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THE EXPANDING ROLE OF THE AUDITOR

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ci -cwo-1 Next week President Nixon will be submitting to the Congress the Federal budget for fiscal year 1975. This budget is expected to propose expenditures that will for the first time exceed \$300 billion.

The Federal budget is not only a very important document of the activities of the Federal Government but what it provides for affects the lives and fortunes of every citizen of this country and through our foreign aid and other forms of international assistance it affects also the affairs of people in many other countries.

Financial planning for federal activities and the public processes of authorizing those activities through our legislative processes are key parts of our governmental system. Equally important is how those who are responsible for carrying out public programs and activities and who receive financial and other resources to do so are held accountable for their performance.

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Accountability for satisfactory performance--whether in government, private business, or other forms of enterprise--is a primary duty of those directly responsible for carrying on operations. They must not only perform well but they must account to those concerned as to how well they are performing. The auditor becomes involved secondarily in that his role is to review and evaluate independently that performance, including the adequacy of what is reported.

Auditors are making progress in expanding the important part they can play in accountability systems. But their role and the art of auditing are still evolving. Much remains to be done in perfecting not only audit concepts and techniques but in demonstrating to policymakers, managers, and operating officials just how useful the auditor's work is in improving management and operation performance.

My purpose here is to review some of the basic concepts of the expanding role of the auditor and to illustrate some of them with cases from actual practice in the U.S. General Accounting Office.

In simplest terms, extended auditing--under whatever term used--involves examining into the operating, managerial, or administrative performance of selected aspects of an activity or organization beyond that required for the audit of accounts, financial transactions, and reports.

The primary purpose of such extended auditing is to evaluate the quality of management or operational performance and to identify opportunities for greater efficiency and economy, or for increased effectiveness in carrying out procedures or operations. The basic objective is improvement in relation to the goals of the organization.

A good brief but simple and down-to-earth statement of the essence of this kind of auditing comes from William H. Allen, who used to head the Institute for Public Service in New York. He put it this way many years ago:

"That each man on a payroll actually received the pay charged for him doesn't prove that he worked the hours for which he was paid; that his work was worth his pay; that he did any work but collect his pay; or that there was any work for him to do."

RELATIONSHIP OF AUDITOR TO MANAGEMENT

The auditor should adopt the viewpoint that it is a basic management responsibility to conduct operations efficiently, economically, and effectively. That responsibility must be discharged with due regard to the nature of the duties, responsibilities, and authorities vested in the organization being audited. The entire structure of the management system of organization, operation, and control should be designed to achieve this general objective. The auditor's job is to test the working of this control system, probe apparent weaknesses, and report on conditions found, together with objective conclusions and constructive recommendations.

In reviewing the management system, the auditor's first concern is to find out how management officials satisfy themselves as to whether their prescribed policies are being properly followed, whether authorized and prescribed procedures are really effective, and whether they are being applied as efficiently and economically as they should be. This gives the auditor a good starting point--and a perspective of the manager's viewpoint that is so essential to producing acceptable audit results.

If, as part of its control system, the management has instituted techniques for measuring or evaluating performance against specified objectives or criteria, the auditor should inquire into them to see whether he can use them in his evaluation work. He should not use them blindly, however. He must be satisfied that they are logical and valid as a basis for judging performance.

If no such procedures have been developed, the auditor's job usually resolves itself into such challenging tasks as identifying whether significant wasteful or uneconomical practices are being followed, whether operations are really successful and the reasons for any lack of success, and whether there are less costly or more effective ways to conduct operations.

#### SELECTIVITY

It is not possible for the auditor to audit everything. No matter where he operates, he must make careful judgments as to how he should apply his limited resources. In other words, he must aim his efforts where they will do the most good.

In our audit work in the General Accounting Office, we have to pit our direction of effort decisionmaking against the vast, greatly diversified, and far-reaching activities of the Federal Government with its \$270 billion budget, including about \$45 billion which goes to State and local governments in the form of grants and revenue sharing.

All audit organizations have a similar problem--namely, determining where best to put their effort. The conventional method, however, to help with these decisions is to make surveys and test the workings of the management control system to identify problem areas that the auditor judges worthy of his more penetrating examination. Concentration on actual or potential weaknesses is a valid principle to apply since there are not enough audit resources anywhere to work on both positive and negative aspects of management operations.

GAO AUDIT CONCEPTS

For many years the General Accounting Office has been expanding the scope of its audit activities in order to provide better information to the Congress and the public on how well Federal Government operations are carried out.

The Congress is looking increasingly to GAO, as its independent auditor, for more and better information concerning government program operations.

Auditing Government operations as practiced by the GAO today has evolved largely in recognition of such factors as:

- The need to provide the Congress with the kind of audited information it wants and uses.
- The evolution of greatly improved financial control systems within Federal agencies.
- Devoting audit effort primarily to those aspects of programs and activities that hold promise of producing information that will contribute to improved management or program performance or savings in public expenditures.

We make no particular claim to discovering new audit concepts. Our concern has been to direct our efforts where they will do the most good--in terms of information of value to the Congress in its legislative and oversight work and in terms of management improvement in the Federal agencies.

GAO audit work is classified into three broad categories.

- Audits of financial operations and legal compliance.
- Audits of efficiency and economy of operations.
- Audits of program results.

Each audit category is described in terms of objectives; in other words, general specifications for each category are developed to describe what the audit seeks to accomplish.

AUDITING STANDARDS

A little over a year ago, we published a new, comprehensive statement of general standards for the audit of government organizations, program, activities and functions. We consider these standards applicable to all such audits irrespective of who makes them or what level of government is being audited--Federal, State, local, or even international.

The statement is not prescriptive but it does point the way to the future of governmental auditing, including internal auditing. In brief, as most of you know, it calls for audits that are complete and comprehensive, extending not only to financial operations and compliance with legal requirements, but to the efficiency and economy with which operations are carried out and to progress or accomplishments in achieving established objectives.

Because of the widespread interest in these standards, over 60,000 copies of the statement have been distributed to date.

SOME GAO AUDIT EXAMPLES

So far I have been talking largely in generalities. In practice, we in GAO translate these generalities into specific audits and reports and other forms of communication to the Congress, to agency officials, and to the public.

Before concluding, I would like to give you a sampling from some of our recent reports to illustrate the nature of work done, the findings reported, the diversity of subject matter, and our version of the expanding usefulness of the auditor to improved governmental management and operation.

Use of Flight Simulators in Training Military Pilots

The Government spends many millions of dollars each year to train military pilots. A GAO review of pilot training activities in the Air Force and Navy brought out that these services were not using flight simulators nearly to the extent that commercial airlines do.

Significant advances have been made in simulators which can duplicate the operating characteristics of flying and flight environment. Excellent training that is reasonably realistic can thus be provided at considerably less cost and with greater safety. Pilot proficiency can be greatly improved because of the opportunity to practice more frequently and longer and to devote more of the available actual flying time to complex maneuvers that cannot be fully simulated.

While absolute measures of financial savings were impossible to make, we estimated that savings from greater use of simulators could range anywhere from \$450 million to nearly \$1 billion a year. These estimates relate to economy in public expenditures which is important. Also very important is the fact that good training can be provided with less risk to pilots' lives from accidents during actual training flights. Another benefit of particular current importance is the lessened use of airplane fuel made possible by greater use of simulators.

The GAO report made it clear that the military services were taking steps to increase their use of simulators. It also made several recommendations to focus continued attention on the importance of this subject.

(Greater Use of Flight Simulators in Military Pilot Training Can Lower Costs and Increase Pilot Proficiency--Department of Defense--B-157905--Aug. 9, 1973)

Timber Production

A recent GAO report to the Congress analyzed the possibilities of making greater use of cut-down trees to help meet the demand for timber and also reduce environmental damage in Federal forests.

GAO auditors found that a lot of timber that had been cut in these forests was not being removed by the companies who had the contracts for cutting timber. In some cases the reasons for non-removal were economic, that is, it was too costly to the contractors. It was noted, however, that private companies that owned land used for timber production left far less felled wood on their land than was true in Federal forests. The failure to harvest all usable timber is not only a waste in itself but it has other adverse effects such as hindering replanting and regrowth of new timber and contributing to air and water pollution. Other effects were the creation of serious fire hazards and cost increases growing out of the need to protect against fires and to put out fires.

The report recommended changing timber sales procedures to require purchasers to remove usable wood. It also recommended that the agencies concerned explore how to provide Federal assistance to increase timber processing capabilities in the areas where timber is cut.

This audit illustrates the principle that traditional Government contracting procedures can result in undesirable and unplanned effects to which the auditor can call attention and thereby stimulate change.

Pictures included served the purpose better than thousands and thousands of words in conveying the idea as to how air pollution can result from the practices followed and in depicting the devastation in the areas cut as well as the possible utility of unremoved fallen timber.

In making the audit, we made extensive use of agency research reports and held many discussions with forest and timber experts, both in the Government and in private companies. The observations made by the auditors were definitely not new to the experts but the GAO contribution was to provide an independent analysis and evaluation and add widespread visibility to the problems through its work and wide dissemination of its report.

(Increased Use of Felled Wood Would Help Meet Timber Demand and Reduce Environmental Damage in Federal Forests--Department of Agriculture--Department of the Interior--B-125053--July 30, 1973)

## Shellfish

The Food and Drug Administration has as one of its many responsibilities for protecting American consumers the important job of insuring that food shipped in interstate commerce is safe, pure, wholesome, and processed under sanitary conditions. Shellfish such as oysters, clams, and mussels are covered by the law assigning this responsibility.

Early last year GAO completed its study of how effective the system is for making sure that potentially harmful shellfish do not reach American consumers. There are 20 shellfish producing States. GAO made its study in 4 States-- Maryland, Massachusetts, New York, and Washington. These States account for over half the total production.

The study included having water samples from approved growing areas analyzed, going with FDA inspectors on their inspections of shellfish plants, and having shellfish meat samples analyzed for bacteria counts and presence of toxic metals and pesticides.

Among the weaknesses found in the system as it was operating were the following:

1. Shellfish which did not meet prescribed bacteriological standards were reaching consumers in disturbing quantities. (31% of GAO's samples exceeded the allowable limits.)

2. The FDA did not adequately monitor the States to make sure that shellfish being marketed were pure, safe, and wholesome. Also, it did not act promptly to close areas of poor water quality and some were not closed at all.
3. The States were not making sure that shellfish were harvested from only safe waters and processed under sanitary conditions. GAO participated in inspecting 30 shellfish plants and over one-fourth of these were judged to be very unsanitary.

GAO made a series of specific recommendations--13 in all-- for actions considered desirable to improve the system. The Secretary of Health, Education, and Welfare concurred in all of them and developed specific courses of action to place them into effect.

From an audit standpoint, it is important to understand in this case that GAO auditors are not bacteriologists and we had none on our staff. This expertise was needed, however, and we obtained it by arranging with the agency to have their experts help us in our audit.

(Protecting the Consumer from Potentially Harmful Shellfish (Clams, Mussels, and Oysters)--Food and Drug Administration, Department of Health, Education and Welfare--B-164031(2)-- March 29, 1973)

Need to Consider Costs

An important part of the process of evaluating program results is to consider other ways of achieving established objectives at lower cost. This may involve correcting deficient administrative practices or making changes in the statutory requirements under which a program is carried out. The Federal price-support program for peanuts illustrates this principle.

As part of the national farm program, the Federal Government conducts programs to support the prices farmers receive for growing peanuts--an important commodity in 10 producing States.

In 1968 GAO reported on this program and pointed out that the Government had lost about \$270 million on the program from 1955 through 1966. The report estimated that over the next 5 years the losses would probably amount to \$250 million.

The primary reason for these losses was the fact that the Agricultural Adjustment Act of 1938 provided that the Department of Agriculture could not require that less than 1,610,000 acres be used for growing

peanuts. However, improvements in production technology resulted in greatly increased production for each acre. As a result, the quantity produced outstripped the demand and the Department of Agriculture had to dispose of the surplus--at a considerable loss.

The GAO report in 1968 recommended remedial legislation. Bills were considered but for lack of agreement the law was not changed.

In the meantime, productivity continued to increase. GAO completed a followup study early in 1973 and reported that the Government's losses for the 5 years through 1971 were nearly \$280 million. For 1972 alone, the loss was over \$100 million.

The second report again cited the minimum acreage provision of the basic law as the culprit and again recommended changing the law to give the Secretary of Agriculture flexibility to adjust peanut production in line with commercial demand and thereby avoid producing unneeded surpluses.

The Department of Agriculture expressed some reservations about such a change. It agreed that adopting the GAO recommendation would reduce the

quantity of peanuts it would have to dispose of at a loss. However, it did not agree that this course of action was the most desirable solution, considering "the long-run interest of producers, the peanut industry and the general public."

The National Peanut Growers Group noted that industry efforts to expand peanut markets had fallen short. It suggested that, before the Government's programs were modified, industry be given an opportunity to determine whether its promotion program for expanding markets would help check program costs.

In the meantime, the subsiding of unnecessary production at a heavy loss went on. The GAO report concluded that the Department's continuing studies and the industry's efforts could be helpful but that, in view of the heavy losses of public funds, more immediate action was needed to avoid or at least substantially reduce such losses without adversely affecting supplies or prices to growers.

The GAO report received a lot of attention at least in the press, partly because of the cost aspects of the program and partly because the subject matter

was peanuts. One newspaper columnist received the question "Why is the General Accounting Office against peanut programs?" He responded by saying, "It's not because the boys in the General Accounting Office prefer potato chips." He then went on to observe correctly that the reason was that we recognized that the taxpayer is still paying heavily for a minimum peanut acreage requirement left over from a law passed 35 years ago.

The Department of Agriculture in the past few months has announced some changes it could make without changing the law but it remains to be seen whether they will cut costs.

(Need Intensifies to Amend Legislation to Reduce Government Losses on the Peanut Price-Support Program--Agricultural Stabilization and Conservation Service, Commodity Credit Corporation, Department of Agriculture--B-163484--April 13, 1973)

CONCLUDING REMARKS

Governmental programs are usually complex affairs and fair and objective evaluation of performance and results is a most difficult process. One writer has likened the process to "nailing Jello to a wall."

The fact that it is difficult, however, is not an excuse for not making the effort. We in the GAO are privileged in a way to be in position that is independent enough to enable us to try to evaluate some of these programs. We have learned much, and we still have much to learn.

These efforts and similar efforts by other segments of the auditing profession are all aimed at contributing to better accountability for use of public resources to carry out designated public purposes. The need for and the usefulness of independent auditing and evaluation grow out of two important and interrelated ingredients of an effective system of controls or checks and balance

- Performance of all kinds must be subject to review and evaluation and the very fact that it is contributes to better day-to-day operations.
- Management officials including policymakers must have available reliable sources of information on how things are going, what problems impede good performance, and what changes could be made to improve performance. A good audit system is one of these sources of information.