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# Services of Public Accountants to Public Bodies

BY G. CHARLES HURDMAN

DO THE public and public officials obtain full benefit from services of independent public accountants engaged by municipalities? Are they aware that his experience with business fits the public accountant to render services for which he is seldom engaged by municipalities?

These questions have wide implications. In the public accounting profession and in public office there may be those who will disagree with the conclusions reached in this article. Agreement should be general, however, as to the existence of two conditions: the first, that public business is not as well administered as private business and, the other, that independent public accountants have contributed little to planning and directing the affairs of government.

The public, and in fact the profession, does not seem to recognize that the engaging of an accountant for auditing, in the restricted sense of the word, results in failure to profit by his wide training in financial planning and control. Herein lies an opportunity for more useful service by accountants.

Municipalities in too many cases are organized today on a basis suitable only to times of simpler and fewer problems. Procedure has changed little since the day of town meetings. Business, on the other hand, through necessity has changed its organization and methods to keep pace with enlarged opportunities and a greater volume of transactions, and in other ways has been forced to adapt itself to the complexities of present conditions. Municipal government, in reality a big business, should have kept pace with the advanced methods of business. In at least one important respect it has not done this.

Government during the past fifty

years, and particularly during the last fifteen years, has had to proceed under continually increasing and complex responsibilities. Ready command of financial resources coupled with political ambition has brought many administrations face to face with problems formerly applying only to private enterprises. Problems in connection with the operation of electric power and light, water and transportation facilities, the maintenance of garages, shops, asphalt and sewer pipe plants, garbage removal, the construction of highways, bridges, and buildings, and the management of nurseries, forestry departments, hospitals and clinics may all be included in the responsibility of municipal officers. Where such activities are operated as private enterprises, outside expert advice is freely employed by the management, but municipalities often drift along with the sketchiest of accounting methods and without cost finding or expert financial and accounting assistance.

Large business organizations usually include expert advisors for each phase of their activities. Smaller enterprises, however, recognize that the limited regular personnel is not competent to meet some situations demanding specialized training and skill. In such cases it is usual to rely on outside legal, financial, and other experts.

Municipalities, like business organizations, engage the services of legal advisors in determining the legality of their daily acts and in formulating plans and policies, but apparently are not conscious of the benefits which might flow from consultation with accounting and financial advisors as to problems which fall peculiarly within the experience of such persons.

Public accountants have a great op-

portunity today to render a new service, but to capitalize on the opportunity accountants must first convince public officials that they and the affairs under their control will benefit from the advice of accountants on matters as to which their usefulness hitherto has not been recognized. Recognition will be accorded only to those equipped by study and experience to render this special service.

The opportunity should be attractive not only to accountants. Public officials by this means may obtain advice and collaboration which may very well represent the difference between inefficient management of municipal affairs or well ordered and controlled government.

The engagement of public accountants by municipalities is less unusual than in the not distant past, but their engagement is ordinarily for the purpose of auditing the historical records of transactions and is undertaken with the object of pointing out any mistakes which may exist in the accounts for the period reviewed. The purpose for which the accountant is engaged resembles all too closely the procedure of locking the stable door after the horse has been stolen. Public accountants might be retained for a much different purpose and with a different result. They might be asked to help plan policies and provide well designed controls, and they might reduce or eliminate unnecessary errors and failures by making and keeping officials more familiar with the affairs and prospects of their municipalities. Service such as this would be of far greater value to government than a mere review of past transactions. Changes in practice and methods which arise out of the casual discovery of errors are not apt to take every related factor into consideration, and therefore cannot be so effective as changes made deliberately after careful study and planning.

A vast amount of research on meth-

ods of collating financial facts relating to municipalities has been made in the past ten years through the National Committee on Municipal Accounting, the American Institute of Accountants committee on governmental accounting, and other organizations participating in this work. The individual officials of no municipality can be expected to have had the time to study carefully the recommendations of these bodies or the training to make the most effective use of them. Public accountants who have interested themselves in municipal affairs, however, are in a position to benefit by the work which has been done by the several bodies mentioned and to combine the recommendations of these bodies with their own experiences.

This opportunity for wider service perhaps can be appreciated best if one considers what the accounting functions of a municipality really are. Broadly speaking, these are three. The first concerns recording transactions as they occur, in order to provide means for later review and for the preparation of historical reports. The second function has to do with providing means for day-to-day control, for furnishing the data currently required for administrative purposes and reports, and with developing information necessary in the preparation of current budgets. The third function is not usually so well understood nor so effectively exercised and indeed is hardly recognized by the general public; it involves the maintenance of records which permit intelligent long-term planning and preparation of capital budgets and tax budgets for future years.

The first function, that of routine recording, is well exercised in many municipalities. The second and third functions are those in which failures are most frequently noted.

Conditions attending the selection of municipal officials are apt to preclude the choice of men prepared by study or experience to meet the many problems

of municipal government. In particular, officials are seldom able to sense the significance of the second and third functions of accounting just described or to appreciate the essentials requisite for the proper exercise of those functions. One might think that under such conditions they would seek the advice and assistance of those who by specialized experience are better equipped, but that is done infrequently.

Instances of difficulties confronting public officials may be of interest. Consider first the preparation and use of the municipal budget, an important object of the second accounting function mentioned. Seldom is a budget prepared in a manner permitting the day-to-day measurement of operating results with predetermined estimates. The basic reason for this failure lies in a faulty conception of a budget's value and uses. The atmosphere in which municipal officials work is not conducive to orderly and logical recognition and compilation of detailed estimates. In consequence, it is rare to find officials concerning themselves except with totals in certain divisions of the budget.

The conditions immediately surrounding officials do not entirely account for this attitude. It may arise out of the fact that the lawmakers who have forced the budgets on them are frequently lawyers, whose conception of the purpose and potentialities of budgets is often something quite different from that of the businessman. The use of budgets is much more frequent with municipalities than with business enterprises, yet when this instrument is employed in business more effective use is made of it.

A public accountant versed in municipal affairs and possessing the broader business conception of the budget may with his peculiar experience and his characteristic independence of thought make a valuable contribution to the proper preparation and the effective use of the budget.

An accountant is aware that a budget has two sides which should parallel, income and outgo. In projecting the financial affairs of a corporation, he correlates these two. He recognizes the necessity for controlling budgetary transactions with an eye to the flow of cash, even though the budget may be prepared on an accrual basis according to requirements. His experience requires him to consider which expenditures are mandatory, and which, if estimated revenues are not realized in cash, may be postponed, or in the event of necessity, can most easily be omitted. He is trained to consider details making up totals, rather than to begin with the totals themselves. He knows that a budget should be built up through careful estimate not first by dollars, but by work programs translated into man-hour and material requirements. Dollars will follow naturally, but are not the original basis of calculation.

Apart from these differences in the attitude of public officials and public accountants, it is obvious that a trained outsider acting in an independent capacity, free from the political or financial affiliations which may hamper those in command of municipal affairs, can lend assistance of great value.

Failures or partial failures in the administration of public finances other than those connected with current budgets, continue to exist unrecognized. These have to do with financial planning and capital budgeting, the objects of the third function of the accounting and financial records. Surely it need hardly be urged that every municipality must look far ahead if the city of tomorrow is to fit the needs of tomorrow and keep within the financial capacity of the citizens who must pay for its support. No more important step can be taken in this direction than studied planning for the current and capital expenditures of years to come. Planning of that sort is usually termed capital budgeting. Experience and ability such

as one cannot expect in an elected officeholder is required for such planning, and if the public accountant matches these requirements he may be of inestimable help to a municipality. The basic studies must be made, however, by municipal planning experts who can predict probable population growth, migratory trends, conditions and trends of traffic in nearby important communities, zoning changes, growth of assessments, educational facilities and needs, and many other pertinent matters.

Although the accountant cannot be an important factor in the preparation of these preliminary estimates, he can translate the opinions of qualified advisors into their economic implications in terms of capital budgets. Assistance in the preparation of such programs is only one of the services which he may render. The plan adopted by a legislative body must be supplemented by constant review and correction to meet changes not anticipated or variations from the trends originally forecast. A public accountant who has assisted in the preparation of a plan is the logical person to check contemplated projects to determine whether or not they are in accord with it. Careful and continuous study and review are indispensable in capital budgeting if adequate control is to be exercised and its full value realized.

A serious difficulty confronting public officials in carrying out the functions of accounting which we have mentioned, namely, the recording, controlling, and planning of municipal finances, lies in the fact that the average municipal accounting system does not lend itself readily to the performance of these functions. Here too, the public accountant can render valuable service. His experience with business seems almost necessary for the installation of accounting records and methods to produce the information required for intelligent forecasting and for intelligent budget

control. The close parallel between the problems he meets in experience with private enterprise and the problems of municipal management has not been sufficiently recognized.

Three broad fields in which public accountants can be of help to municipal officials and to municipalities have been outlined above. Many problems and phases of municipal work not mentioned fall peculiarly within the experience of public accountants, or at least concern matters on which their advice should be useful. Some of these are listed below with no thought that the list is complete:

- a—Pensions and sinking-fund plans and investment programs.
- b—Debt refunding and maturity-equalization plans.
- c—Compliance with prescribed routines and efficiency and economy of operations in welfare administration.
- d—Fire and other insurance coverage in relation to value of risks, including self-insurance of property and equipment such as that of fire department.
- e—Administrative personnel and procedures from the viewpoint of internal control, uniformity of classifications and compensation, and efficiency.
- f—Miscellaneous revenues and revenue plans, including cost and effectiveness of administration, avoidance and evasion, and new or alternative sources of revenue.
- g—Financial aspects of municipal charters, agreements, and plans for consolidation.
- h—Financial data for promotion of public relations, and a better public understanding of the financial problems of government.
- i—Promotional utility and other rates to attract business and industry.
- j—Tax collecting v. tax receiving.
- k—Equalization rates where certain taxes or expenditures are apportioned to more than one unit on varying bases.

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- l—Preparation for certiorari actions where operating results and earnings are a factor in valuation of properties.
- m—Arithmetical or clerical checks of assessments such as comparison of rolls with maps, checking field-data sheets to rolls, checking calculations on field-data sheets, and making spot comparisons to verify equality of assessments.

The efficient management of municipal affairs is a matter of vital importance to every citizen. If any step has

been omitted which may contribute to such a desirable end, that omission should be corrected and corrected quickly. If the public accountant can make the contribution which is suggested in this article, then it behooves us to make that fact so well known that public opinion will require municipal officers to make wider use of the accountant's training and experience.

Obviously, such an opportunity places an obligation on accountants to prepare themselves to justify the trust which may be placed in them.