngstown State University
Whitt, Teresa J. (Mrs.)	Mercyhurst College
Yurchik, Nicholas B.	University of South Carolina
Zeigler, Paul T.	University of Maryland

**Defense  
Division**

Borrelli, John A.	University of Scranton
Councilman, R. James	United States Air Force
D'Ambrosio, Antonio J.	Research Analysis Corporation
Dantic, Paul T.	Murray State University
DeSarno, William A.	University of Scranton
Edwards, Karen L. (Miss)	Wake Forest University
Epps, William, Jr.	Virginia State College
James, David J., Sr.	Columbia Union College
Kriethe, Jackie L.	Phillips University
Kyllo, Patricia J. (Miss)	Lewis and Clark College
Lund, Joseph W.	University of Akron
Nix, David E.	Western State College
Pickett, Joseph E.	University of Bridgeport
Ruberton, Louis A.	United States Army
Schauppner, William J.	Western State College of Colorado
Sommer, Robert C.	Southern Illinois University

**International  
Division  
Washington**

Woods, Earl G.	Department of Commerce
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**Far East Branch**

Anzai, Earl I.	University of Hawaii
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**Office of Policy  
and Special Studies**

Grossbard, Stephen I.	Eastern Michigan University
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**Office of the  
Comptroller  
General**

Landry, Hayes J.	United States Air Force
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**REGIONAL OFFICES**

**Atlanta**

Beach, Jesse L.	Northeast Louisiana State College
Hamner, Larry D.	Tennessee Technological University
Howard, James E.	Tennessee Wesleyan College

NEW STAFF MEMBERS

<b>Boston</b>	Blais, Maurice S.	Husson College
	Breault, Michael G.	Husson College
	Brown, William R., Jr.	Husson College
	DeMinico, Nicholas F.	Northeastern University
	Elderkin, Michael F.	University of Maine
	Gaynor, Michael J.	Suffolk University
	LaPierre, Robert J.	Merrimack College
	Matthews, Donald C.	Babson Institute
	Sayers, Robert B.	Boston College
<b>Chicago</b>	Adamsons, Uldis	University of Minnesota
	Boston, Donald S., Jr.	Eastern Illinois University
	Konjevich, Peter	Lewis College
	Kurey, Leslie M.	Roosevelt University
	Musial, James B.	St. Joseph's College
	Roraff, Thomas A.	Wisconsin State University
	Ziaj, Barbara A. (Miss)	University of Illinois
<b>Cincinnati</b>	Haddix, Wallace L.	Eastern Kentucky University
	Nichols, William B., Jr.	Northwestern State College
<b>Dallas</b>	Ables, Mark J., Jr.	Southern Methodist University
	Fonck, Robert R.	University of Oklahoma
	Hughes, Sammy L.	North Texas State University
	Shields, Douglas W.	University of Texas at Arlington
	Woodard, Joseph A., III	University of Texas at Arlington
<b>Denver</b>	Ford, Arthur P., III	University of Utah
	Gregoryk, Paul J.	North Dakota State University
	Lawrence, John A.	University of Texas at Arlington
	McNurlin, Kathryn E. (Miss)	Kearney State College
	North, Billie J.	Northern Illinois University (Professor)
		Thorbeck, Orlan D.
<b>Detroit</b>	Kassuba, Lawrence J.	Central Michigan University
<b>Kansas City</b>	Moores, James S.	University of Missouri
<b>Los Angeles</b>	Bogdan, Thomas	California State College at Fullerton
	Curtis, Walter K.	Arizona State University
	Hall, Gloria G. (Mrs.)	California State College at Fullerton
	McGonagill, Tommy L.	California State Polytechnic College at San Luis Obispo
	Minsky, Joseph S.	California State College at Fullerton
	Ong, Victor J.	University of Arizona
	Spence, Danny L.	California State College at Fullerton
		Valachi, Donald J.

NEW STAFF MEMBERS

***New Orleans***

Mastracchio, Dominic  
Root, Edward R.

Rosenberg, David  
Sandoz, Vernon J., Jr.  
Weems, James R., Jr.

Northwestern State College  
California State College at Fullerton  
Tulane University  
Louisiana State University  
Northwestern State College

***New York***

Glass, Barry H.  
Henry, George R.

McCabe, Joan M. (Miss)  
Mladinich, Joseph G.  
Peretz, Martha (Mrs.)  
Russo, James A.

Tatsch, Paul A.  
Walsh, Joseph P.  
Wszolek, Carol A. (Miss)

City College of New York  
New York Institute of Technology  
University of Maryland  
Villanova University  
New York University  
Indiana University of Pennsylvania  
Houghton College  
Wagner College  
State University College at Oneonta

***Norfolk***

Baker, Janet L. (Miss)  
Burn, Charles H.  
DeManche, Earl R.  
Goble, Terry L.  
Hutchens, Albert L., Jr.  
McComb, William W., Jr.

Miller, Michael R.  
O'Brien, James R.  
Ratliffe, John T.  
Relyea, Leslie M. (Miss)  
Wilkerson, Frances A. (Miss)

College of William and Mary  
University of South Carolina  
Virginia Polytechnic Institute  
Lenoir Rhyne College  
Appalachian State University  
St. Andrews Presbyterian College  
Appalachian State University  
Richmond Professional Institute  
Appalachian State University  
Old Dominion College  
East Carolina University

***Philadelphia***

Cooper, John A.  
Dickey, Frank A.  
Goldner, Eugene S.  
Hoelzel, John L.  
Paul, Linda L. (Miss)  
Yoshell, Keith A.  
Zlakowski, Thomas

Temple University  
Temple University  
Pennsylvania State University  
Pennsylvania State University  
Drexel Institute of Technology  
Bemidji State College  
University of Baltimore

NEW STAFF MEMBERS

*San Francisco*

Arata, Larry E.  
 Cannard, David R.  
 Corum, P. J.  
  
 Darcy, Philippe L.  
  
 Kaskisto, Louise H. (Miss)  
 Monahan, Thomas P.  
  
 Pass, William A.  
 Powell, Robert A.  
 Rosenbaum, Warren F.  
 Yamashita, Thomas M.

Fresno State College  
 Pacific Union College  
 California State College at  
 Hayward  
 Department of Health, Educa-  
 tion, and Welfare  
 University of Denver  
 California State College at  
 Hayward  
 Humboldt State College  
 Sacramento State College  
 Fresno State College  
 Armstrong College

*Seattle*

Hayman, Roger D.  
 Kautzman, Donald D.  
 Martensen, Keith C.  
  
 Schumann, Robert J.

University of Oregon  
 Montana State University  
 Eastern Washington State Col-  
 lege  
 University of Oregon

*Washington  
 (Falls Church)*

Barnes, Cheryl S. (Miss)  
 Brown, Joseph C., Jr.  
 Coyner, Judith L. (Miss)  
 Franklin, Layman G.  
 McCully, Marianne T. (Miss)  
 Running, Ralph G.  
 Sharlach, Philip H.  
 Squire, John T.  
 Sutherland, Floyd J.

Madison College  
 Morris Harvey College  
 Madison College  
 Madison College  
 Madison College  
 Georgetown University  
 Quinnipiac College  
 Lehigh University  
 Carson-Newman College

## Readings of Interest

The reviews of books, articles, and other documents in this section represent the views and opinions of the individual reviewers, and their publication should not be construed as an endorsement by GAO of either the reviewers' comments or the books, articles, and other documents reviewed.

### *The Federal Budget—Its Impact on the Economy*

Fiscal 1969 edition. National Industrial Conference Board, Inc., 1968. 54 pp.

The National Industrial Conference Board has published the second edition of its very impressive and useful analysis of the Federal budget. The first edition of this analysis appeared in April 1967. It included a review of the receipt and expenditure patterns of the Federal budget, special analyses of significant budget programs, and information on postwar trends of major expenditure programs and their relation to the national economy.

The new 54-page booklet is aimed at distilling a full and factual portrait of the Federal budget from over 2,000 pages of text and tables that make up the budget documents. The overall result is a very convenient reference source, the value of which is enhanced not only by the liberal use of charts and graphs but by the brief historical perspectives that are included for major spending areas.

The 1968 edition has been updated to include the 1969 budget and new sections have been added to describe the "penetration" of the Planning-Programming-Budgeting System, and to present additional special analyses re-

lating to the Vietnam War and grants to State and local governments.

The new edition also discusses briefly the changes in the 1969 budget as a result of adoption of new budget concepts recommended in October 1967 by the President's Commission on Budget Concepts, such as—

- Unified budget, replacing the three budget concepts that had been used in recent years.
- Accrual basis of accounting for receipts and expenditures.
- Segregation of spending and lending outlays.
- Treatment of proceeds from sale of participation certificates as borrowings rather than as an offset to spending.

This work is highly recommended for reading and study by GAO staff members who feel a need for supplementary sources in order to remain familiar with current Federal budget trends and perspectives.

The Bureau of the Budget publishes each year the *Budget in Brief*, a pamphlet which presents a convenient summary of the highlights of the Federal budget. The Bureau's annual *Special Analyses* is also an excellent reference source for those who wish detailed information on special subjects relat-

ing to the budget. The National Industrial Conference Board's publication is a valuable supplementary source of information.

The Federal budget provides the backdrop against which GAO accounting and auditing efforts are carried out and a good view of this background is needed for our best performance. In addition, as the booklet under review notes almost at the outset:

The Federal budget is closely linked to the performance of the economy as a whole: it both affects this performance and is, in turn, affected by it.

A good understanding of the Federal budgetary process and its role in our Government and economic system is of value not only to the GAO professional staff in its capacity as independent accountants and auditors for the Federal Government; it is also of value to us individually as responsible citizens who are expected to be conversant with this very necessary but not commonly understood process.

Copies of the booklet are available in the GAO Library, in the accounting and auditing divisions in Washington, and in the field offices.

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***Governmental Accounting,  
Auditing, and Financial  
Reporting***

Municipal Finance Officers Association of the United States and Canada, Chicago, Ill., 1968, 234 pp., \$8.50.

This book which is the 18th publication of the National Committee on Governmental Accounting (NCGA)

combines and revises two earlier publications of the committee, namely, *Municipal Accounting and Auditing* (1951) and *A Standard Classification of Municipal Accounts* (1953). In the foreword, NCGA states that the book is an attempt to give recognition to changed concepts, procedures, and requirements of governmental accounting and reporting since publication of the committee's standard works cited above.

To those whose interest lies primarily in studying the impact and influence of Federal Government financial management, the book disappointingly limits itself, as stated in the foreword, to discussing " \* \* \* the principles and procedures of accounting, budgeting, auditing, and financial reporting for all governmental units *except National governments and their agencies.*" These reviewers are also disappointed in the paucity of attention given to the development of cost information and to the use of cost data in support of budget formulation and evaluation of budget performance.

But every book has virtues as well as shortcomings. Here are some of the strengths of the book:

- *Appendix A containing 22 pages of terminology.* This will be a useful reference point, especially to those who are newcomers to accounting and reporting for local and State governments.
- *Appendix B which contains 27 pages of recommended account classifications.* These guides could be a significant factor in bringing about more uniform reporting between the various local govern-

ments as well as furnishing the framework for developing inter-related account structure to support responsibility cost centers, program categories, and appropriation or fund categories.

- A large number of illustrative figures, forms, and tables dealing with complete financial statements or segments thereof.
- A bringing together in one volume of the essence of the many releases, modified to fit current conditions, made by NCGA over the years.

Now to return to the other side of the coin. It is relevant to note that with the increasing scope and complexity of Federal grants and sponsorship of State and local government programs there is an impelling need for timely and responsive accounting and other information at each of the three levels of government—Federal, State, and local. Thus, it can be stated that one of the book's major shortcomings is a failure to provide an adequate overall framework so urgently needed by State and local governments for a total management information system, of which the accounting system is an integral part. The continued emphasis on fund accounting could well be an impediment to program budgeting because costs of a particular program are frequently scattered through several different funds, making it almost impossible to reassemble them in one or a group of related accounts. Recognition of this shortcoming is given in Appendix E of the book by such comments as, "A comparison by one governmental unit with another of particular taxes or expenditures if such comparisons are based

solely on data of a single fund, and not on a 'total' basis, can be equally misleading."

For some funds, such as enterprise, capital projects, special assessment, and intergovernmental service and trust funds, the full accrual basis of accounting is recommended. With respect to certain funds, such as the enterprise funds which can encompass areas like water and sewer operations, there is frequently a synonymous relationship to a major program category. In addition, the fund is often made the responsibility of one agency head. However, the revenues and expenditures of these funds usually comprise a relatively small percentage in relation to the total governmental unit's activities.

In regard to reporting policies it is the view of the reviewers that a consolidation of funds would offer an improved method of presenting an overall statement of financial condition. The book makes no such recommendation. It goes only so far as to recommend "combined" statements of condition which emphasize the entity concept of each fund.

On another point of reporting, i.e., an example of a recommended auditor's opinion presented in Appendix C-2, the committee drew a slightly negative reaction from the American Institute of CPAs. Writing in the Accounting and Auditing Problems section of the July 1968 issue of *The Journal of Accountancy*, Richard A. Nest, Director of Technical Services, American Institute of CPAs, acknowledges that the publication should be of interest and assistance to practitioners because of its comprehensiveness. However, he warns



his readers that the recommended auditor's opinion is at variance with AICPA reporting standards as set forth in paragraph 8 of Chapter 13 of *Statements of Auditing Procedures*, Number 33.

In respect to auditing, the emphasis is on what has come to be known as strictly compliance audit or procedural verification. A reader looks in vain for some guidance in the new management audit approaches.

Since this is the first major attempt at revising State and local governmental accounting concepts in about 15 years, these reviewers are left somewhat less than excited by this book. Readers of the *GAO Review* who are familiar with accounting principles and standards and related practices prescribed for Federal agencies will find a great disparity between the guidelines furnished to Federal agencies and those

recommended by the NCGA in the publication which is the subject of this review.

The book does, however, make clear the need for a greater dialogue between Federal, State and local government officials who should be responsible for promoting and making needed improvements. This underscores the idea advanced through the Joint Financial Management Improvement Program and by other Federal officials that the time is ripe and the time is now to get the coordinated Federal-State-local effort necessary for significant improvements in financial management at all levels of government.

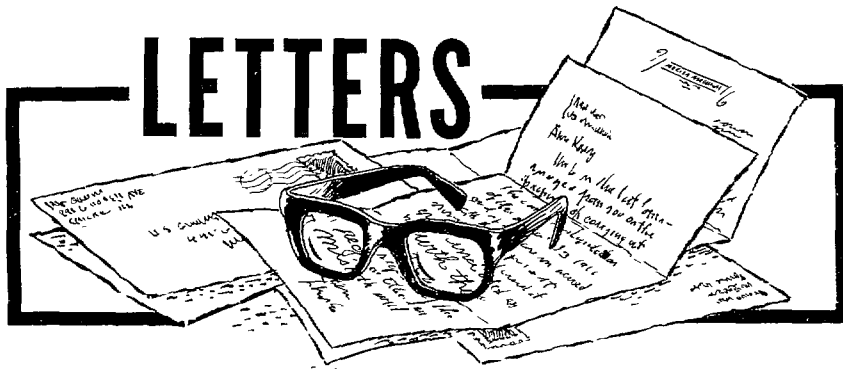
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August 28, 1968

I read with great interest *Robert Van Maren's* article "Observation—A Useful Audit Tool" (*GAO Review*, Summer 1968). Mr. Van Maren discussed the problem of obtaining acceptance of observations as evidence, particularly with respect to convincing a reader that observed deficiencies being reported are factual and would appear so to anyone seeing the same situation. He cited the use of several methods (corroboration, record data support, and graphics) to create this impression in GAO reports.

While visiting commercial retail outlets during a recent review of the regulatory enforcement activities of the Pesticides Regulation Division of the

Agricultural Research Service, our audit team observed that pesticides were being sold in violation of Federal law. We evidenced the violation and obtained acceptance of our observation by *purchasing* violative products through various commercial channels of trade. The purchases were brought to the attention of agency officials who subsequently took action to have the entire stock of the products removed from the market. Reference to this method of evidencing an observation was included in both the finding and scope sections of our report (B-133192) issued to the Congress in September 1968.

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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 GAO Award for Significant Contribution to Financial Management literature and is presented during the GAO awards program held annually in June in Washington.

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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.

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