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Discussant's Response to An Historical Perspective of Government Auditing With Special Reference to the U.S. General Accounting Office

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Critiquing Professor Herbert's paper is an assignment of great interest to me for a number of reasons. Some years ago while a doctoral student at Harvard University, I was literally forced by a professor to write a seminar paper on the U.S. General Accounting Office. Later I turned that paper into a doctoral dissertation, and ultimately into one of the world's smallest selling books. Shortly after this I was a consultant to the GAO and, among other tasks, helped the GAO update Senate Document 11: *Financial Management in the Federal Government*. And the relationship continues even now. The Kansas Legislative Division of Post Audit, the Kansas Legislature's audit agency which I head, is in reality a mini-GAO. Indeed the office was based on model legislation developed some years ago by the GAO. Like the GAO, my office performs a variety of audit work, including both financial and performance auditing. The audit staff in Kansas, like that in the GAO, is a multidisciplinary audit staff. I could continue this analogy in many ways.

Summary of Key Concepts In Paper

Professor Herbert makes it very clear that his paper is a record of his own impressions, a very personal account of government auditing and accounting, especially with regard to the GAO. He takes us from early voucher auditing, through balance sheet audits in the earlier days of the republic up to about 1920, and finally, with the GAO's creation in 1921, to the larger concerns of the profession with audits of financial statements and auditing with concern for generally accepted accounting principles and generally accepted auditing standards. Professor Herbert mentions the 1945 Government Corporation Control Act, which made the GAO's audits of government corporations comparable to those of CPA firms, and he also discusses the 1950 Budget and Accounting Act to a limited extent. This latter piece of legislation mandated that the GAO should be the public accountant for all agencies and departments, and not only for government corporations. In effect, this Act extends the 1945 lessons in commercial-type audits to all government entities, calling for on-site financial audits of all agencies.

The paper discusses several other developments which occurred in the mid-1950s, and it is important in this connection to keep in mind that Professor Herbert joined the staff of the GAO in 1956. According to Professor Herbert, of 6,000 employees at that time, only 1,226 could be classified as accountants and

auditors. Of these, only 226 were “professionals.” Moreover, “most of the agencies and departments of government,” in Professor Herbert’s words, “did not have an accounting system that would provide information that could in any way be said to be in accordance with GAAP.” Thus, the GAO was unable to extend its financial auditing to all governmental entities in keeping with the thrust of the 1945 and 1950 legislation. And thus was born the term “comprehensive audit,” the early term used by the GAO for a partial financial review, coupled with economy and efficiency audits of small parts of organizations. As Professor Herbert points out, Congress seemed pleased with the turn of events. Financial statement audits, according to the author, were eventually eliminated except for corporation audits.

In the 1960s there was still a further shift in the audit work of the GAO. A congressional push toward effectiveness audit work developed. Professor Herbert states: “By the end of the 1960s, GAO had practically divested itself of that punitive approach to auditing—reviews for legal compliance, for errors in individual vouchers, and for efficiency and economy of individual actions . . .” The trend toward overall reviews for effectiveness, according to the author, automatically brought about more concern for the future than for what had happened in the past.

Finally, Professor Herbert makes a few predictions for the future. He says that state and local governments will move to the same auditing mix as the GAO, that is, less auditing of financial statements and more auditing of program performance. He also feels that there will be a growing role for CPA firms in governmental auditing, including performance audit work, and that CPA firms will take the lessons they learn in their governmental practice to their audits of private sector firms, thereby expanding the scope of the traditional financial audits performed there. Professor Herbert also predicts fairly major and rapid changes in generally accepted accounting principles for government. Lastly, he concludes that while he is optimistic about the future of the profession, he is also a little fearful; fearful that if others “take over the newer fields of auditing, and financial statement auditing becomes less and less important, then what happens to the accounting and auditing profession?”

A Differing View of Events

Reading Professor Herbert’s account of the history of governmental accounting and auditing in America, and the GAO’s influence on it, brings to mind the story of the three young boys watching a couple embracing on the sofa:

- The seven-year old says: “They’re fighting.”
- The nine-year old says: “Don’t be silly; they’re making love.”
- The eleven-year old says: “Yes, and badly at that.”

In short, I view these same historical events quite differently. While I share Professor Herbert’s concern for the future role of the profession, I believe the GAO has helped put us in this quandry. As I view the situation, the GAO, throughout its history, has made several key decisions the wrong way, and has failed to make some other decisions it should have made.

To begin with, the GAO had a very slow start in American financial management. The same 1921 Budget and Accounting Act which created the then Bureau of the Budget, also created the GAO. It is significant, however, that while the Bureau of the Budget proceeded rather rapidly to become a strong financial arm to the White House and to the Presidency, the same cannot be said of the GAO and its relationships to the U.S. Congress. The detailed on-site voucher checking and the associated attitude and atmosphere which permeated the early GAO lasted well into the 1940s. The more modern and broader view of auditing as a strong management and congressional tool of oversight did not take hold in the GAO until much later. Indeed, Professor Frederick C. Mosher writes in *The GAO: The Quest for Accountability in American Government*:

The beginning of the transformation of the General Accounting Office coincided approximately with the conclusion of World War II . . . In 1947, for example, the GAO:

- Maintained 100,000 appropriation limitation accounts, 44,000 personal accounts with accountable officers, and about 270,000 other accounts;
- Countersigned 60,000 Treasury Department warrants and approved 14,000 requisitions for disbursing funds;
- Audited 93,000 accountable officers' accounts (containing 35 million vouchers), 5 million transportation vouchers, 1.5 million contracts, 260 million postal money orders, 57 million postal notes, and 26 million postal certificates;
- Settled 108,000 accountable officers' accounts, 354,000 postmasters' accounts, and 773,000 claims;
- Reconciled 490 million checks;
- Issued 1,300 reports on inspections, surveys, and special investigation, made 6,200 replies to miscellaneous inquiries from members of Congress, issued 400 reports to the President, Congress and to the Bureau of the Budget, and issued 7,400 decisions of the Comptroller General and 2,200 reports to the attorney general.¹

Indeed, one could argue that it is only in the last decade or so that the GAO has come into national prominence as a strong financial management tool of and in American government.

Once having begun to become an effective force within government, there are scattered signs that the GAO may have moved too far, too quickly, and perhaps even in the wrong directions to gain recognition. As indicated above, the 1945 Corporation Control Act, coupled with the 1950 Budget and Accounting Act, were expected to extend commercial-type, financial statement audits to all entities of government. In essence, this would have entailed an audit of the financial statements of governmental entities, and in accordance with generally accepted auditing standards, leading to an opinion that the statements were fairly presented in accordance with generally accepted accounting principles. This development, however, has not occurred. Professor Herbert's data suggests that a lack of qualified staff, a lack of adequate accounting systems, and congressional disinterest are the culprits. Out of this period came the "comprehensive audit." While I am not entirely certain exactly what this audit is, it is certainly a very partial financial audit.

A glimpse of the division of audit effort today in the GAO is most revealing. Professor Mosher presents the following data in his study.²

Percentages of GAO Work by Program Category

	1972	1973	1974	1975	1976	1977
Financial Economy & Efficiency Program Results	14	13	14	12	11	10
	56	53	54	52	49	41
	30	34	32	36	40	49

Source: The GAO's monthly "Overview Report."

The bottom line is that ten percent of the GAO's audit effort in 1977 was devoted to financial auditing while 90 percent was spent on performance auditing, including efficiency and program results work. It is difficult to reconcile this situation with recent financial problems and crises in American government. It is also puzzling, given recent actions by the Federal government, through its Federal Revenue Sharing Act and through the Office of Management and Budget Circular A-102, Attachment P, to in effect mandate that all state and local units of government receiving substantial amounts of federal funds receive audits conducted in accordance with GAAS, of financial statements basically prepared on the basis of GAAP. One can not help wonder why, if this is such a good idea for state and local units of American government, the GAO has not found it necessary to work toward this same end in the Federal government. Moreover, it is worth noting that both of these efforts to bring about uniformity and accountability in American financial management have come through executive agencies, the Office of Management and Budget and the Department of Treasury, and not through the nation's audit agency, the GAO. At this very moment, as a variety of prestigious study groups are attempting to revise the concept of generally accepted accounting principles for American government, and while there seems to be a determination to ensure that state and local units of government are brought into compliance with such accounting and related audit requirements, there seems to be an equal determination that the Federal government itself shall not be covered by such requirements.

If there are difficulties with this end of the audit spectrum, the same could certainly be said of the other end of the audit spectrum—that relating to performance auditing. The GAO's movement to program evaluation occurred swiftly in the 1960's and 1970's. Yet we find Professor Herbert writing:

I have always made a distinction between program auditors and program analysts or program evaluators. The auditor must be independent in order to render an independent conclusion or opinion. The analyst does not necessarily have to be independent or even unbiased. His way, in his opinion, should be the only way to go, even if it is biased. Yet, without an independent audit on the way he chose to go, whether the right way or the wrong way, third parties would have no way of knowing whether he chose the right or wrong way.

Program evaluation does indeed seem to be different than performance auditing in a few crucial ways. We can not pursue these differences in any depth here, but their existence and their importance is raised in a volume by Sar A. Levitan and Gregory Wurzburg, *Evaluating Federal Social Programs: An Uncertain Art*:

By insisting on preserving its independence and, in particular, failing to adequately acknowledge other literature and incorporate it where appropriate, the GAO divisions that do the vast majority of the social program evaluations may be forcing their work into a strait jacket that reduces the effectiveness of their work. GAO tends to ignore the legislative and administrative agendas behind social legislation and oversimplify the reality in which social programs are implemented. The work rarely questions the practicality of congressional mandates and pays too little attention to the inevitable difficulties inherent in the implementation of social policies.

The insistence upon independence for financial auditing is, of course, justified. But elsewhere, the limitations this puts on GAO reduce the usefulness of its products. The benefit of independence in evaluating the complexities and nuances of intricate social programs is ambiguous at best. . . .³

Much needs to be done to establish that performance auditing is still auditing, and, due to its volatile nature, independence will become more and not less important. More significantly, according to Professor Herbert, the GAO's effectiveness work necessitates a futuristic view. I do not agree with such an assessment, and the implications are serious. The GAO is in danger of becoming a "think tank" for the Congress—doing much work which is similar to that conducted by consulting houses, the Legislative Reference Service, and the Congressional Budget Office—and not an audit organization at all. (One person's definition of a policy analyst, incidentally, is a scholar who really wants to be governor or president but does not want to bother running for office or hold that kind of responsibility.) Professor Mosher concludes in his book that the "GAO has stretched its meaning of the word 'audits' beyond anything contemplated twenty years ago, and some of its work—an increasing share—can hardly fit within that rubric, however it is defined." One must question using the cloak of auditing, and the power and tradition normally associated with that term, to look not at past actions and performance of management, but instead to conducting future-oriented studies, analyses, and evaluations. In the wrong hands this becomes a method to use the power of auditing to second-guess elected representatives in a democratic system and perhaps even to wield their authority for them. Ultimately, such an approach may discredit government auditing of all kinds, whether financial or performance. In any event, there would seem to be other organizations around capable of doing such future-oriented analyses.

There is one final substantive comment that I would make on the content of the paper by Professor Herbert. That relates to the almost total lack of discussion of the vital role played by others in the evolution of government auditing over the last several decades. Nearly all developments are attributed to the U.S. General Accounting Office and the Federal government. Of course state officials grow accustomed to this, and officials from small states learn especially fast. Let me

merely indicate that the American states are also involved in a leadership role in this area, and are certainly up with the GAO in matters relating to progressive auditing.

Item: performance auditing. Lennis Knighton's classic doctoral dissertation and book in the mid-1960s on *The Performance Post Audit In State Government*, makes it clear that the performance audit movement was well under way in the states at that time. Performance auditing is presently conducted in a number of states and is quite good. This work is presently as well done as that of the GAO, is probably presented to decision makers on a more timely basis, and has a considerable amount of impact.

Item: financial auditing. Financial auditing is done more frequently at the state level, practicing in effect what the "feds" are preaching.

Item: organizational advancements. Pressures for a national state auditors association, for the national system of intergovernmental audit forms, and for quality review have resulted as much from the pressures by state audit groups as from a leadership effort by the U.S. General Accounting Office.

Conclusions

In closing, let me return to Professor Herbert's predictions for the future. He states that state and local governments will move toward the same mix of audit work as the GAO. He must therefore mean that state and local entities will do less financial auditing and more effectiveness—including futuristic—kinds of studies. My assessment would be that this development is unlikely, given the varied federal laws and regulations which now exist and which in effect mandate a different kind of audit emphasis. Moreover, I personally do not believe state audit agencies should follow the GAO lead any longer in this matter. While state legislators are very interested in performance auditing and, indeed, are demanding such audits more than ever, it appears they are interested in performance auditing as an add-on to basic financial audit work, and not as a substitute for it. They seem far more concerned over auditing and assessing past performance than in using auditors to try to read the future.

Professor Herbert states that CPA firms will play a greater role in governmental auditing, including performance audit work, and that the lessons they learn in government will be brought into the corporate audit work that they conduct. I believe that this is probably a reasonable assessment of what is occurring in Kansas, as well as in a number of other states in America. This is so in large measure due to the recent requirements placed on state audit organizations by the federal government. It is unlikely that state audit staffs will be allowed to expand rapidly enough to themselves conduct all the required financial audit work. It should be noted, however, that CPA firms are unlikely to learn to conduct high-quality performance work in the near future. On one recent occasion one of the Big 8 public accounting firms was considering hiring me as a consultant to prepare a brochure on performance auditing for the firm. The effort was finally aborted by a national partner who feared that "someone might read the brochure and actually believe that his firm could do performance audit work!"

And finally, Professor Herbert fears that if others "take over the newer fields of auditing, and financial statement auditing becomes less and less important, then what happens to the accounting and auditing profession?" I share Professor

Herbert's concern in this regard. "Others"—the evaluators, the analysts—are indeed trying to take over the new fields of auditing. This trend, however, is in large measure due to a lack of forward-looking leadership by the GAO, the American Accounting Association, the American Institute of Certified Public Accountants, and most others who have an important role and stake in this matter. Apparently they are too easily satisfied that these newer kinds of auditing are simply not auditing at all, and so do not want to be involved. And thus, policy and decision makers are looking outside the auditing profession for the conduct of modern audit work, and these groups generally do not have the all-important traditions and guidelines of auditing to see them through.

Our professional societies and related groups must begin to be more responsive and imaginative, and begin to bring such new techniques and developments into the well-established audit fold. A related issue today is the fact that there is less interest in financial auditing by decision makers at a time when this should not and need not be the case. Again, however, in my view much of the blame for this development must be directed to our professional leadership organizations, including the GAO. Through their attention—their research priorities and their decisions—these groups have failed to persuade public officials that financial auditing is important and, coupled with the newer forms of auditing, can indeed provide a valuable service to them and to the taxpayers of this country.

Footnotes

1. Frederick C. Mosher, *The GAO: The Quest for Accountability in American Government*, Westview Press, 1979, p. 103.

2. *Ibid.* p. 179.

3. Sar A. Levitan and Gregory Wurzburg, *Evaluating Federal Social Programs: An Uncertain Art*, The W. E. Upjohn Institute for Employment Research, September 1979.