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Richard K. Fleischman

R. Penny Marquette

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*Richard K. Fleischman*
JOHN CARROLL UNIVERSITY
*and*
*R. Penny Marquette*
UNIVERSITY OF AKRON

# MUNICIPAL ACCOUNTING REFORM c. 1900: OHIO'S PROGRESSIVE ACCOUNTANTS

*Abstract:* Despite the fact that municipal accounting was a significant and permanent reform of the Progressive era, historians have failed to accord accountants proper credit for their leadership roles. Ohio was an important Progressive state and is particularly suited to an investigation of the contribution made by accountants. Ohio was the first state to require uniform municipal accounting and one of the first to inaugurate budgeting. Municipal research bureaus in major Ohio cities were among the most dynamic in the nation, inspiring important steps forward in cost accounting, budgeting, and the installation of accounting systems. Progressive municipal administrations came to depend increasingly on expert accountants to devise new systems and to audit the results.

## INTRODUCTION

Municipal accounting was chaotic in the late nineteenth century. "Inaccurate," "unintelligible," "defective," and "unfathomable" were only a few of the pejoratives used in accounting literature to describe municipal books and systems. There was a singular lack of uniformity — different departments of the same government frequently used totally dissimilar systems. Accrual accounting was virtually unknown; budgeting was infrequent at best; auditing of the city books was rare; and cost accounting methods as basic as central purchasing and stores control were still a quarter-century in the future [Chase, 1902; Goodnow, 1904; Hamman, 1914; Hartwell, 1899]. This lack of accounting system and control was superimposed on an alarming landscape of urban corruption. Cities, growing rapidly as a result of industrialization and immigration, were barely able to provide basic public services with honest administration. In the

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more common cases of dishonest government, graft and inefficiency were rampant.

During the thirty-year period from 1890 to 1920, reform movements swept the country. Known to historians as Progressivism (a term used to describe both the reform movement and the era), this period saw the introduction of major reforms in the structure and conduct of city government. Accountants and accounting systems were instrumental in several of the most significant aspects of urban reform.

The State of Ohio has enjoyed a certain attention in the multitude of studies of the Progressive era. Two of the country's most famous reform mayors were from Ohio — Cleveland's Tom L. Johnson and Toledo's Samuel "Golden Rule" Jones. The state had its share of corrupt administrations as well, including that of Cincinnati's Boss George B. Cox. Lincoln Steffens, the consummate muckraker, brought national attention to the state with his article in *McClure's Magazine* [1905]. "Ohio: A Tale of Two Cities" contrasted Johnson's Cleveland and Boss Cox's Cincinnati as the prototype and antithesis of good urban government. The history of municipal accounting reform in Ohio mirrors the efforts of accountants across the United States as they created systems and organizations designed to end corruption in city government.

## THE MOVE TO UNIFORM ACCOUNTING METHODS

The beginnings of accounting reform in Ohio can be traced to the passage in the mid-1850's of a state scheme for grouping municipalities for legislative purposes. The system was designed to forestall so-called "ripper" legislation, interference by the state government with the internal affairs of a specific municipality. The legislation did not operate as intended, however (some categories had only one city), and was declared unconstitutional in 1902. The state had to move quickly on a new municipal code, for suddenly no legal governmental form existed for any Ohio municipality. Progressives hoped that the state legislature would adopt something resembling the model municipal program adopted in 1899 by the National Municipal League (NML), a highly influential reform agency organized in the mid-1890's. The outcome was quite different. The Ohio Code of 1902 was proclaimed a "disaster for cities," and a "[Boss] Cox frame of municipal government" [Wilcox, 1904].

As disappointing as the Code might have been, the accounting provisions were encouraging. The State Auditor was delegated the power to supervise and control the accounting reporting of all taxation districts, ranging from the largest cities to school districts, a power which the office still holds. The legislation also established a Bureau of Inspection and Supervisors of Public Offices, under the State Auditor's Office, to enforce conformity.

Uniformity of municipal accounting had become a major goal of the NML. Through its Committee on Uniform Municipal Accounting, the NML had authored a number of standardized schedules — schedules which were first adopted at a state level by Ohio. The schedules were adopted due in part to their inherent quality, but also due to the propagandizing efforts of peripatetic accountants such as Edward M. Hartwell and Harvey S. Chase, both of whom were members of the NML Committee. It was this same Chase, a Boston CPA, who was hired by Ohio to draft the legislation under which the Bureau of Inspection was to operate. Thus, it should come as no surprise that the standardized forms drafted by the State of Ohio paralleled, almost exactly, the schedules developed by the NML. The central features of the forms were fourfold:

(1) a distinction between revenue/expense accounts (placed on the "A" schedule) and asset/liability accounts (which were placed on the "B" schedule);

(2) an arrangement of summaries and statements of totals more conducive to interpretation;

(3) a division between ordinary and extraordinary items; and

(4) a functional — in lieu of the traditional alphabetical — categorization of departmental accounts [Chase, 1903].

The outside world was much impressed with Ohio's becoming the first state to legislate standardized schedules. Edward Hartwell, the guiding light of the NML's Committee, called passage of the legislation a "most notable occurrence" [Hartwell, 1903]. LeGrand Powers, chief statistician of the Census Bureau, and the man whose job it was to collect comparative statistics for all cities and states in the country, saw the Ohio "experience" as a great forward step in easing his task [Powers, 1906]. Professor Frank Goodnow of Columbia, a foremost academician in municipal political science, wrote that Ohio was one of only two states with proper state control over municipal accounts. "There is no question," he wrote, "but that city government in the United States would be greatly benefited by the adoption of such a system" [Goodnow, 1904]. Harvey Chase would spend the better part of the next ten years advising local governments on the adoption of new accounting systems based on the model schedules drafted by the NML Committee on Uniform Accounting Methods.

The Ohio Act of 1902 brought the promise of uniformity to 72 cities, 88 counties, 700 villages, 1600 townships, and 2,800 school districts. A. B. Peckinpaugh of the State Auditor's Office informed the NML's membership of the pros and cons associated with the new system's implementation. Problems included the reluctance of local officials to accept the new forms (convinced as they were of the superiority of their old accounting systems); the insecurity generated in local officials by the inspection provisions of the Code (the Bureau of Inspection and Supervisors of Public Offices had the power to enforce conformity with the new schedules); and the inadequate compensation paid to inspectors, which resulted in a shortage of qualified people. Nevertheless, the State Auditor's Office felt it an "incontrovertible fact" that municipal finances improved markedly with the introduction of uniformity. The inspection feature and the publicity given to the inspectors' reports had encouraged a new level of honesty. Not only was there a significant deterrent effect, but $700,000 of illegally spent funds had actually been recovered by 1906 [Peckinpaugh, 1906].

Ohio's venture into uniform municipal accounting was Progressivism by accident. Improved accounting methodolgy was a small progressive part of the largely reactionary Ohio Code of 1902. It would be another eight years before Ohio politics would become more liberal. In 1910, during the administration of Judson Harmon, Ohio passed the Langdon Bill ending appointed state and county assessors, and in 1912, during the term of Governor James M. Cox, (no relation to Cincinnati's Boss Cox) the state accelerated into Progressivism with the passage of the long-awaited home rule amendment. The state did not relinquish financial control, however. The standardization and inspection provisions of the 1902 Code had worked so successfully that they were preserved. The municipalities were given the right to choose between one of three governmental structures approved by the legislature, but they were not permitted to infringe upon the state's right to require uniform accounting reports and examine municipal accounts.

One Progressive reform of the first Roosevelt administration (1901-1905) was the extension of the charge given initially to the U.S. Department of Labor (1899) and subsequently to the Bureau of the Census (1902) to compile statistics on municipal operations for comparative purposes. By virtue of its lead in mandating uniform accounting, Ohio received considerable credit from the regular reporters to the National Municipal League. Clinton Woodruff, the Secretary of the NML, Edward Hartwell, the

Chairman of the NML Committee on Uniform Municipal Accounting, and LeGrand Powers, the chief statistician of the Census Bureau, frequently recalled Ohio's leadership. Ohio's state officials were not content to rest on their laurels, however. Joseph Tracy, the head of the Ohio Bureau of Inspection and Supervision of Public Offices, and F. R. Leach, head accountant of the Cincinnati Bureau of Municipal Research, worked diligently during the Fall of 1912 on revising the 1902 schedules, to permit greater control over expenditures and more intelligent reporting [Miles, 1912]. In 1914, State Auditor Donahey took the offensive beyond Ohio, urging Director Harris of the Census Bureau to impose reporting standards on those states which did not have uniform municipal schedules [NML, 1914].

## MUNICIPAL BUDGETING

Wisconsin, California, and Massachusetts were the first states to implement a complete budget system. Ohio (in 1913) was in a second wave of a half-dozen states [Cleveland and Buck, 1920]. Credit for this achievement goes to an appointed budget commission under the direction of W. O. Heffernan, a trained accountant. The commission did research on departmental estimates, past and present, and with the cooperation of the New York Bureau of Municipal Research (NYB) devised a system which included standardized appropriation accounting [Fullington, 1916]. Although other states implemented budget legislation before Ohio, the NYB credited Ohio as the "first state adopting financial control through budget" [NYB, 1916].

### *Municipal Research Bureaus*

The municipal research bureau was an early progressive weapon in the fight against corrupt and inefficient city government. The first, the New York Bureau of Municipal Research, was founded in 1906, by a group of businessmen, accountants, engineers, and social scientists, to tackle the problems of the largest city in the United States. The founders included Dr. Frederick Cleveland, a university professor and staff accountant with Haskins and Sells. After achieving considerable success in New York, reformers from the NYB migrated throughout the country spreading the "gospel of efficiency" to other cities. A 1916 article in the *National Municipal Review* listed 23 research bureaus operating around the country, five in the State of Ohio [Rightor, 1916]. Eventually, bureaus operated in Cleveland, Akron, Columbus, Cincinnati, Dayton, and Toledo, with varying degrees of success. Bureau staff were instrumental in implementing sound accounting systems, internal control, budgeting, and productivity measurement. In New York and elsewhere, their primary goal was often the implementation of budgetary control in municipal government. In fact, the introduction of municipal budgeting can be fairly claimed to be one of the great success stories of Progressive era accountants.

Those constituent municipalities with active research bureaus developed superior budget systems. The Cincinnati Bureau bragged that the forward steps it had initiated ranked the city's "budget methods among the best in the country" [Cincinnati Bureau, 1913]. The Dayton Bureau, which had published the city's budgets from the inception of the agency in 1912, was similarly boastful; its director called the Dayton model "one of the most complete budgets found in any city" [Rightor, 1916]. The revised budget procedure initiated by Cleveland in 1915, drew praise as "an excellent piece of detail work," requiring a great amount of clerical participation which most communities could not afford [Rightor, 1916]. The link among these early budgets was that they were all segregated and were all subject to citizen review at public hearings.

Extravagant public displays, known as "budget exhibits," were another progressive innovation. The budget exhibit used billboards and posters to show the public how its money was being spent. A tool of public education, the budget exhibit was introduced in New York in 1908 and quickly spread around the country. Attendance at the 1912 exhibit in Cincinnati was estimated between 109,000 and 150,000 persons. At that time it was the largest exhibit of this type ever held outside New York City. Successful budget exhibits were sometimes held in conjunction with city requests for additional tax support for public services. Exhibits were credited with increased citizen awareness and passage of levies in Cincinnati, Dayton, and other cities.

## ACCOUNTING SYSTEMS

Cleveland was one of only a few cities in the country with a respectable accounting system which predated the prodding of municipal research bureaus and the NML. In the late 1880's, Cleveland's municipal bookkeeping was sadly typical. There was no centralized accounting, and departmental efforts were so inadequate that bills were often paid twice. In 1891, there was a governmental reorganization. A centralized department of accounts was created, with the power to prescribe the form of all reports from every department. This reform earned Cleveland a citation, along with Philadelphia, Detroit, and New York, as a city with an early establishment of sound accounting systems, "like those of private enterprise" [Upson, 1926]. Tom L. Johnson (who, along with Hazen Pingree in Detroit and Samuel Jones in Toledo, would become one of the most famous reforming mayors of the Progressive era) took office in Cleveland in 1901. By 1907, the Cleveland Office of the Comptroller had been created.

Strict accountability was a major feature of this Johnsonian reorganization. The Comptroller received reports from the various city departments on all monies received and disbursed *on a daily basis*. It is no wonder that Cleveland's accounting system received high praise from no less an observer than Professor Leo S. Rowe of the University of Pennsylvania, the architect and defender of the accounting features of the NML's model municipal charter [Rowe, 1899]. The first national convention of the NML was held in Cleveland in 1895, in recognition of the city's progressive efforts in the area of good municipal government.

A state-wide research bureau, called the Ohio Institute for Public Efficiency, was established in 1913 (under Rufus E. Miles, formerly the Director of the Cincinnati Bureau of Municipal Research), to provide research services for municipalities too small or impoverished to afford bureaus of their own. Although the Institute did precious little for smaller towns, it was instrumental in installing improved municipal accounting systems in Akron, Columbus, and Toledo [NYB, 1916].

*Cost Accounting*

The usual first step in the development of cost accounting procedures was central purchasing. Again, Cleveland was the first Ohio city to have central purchasing, via an executive order of Mayor Johnson in 1907. Columbus was one of the last cities, awaiting the coming of a new charter in 1914. Dayton's Municipal Research Bureau was instrumental not only in the implementation of central purchasing but in the development of quality and cost standards as well. The Cincinnati Bureau was also extremely active; a letter was sent to the mayor in 1911 recommending the creation of a Committee on Economy and Efficiency whose agenda would include investigation of work standards, monthly cost statements, purchase price standards, supplies control, and inspection [Cincinnati Bureau, 1911]. In addition to lobbying successfully for the establishment of such a committee, the Cincinnati Bureau accepted credit for improved cost methods in seven different city departments. According to a pamphlet distributed at the 1913 Budget Exhibit, "Cincinnati will soon be one of the few cities in the country where accurate figures as to cost are obtainable" [Cincinnati Bureau of Municipal Research, 1913b].

## THE EXPERTS MOVEMENT

Reforms in budgeting, systems development, and cost accounting were structural. One nonstructural feature of municipal progressivism at the national level was the increased reliance upon experts, a trend that is recorded in historical texts as the "expert movement." The honest reformer unaided was no match for the grafters. Systems were necessary, and experts were needed to install and maintain efficient systems. It was through the expert movement that accountants were brought into municipal government to establish budget and general accounting structures.

Henry M. Waite, Dayton's first city manager, was committed to the utilization of experts in his administration. He appointed a local public accountant as his director of finance. In 1914, the new director switched the accounting from cash to accrual and instituted controls on appropriations. Frederic Howe, a prolific writer and astute observer of the urban scene (particularly in Cleveland where he was a trusted ally of Tom Johnson), was most impressed with the business methods and expert supervision in Dayton [Howe, 1969].

Cleveland's Tom Johnson was of that school of Progressivism which put little store in the contribution of experts. He rejected the view of those reformers whom historian Melvin Holli labeled the "structural Progressives;" those who believed that businessmen and experts in municipal positions were necessary for reform [Holli, 1974].

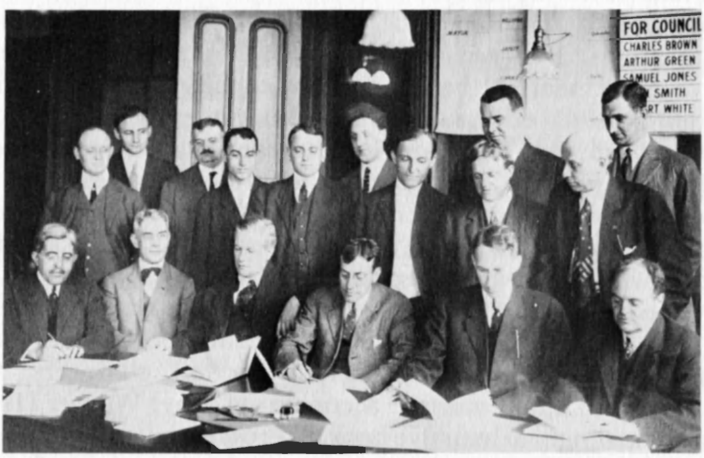
Johnson had good reason to distrust expert accountants (or, perhaps more accurately, the keepers of the tax rolls). In his autobiography, Johnson devoted great space to his career-long fight against the political toadies who used the process of taxation to perpetuate privilege. When Johnson became Mayor of Cleveland, the city's property tax base was determined by elected appraisers under the supervision of a board of equalization; a board chosen by the mayor. But outside the city limits, popularly-elected county auditors appointed assessors who, in turn, made property valuations. Johnson was particularly furious with the rampant political jobbery that dominated the selection of members for this petty officialdom (see political cartoon). It was one of the ways in which public utilities (including street railway companies) thwarted what Johnson perceived to be the public welfare. In 1901, Johnson established

Tom L.'s Great Sleight-of-Hand Act

his famous "tax school" (forerunner of the municipal budget exhibit) to inform the public regarding inequities in the tax appraisal system.

In his four terms as mayor, Johnson was able to eliminate the "boodlers" in Cleveland, but he was tilting at windmills when it came to the county auditors. He was a master at creating political enemies — state administrators, hostile newspapers, and threatened franchise-holders. The opposition fought back using expert accountants who were sent in almost yearly to investigate the books. For all their efforts they found no graft [Johnson, 1970].

Johnson was too much the political realist to sever relations with the entire accounting profession in response to the abortive tactics of his detractors. He did have a Cleveland CPA, Carl H. Nau (seated second from left in the picture), as a close lieutenant.



Nau wrote an article for the *Journal of Accountancy* [1907] on the 3 cent fare movement in Cleveland, chronicling the city's attempts to extend the existing street railway lines and ensure competitive bidding by transit companies. The piece was pure Johnsonianism, featuring much *obiter dicta* on how franchises must be controlled for the benefit of the city. Nau became a member of Cleveland's fifteen man charter commission "chosen avowedly as a member of the accounting profession." Nau felt it his particular responsibility to solicit input from NYB accountants on language for the accounting procedures and the audit control section. Thanks to Nau's efforts, the new charter required that municipal records be audited at least once a year by a CPA who had been licensed in Ohio, or in a state with equivalent standards, for at least three years [Nau, 1913]. Nau was also active in Toledo, where Brand Whitlock, Samuel Jones' handpicked successor, relied upon Nau's firm to examine the books of utilities, particularly the Toledo Rail and Light Company [Warner, 1964].

Henry Hunt, the immediate post-Cox era Mayor of Cincinnati, also felt that government was a profession for trained experts. The Ohio Institute for Public Efficiency, the state-wide organization for research and reform, was also committed to the use and training of experts for municipal government.

## CONCLUSIONS

Municipal accounting reform was a clear manifestation of Progressivism in Ohio. At the state level, Ohio was a leader in the development of budgeting and uniform municipal statistics. Cleveland, from the earliest years of Progressivism, was a model of good government. Cincinnati and Dayton had two of the most effective municipal research bureaus in the history of the Progressive movement. Although accounting advances sometimes resulted from the efforts of non-accountants, professionals such as Chase, Nau, Heffernan, and Leach clearly played major roles.

Historians have attempted to identify the socioeconomic classes which provided leadership for the Progressive movement. When Richard Hofstadter [1955] described the "alienated professionals" who served as leaders for the Progressive movement, he mentioned lawyers, professors, newspaper editors, and ministers, ignoring the contribution of accountants. Samuel Hays [1971] expanded the list to include doctors, engineers, and architects, but again omitted accountants. Hoyt Warner [1964] wrote a seemingly exhaustive book on Progressivism in Ohio, yet he also devoted no attention to municipal accounting reform.

For the most part, historians have been unimpressed with advances made during the Progressive era. The reforming impulse was not rekindled after the rechannelling of energies during World War I. Municipal research bureaus vanished with the reforming urge, although some of the problems which the movement had sought to address continued unabated. These historians have failed to appreciate the importance of developments in municipal accounting. Greatly enhanced control and accountability, put in place by progressive accountants and their allies, left little room for extensive corruption or inefficiency. Many municipal research bureaus went out of existence because their job was done.

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