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# Government Reorganization and the Independent Audit

[There seems to be sharp division of opinion among accountants as to the wisdom of the proposed plan of reorganization of the executive branch of the Federal government, especially as it would affect the system of audit and accounting control. We therefore take pleasure in presenting the opposing views of two accountants who have given much thought to the subject.]

## STATEMENT BY GEORGE P. AULD

AS A member of the American Institute of Accountants and a former financial officer of the United States Government, the writer has been interested to make a study of the proposals now before Congress for the reorganization of the Federal system of audit and accounting control. The analysis and comments which follow are substantially as already published in the *New York Times*, but are offered with the thought that they may be as suitable for the pages of THE JOURNAL OF ACCOUNTANCY.

Under the budget and accounting act of 1921, there now exists an office of comptroller general, the incumbent of which is appointed for 15 years by the President (with confirmation by the Senate). He is in all other respects independent of the Executive and is ineligible for reappointment. This one officer exercises several executive functions (under a range of authority in practice much broader than that of any corporation comptroller), and also the legislative function of "post-audit," similar to that commonly exercised in the business world by independent public accountants.

The proposed plan, as contained in the Byrnes bill (text of November, 1937), provides for a reallocation of the duties of the comptroller general to conform more closely to the principles of American business organization. This would be accomplished by two principal means:

(1) By transferring to the director of the budget, under the Executive, the operating functions of countersigning Treasury warrants and rendering advance decisions with respect to the uses of appropriations (sometimes referred to as "pre-control"), the settlement of accounts and claims, and the prescribing of administrative accounting procedures in the several executive

departments and establishments; and also by returning to the various operating departments such powers of operating control as may now be exercised by the comptroller general, either legally or by custom, over such matters as the suitability of materials for the purposes for which required, and the methods of their procurement. The powers thus to be transferred to the director of the budget are generally those functions of administrative approval that are exercised by a corporation comptroller, and the powers to be returned to other operating officials, for exercise within the limitations of the general objects of expenditure and their amounts as authorized by Congress in the appropriation acts, are those commonly assigned to corresponding operating officials of a business concern.

(2) By lodging the function of audit after expenditure ("post-audit") in an auditor general to be appointed by and solely responsible to the Congress; in that connection the bill provides for the creation of a joint Congressional committee on public accounts, intended to provide Congress with an effective instrument of review through the holding of hearings on the audit reports. Under the plan, the auditor general would make a practically current post-audit, before settlement of the accounts of disbursing officers.

The auditor general would act in a capacity analogous to that of the independent public accountant, who is usually appointed as auditor of a corporation by the directors or stockholders, and who prepares a report relating to his audit for transmittal to the stockholders. The auditor general would also be required to report on any expenditures which he deems to have been unwisely or improvidently made and any procedures deemed to be inadequate for full protection against loss of revenue. To this provision, the duty of reporting on any accounting procedures within the administrative departments which he deems inadequate might well be added so as to bring the auditor general's duties still further into line with the responsibilities ordinarily assumed by independent public accountants.

It is apparent that the comptroller general, as now constituted, has several diverse and incongruous functions, some of which appear incompatible with the Constitution. He has extensive operating powers, without responsibility for operating results, and he audits his own acts. Illustrating this condition in one of the several areas of his administrative authority, claims aggregating \$166,000,000 were paid in 1936 on his certificate, without subsequent audit by any other office.

A comparable situation would be found in a corporation if the comptroller of accounts were to be made independent of the president, if he were then to be granted additional executive powers over other operating departments, and on top of that were to audit all transactions after their consummation. Or, the other way round, we may imagine the independent public accountant who audits the corporation's books being empowered to direct the account-keeping and settlement of claims against the company, and further given a veto over operating acts and methods connected with planning and procurement.

To any business man, such a form of organization in a large-scale industrial, commercial, or financial enterprise would be unthinkable. Nor, I believe, could any public accountant fail to condemn it for its failure to preserve the principle of accounting control. When an official audits his own acts the principle of control is violated, and he has become possessed of practically irresponsible powers.

Business men have long said that what government needs is efficient business methods. Today there are some who believe that what would be judged by business standards to be superfluous red-tape must be preserved for the protection of the public purse. The fact is not generally known that substantial internal controls are provided within the administrative departments themselves by the requirement that fiscal officers be bonded and by a segregation of administrative functions, as a result of which the various steps involved in planning and procurement are checked from one responsible officer to another. Obviously, the effectiveness of controls of this sort, whether in government or in business, must depend in considerable part on the standards of character and conscience of the personnel. On this point, informed persons would find it hard to suggest where there is to be found, either in business or in the public service of any nation, a higher general standard of personal fidelity than that prevailing in our Federal service. With such existing internal controls, both tangible and intangible, it seems as unnecessary as it is illogical to permit an official, whose special qualifications should be those of a professional auditor, to intervene in operating matters and wield extraneous powers duplicating and overriding the functions of those who have to answer for operating results.

If the comptroller general would make comprehensive post-

audits of all government accounts and promptly render annual reports thereon, as is done by accounting firms for corporations, undue concern about the integrity of the public accounts would be unnecessary. This he has not done, and seemingly he will be unable to do it if his energies are to be dissipated in trying to function in capacities outside his proper field. It is true that in those capacities he has effected minor savings in out-of-pocket expenditures. But whether these savings represent real economies is another question. The real test is whether, taking everything into account, an arrangement that requires the comptroller general to be a jack-of-all-trades has raised or, on the contrary, has lowered the standard of economy and efficiency of operation of the Government as a whole.

A fuller exposition of the pending plan may be found in the recommendations on which it is based, as contained in a report published in the newspapers of January 13, 1937, by a committee of three distinguished authorities on public administration—Louis Brownlow, Luther Gulick, and Charles E. Merriam. On January 19, 1937, the recommendations were mentioned in a news release by the president of the Chamber of Commerce of the United States in the following language: "About the proposal to change the comptroller general into an auditor general, the Chamber's position is very definite. As the report of the President's committee points out, in 1934 the Chamber went on record for this change through a referendum vote on a recommendation of its committee on Federal expenditures."

The pending plan seems to have much to recommend it.

STATEMENT BY M. L. SEIDMAN

Among public accountants there has recently been a good deal of discussion regarding the proposed government reorganization bill. In this discussion the points of most importance seem to be the following:

1. Under the present law, the comptroller general, as a direct representative of Congress, functions both as comptroller and auditor in the matter of government expenditures. Is there anything undesirable or unsound in such an arrangement?

2. Under the proposed reorganization plan, the comptroller general's job will be split up into two parts. That part of his work which has to do with his duties as comptroller is to be taken over by the director of the budget, who is responsible to the President. The function of devising accounting methods and systems of control of the various executive agencies is also to be transferred to the director of the budget. The auditing job, which is hereafter to be of a post-audit instead of a pre-audit nature, is to be assigned to a newly created official to be known as auditor general, and to be responsible directly to Congress.

The questions naturally arise (a) whether there can be a real independent audit of government expenditures unless the system of accounting and methods of control under which the audit is made are likewise kept independent, and (b) whether, in any event, a post-audit made after the moneys have been spent and the transactions completed is sufficient under the circumstances.

In discussing editorially the proposed change, *THE JOURNAL OF ACCOUNTANCY* has stated that critics of the proposals have apparently failed to distinguish between the audit of vouchers presented before payment and the independent audit of accounts after the transactions have taken place. Observing also that the proposal seems to be in accord with the general practice in private business, the editorial concludes that while many accountants are not familiar with the peculiar conditions of government administration, it is safe to say that all are in favor of businesslike methods in government.

There cannot, of course, be much argument about the desirability of businesslike methods in Government. But to confuse the organizational set-up of our Government with that of a private business and to attempt to fit its auditing needs to the pat-

tern of a private business is to confuse the very fundamentals upon which our Government was so carefully built.

In the matter of auditing government expenditures, the measure of their propriety is their legality. Any expenditures of public funds, to be legal, must meet the following tests:

1. They must have been authorized, within the amount of an appropriation, by an administrative officer properly designated as responsible for such appropriation.

2. They must have been expended for a legally authorized purpose and in accordance with proper legal procedure.

Congress enacts laws prescribing exactly how and for what purpose money shall be spent. It is today the function of the comptroller general to see to it that these laws are complied with before the money is spent.

Our Constitution draws a sharp line between the legislative, the executive and the judicial branches of the Government. The legislative branch is the money raising as well as the money spending branch. It is also the branch that is directly responsible to the people whose money is being spent.

Article I, section 9 of the Constitution, placed upon Congress the duty and responsibility of seeing to it that "no money shall be drawn from the treasury, but in consequence of appropriations made by law."

How can Congress best discharge this responsibility? Can it best accomplish this by delegating to the executive branch of the Government the job of devising accounting systems and methods of internal control, reserving to itself the function of a post-audit? Or, can it better discharge this responsibility by itself controlling these expenditures by a system of pre-audit superimposed upon its own control over accounting methods in the various executive departments of the Government?

While, under the proposed reorganization, the auditor general is to be directly responsible to Congress, it is obvious that his independent audit of Federal expenditures can be, to a great extent, negated by the director of the budget who is not responsible to Congress, but to the President.

When in 1921, Congress created the office of comptroller general, he was, as a matter of course, given the necessary power to prescribe the system of accounting and methods of control over the spending of the various executive departments. And, by the

establishment of a system of pre-audit, he was enabled to satisfy himself as to the legality of current expenditures. No similar prerequisite for independent current audit and control exists in business. It serves no useful purpose, therefore, to urge that what is good enough practice for business should be good enough practice for the Government.

One of the criticisms directed against the present set-up of the comptroller general's office is that in the very nature of things he is auditing his own accounts. But, obviously, that is not so. In view of the independence of his position, having once currently passed upon a transaction as comptroller, he has, as a representative of Congress, simultaneously performed the function of both comptroller and auditor.

Dr. Selko, of the Brookings Institute, who has made a study and report on this subject, states:

"The President's committee is clearly confused as to the nature of the existing comptroller's function. He is not an officer of the executive branch authorized to audit his own accounts. It should be clearly understood that the expenditures which the comptroller passes upon, as an agent of Congress, are those which have been authorized by administrative officers in the executive departments and independent establishments. . . .

"In exercising his functions, the comptroller is thus in no sense passing on the legality and regularity of his own actions. He is an independent officer working for Congress both in auditing and settling the accounts of executive agencies."

If anything, therefore, the proposed reorganization plan would not only remove that independence, but would, in addition, duplicate the auditing of each transaction. For, necessarily, the director of the budget would audit each transaction as a final check for the executive branch. After that, would come the auditor general who would again audit each transaction as a final check for Congress. It is only by having the Congressional representative act both as comptroller and as auditor that the requirements of the situation can be met satisfactorily. This being so, it becomes a matter of good auditing and good business, as well as in the interest of economy and common sense, that the function of pre-control and pre-audit be lodged in one and the same independent agency. That is exactly how the comptroller general functions for Congress today.



Accountants have had much to do with the comptroller general's office. They are quite familiar, therefore, with the annoyances and irritations which one can suffer as a result of the red tape, and what sometimes appears to be a dogmatic attitude, on the part of that office. Whether or not that condition can be remedied and the work of the general accounting office expedited is a question of an entirely different nature from that involved here. Suffice it to say for this present purpose, that many accountants, in spite of these annoyances and irritations, have never lost sight of the fact that the comptroller's office, as the direct representative of Congress, serves an indispensable function in the operation of a constitutional democracy, where the legislature is representative of the people and where control of the Government's purse means control of the Government itself.

If Congress is to remain charged with the responsibility of seeing to it that "no money shall be drawn from the treasury, but in consequence of appropriations made by law," then necessarily the present comptroller-general arrangement serves Congress most effectively, while the proposed arrangement will not.