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Other Titles of Interest

Cases in Accountability: The Work of the GAO, edited by Erasmus H. Kloman

The President, the Budget, and Congress: Impoundment and the 1974 Budget Act, James P. Pfiffner

THE GAO: THE QUEST FOR ACCOUNTABILITY IN AMERICAN GOVERNMENT

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Harrison, McKinley, Theodore Roosevelt, and Taft, and more recently Nixon and Carter. But the "Old Brick Barn" could not accommodate the GAO's entire army of 2,000, which would later grow seven-fold. Most of the troops were scattered in various buildings in downtown Washington.

Work of the First GAO

The GAO of the 1920s, 1930s, and war years of the 1940s can be best described as a prodigious paper mill and an enormous warehouse of paper. Most of its paper was received from the departments and agencies of the government, and sometimes from private citizens, normally on forms and according to procedures prescribed by law and by the Comptroller General. On receipt of these documents, the GAO recorded and checked them, sometimes returned or otherwise responded to them, and stored them.

The principal categories of papers and the GAO activities associated with them are sketched below. The second, third, and ninth of these are discussed in greater depth in succeeding paragraphs.

1. The GAO reviewed *requisitions* from the various agencies and disbursing officers for advances of funds; if approved, these were forwarded to the Treasury Department, which drew up *warrants* that were signed by the secretary and then countersigned by the Comptroller General. The warrants were a legal authorization to spend, receive, borrow, or transfer government money. For the most part, the signature and countersignature have been considered nondiscretionary acts assuring only that the money was legally available for the purposes sought, although McCarl did not accept this ministerial interpretation.[13] Other kinds of warrants were used for the receipt of funds, for transfers, for public debt transactions, and so forth, and they numbered in the thousands every year. From the time of Alexander Hamilton until the 1950s, the warrants remained the foundation of the federal financial system.

2. The Comptroller General inherited the power and duty from the comptroller of the treasury to render *advance decisions* on payment questions raised by heads of departments or disbursing officers as well as by its own auditors. These were limited in number before 1921 to an average of about 250 per year. Under McCarl, their use mushroomed to several thousand per year as agencies sought to protect themselves from future disallowances. The decisions now comprise an ever-growing library of volumes that constitute much of the bible and verse of legal and financial officers throughout the government.

3. The central and best known of the GAO's responsibilities was the *audit of expenditure vouchers*[14] (mostly after they had been paid) and the *settlement of accounts*—primarily those of the various disbursing officers scattered around the government—which were required to be submitted periodically along with all their supporting documents. The GAO's checking of individual vouchers was intended to assure that the money was authorized and available, the payment was lawful in every respect, the proper procedures had been followed, and no fraud or other irregularity was involved. If any objections were raised, notices of exception were issued to the responsible officers, and unless satisfactory explanation could be made the payments were disallowed. This meant that either the payee or the officer responsible for the payment must make up the amount to the government. In the event that the disallowance was not satisfied, the GAO could refer the case to the Department of Justice for legal action.

4. Another activity, which was neither required nor prohibited in law, was the *preaudit of vouchers* by the GAO prior to payment. McCarl was an enthusiastic supporter of preauditing on the grounds that it would prevent disallowances and all their accompanying inconveniences in advance, and he urged the departments to use it. But few of them did, and with some significant exceptions (transportation bills, some commodity payments, and other transactions in a scattering of agencies) the postaudit continued as the predominant practice.

5. In addition to its auditing of vouchers, the GAO received and reviewed government *contracts* and audited payments based on them.

6. It also received copies of *cancelled checks* written against government accounts, reconciled them with the depositary balances of the fiscal agents in the various agencies and filed them.

7. It reviewed and decided upon *claims* both for and against the government, and its decisions were final for all agencies in the executive branch. Private parties could appeal GAO decisions to the Court of Claims (or take their claims there in the first instance if they chose), and there was often recourse to Congress and sometimes to the general court system. The GAO set up a process also to *collect payments* due the government.

8. On January 1, 1923, the Comptroller General ordered the departments and agencies to transmit the *transportation bills* of common carriers for direct settlement by the GAO and payment by means of Treasury Department warrants.[15] The War and Navy departments refused, and the attorney general denied that the GAO had the power to order such a procedure.[16] But this centralized preaudit of transportation vouchers became the prevailing practice in the government and one to which the GAO for many years assigned many (about 400) people.

9. One of the objectives of the 1921 law was to bring about the improvement of accounting methods throughout the government, and the primary responsibility for this was lodged in the GAO. It was empowered to *prescribe and standardize accounting forms and procedures* in the several agencies and to inspect and correct the practices in the various fiscal offices. For these and related purposes, a small investigation section was organized in 1922

and later considerably expanded.

10. A very large part of the GAO's time was devoted to *maintaining records* and copies of all the variegated categories of forms and other papers associated with the above responsibilities.

11. The GAO was called upon to make *reports and recommendations* to Congress and, on request, to the President and the Bureau of the Budget. In the main, it appears that it preferred to act on its own authority. Its annual reports to Congress were largely records of its own work and its problems with the agencies, sprinkled with recommendations for legislation, usually to enlarge its scope and authority and often introduced by a statement about the philosophy and objectives of the organization.

12. In addition to the above general activities, the GAO continued from 1923 on to maintain as well as audit virtually all the *central accounts of the Post Office.*

The volume of documents handled for these various purposes was simply staggering, as indicated in Table 1. Of the activities enumerated above, three of the most important in their impact upon the administrative operations of the government were: advance decisions and other rulings; the audit and settlement of accounts; and the prescription of agency accounting forms and systems. With respect to all three, the determinations of the GAO were presumed to be final and binding on the executive branch.

Advance Decisions and Rulings

The Comptroller General was—and is—called upon to interpret the meaning and the limitations of appropriations and other statutes and court decisions, as well as some of his own previous regulations in their application to individual cases or classes of cases. A great many, probably most, of these instances dealt with relatively minor and technical matters without severe impact upon public policy and the general conduct of governmental business. Some concerned one-time questions, unlikely to recur. But others were of considerable importance and had a long-range impact upon many agencies and programs. An example of these was the issue as to whether an executive agency could assign and defray the salary and expenses of employees in education or training courses when such expenditures were not explicitly authorized by law. The landmark decision on the question had been made in the negative by the comptroller of the treasury in 1910 on the grounds that "all appropriations must be used for the specific purpose for which made and not otherwise" and that "it is presumed that the officers and employees of the Government when appointed and employed have the necessary education to perform the duties for which they were appointed or employed."[17]

That early decision survived for nearly half a century through a succession of appeals on training cases. After World War II and the Korean conflict,

TABLE 1

Indicators of GAO Workload, 1932 and 1939

	1932	1939
Reports issued on inspections and investigations	1,200	700
Reports to Congress, President, Bureau of the Budget	346	227
Replies to miscellaneous congressional inquiries	3,660	2,900
Legal decisions	7,100	8,200
Approved accounting forms	200	357
Vouchers audited	N/A	14,000,000
Vouchers preaudited	350,000	538,000
Appropriation and limitation accounts maintained	N/A	65,000
Accountable officers' accounts maintained	29,000	N/A
Other accounts maintained	N/A	238,000
Treasury warrants countersigned	24,000	57,000
Requests for disbursing funds approved	N/A	13,000
Claims settled	284,000	445,000
Transportation claims settled	225,000	305,000
Contracts examined	227,000	993,000
Checks reconciled	33,000,000	152,100,000
Postal accounts audited	174,000	263,000
Postal money orders audited	191,000,000	248,000,000

Source: Annual Report of the Comptroller General, 1932 and 1939.

conditions and needs had changed sufficiently to induce the Comptroller General to modify the ruling to permit expenditures for particular training when it (1) was special in nature and for a period of limited duration, (2) was essential to carry out the purpose for which the appropriation was made, and (3) was not of a type that the employee would normally be expected to furnish at his own expense.[18] The decision as to whether any given training program satisfied these criteria would of course be made by the Comptroller General, not the agency. Subsequently, he determined that "limited duration" meant normally not more than two weeks. The net effect of these GAO decisions was to virtually prohibit governmentally supported training programs of substantial length except for certain categories that had specific statutory authorization (such as the Foreign Service and the military), until Congress passed the Government Employees Training Act of 1958.[19]

Examples of other GAO rulings of lasting impact include:

- If advertisement for purchases omits any factor considered by the Comptroller General to be an essential competitive factor, none of the bids received can be accepted. (8 C.G. 649.)
- The desire to match equipment on hand does not warrant purchase without competition. (8 C.G. 649.)
- The lowest responsible bid meeting specifications must be accepted, and, when any other than the lowest bid is accepted, a detailed statement of reasons must be submitted to the General Accounting Office. (4 C.G. 254.)
- Leasing of premises for use of governmental agencies must be after advertising and competition. (14 C.G. 769.)
- Commercial purchase of brushes is illegal without a showing that the federal penitentiary was unable to furnish such brushes; the law does not contain any provision exempting purchases on account of emergencies. (14 C.G. 271.)
- All claims of common carriers must be transmitted to the General Accounting Office for settlement before payment. (Regulation—January 1, 1923.)
- Treatment of the walls and ceilings of a public building with sound-deadening felt is not an item of repair or preservation but an improvement and is not payable from an appropriation for repairs and preservation of public buildings. (2 C.G. 301.)[20]

Some of the Comptroller General's rulings concerned questions of general management and were only indirectly related to the legality and propriety of payments. Thus in 1933, he responded to a series of questions of the secretary of the treasury as to the effect of an executive order reorganizing the Bureaus of Industrial Alcohol and Internal Revenue. In 1935, he advised the Public Works Administration on three alternative methods of operating housing projects: by lease, by direct governmental maintenance, or by management contracts. In the same year, he rendered an opinion to the Department of Agriculture on the framing of contracts for milk purchases.[21] In a celebrated early case (1924) McCarl ruled that a married woman employee of the government must appear on the payroll in her husband's name and could not enroll under her maiden surname. This must have been primarily a matter of his judgment as to social mores and common law since there was no federal law on the books forbidding the use of the maiden name. He wrote: "A wife might reside apart from her husband, but as long as she remains his

lawful wife she has but one legal domicil and that is the domicil of her husband. So it is with the name. She may have an assumed name, but she has but one legal name." This ruling was later qualified in 1939 when the Comptroller General ruled that a married woman could use her maiden surname when she "continued its use after her marriage for practically all purposes, and the administrative office desires the continued use of her maiden name on the payrolls."[22] It was finally reversed during International Women's Year, 1975, in response to the growing recognition of women's rights and of a number of intervening court decisions. The Comptroller General then ruled "that a married woman has the right to be designated on agency payroll records by her maiden name if she desires to do so." In the same decision, he authorized the use of the prefix *Ms.* if the employee wished it.[23]

Audits and Settlements

Probably the best remembered feature of the first GAO was its receipt and review of the disbursing officers' accounts with their accompanying vouchers and supporting documents. This abundance of papers was shipped into GAO offices in Washington from all over the country and, indeed, from all over the world. Often carloads of these documents stood in the freight yards as backlogs, awaiting their turns for attention by the GAO clerks. Relatively few of them, usually 5 percent or less, consisted of unpaid vouchers to be preaudited prior to payment. The rest were the records of and documentation for transactions already completed by disbursing officers in the various agencies in Washington and in the field. They would each be checked for authority in appropriation and statute, for availability of funds in the warrants issued to individual disbursing officers, for accuracy and correctness in computation, for conformance with the GAO's prescribed procedures and forms, and for any other possible irregularity. The accounts and vouchers related to virtually all of the administrative activities of the executive agencies, other than corporations. Their variety was nearly limitless. In volume, the accounts of disbursing and other fiscal officers that were reviewed ran in the tens of thousands, and the vouchers numbered in the millions.

When the auditors could find no flaw in an account, they would clear, certify, and thus settle it. A payment of doubtful legality could be referred to the GAO counsel for advice or, if necessary, a new ruling. If they found any other irregularity, exception would be taken, and the matter would be referred back to the disbursing officer or agency for correction, explanation, or further documentation. Unless the response was satisfactory, there might be further correspondence, sometimes over several months and years. If the exception was still not resolved to the satisfaction of the GAO, the payment would be disallowed, and the agency officer responsible for the payment would be personally liable to reimburse the government, either from its recipient or, failing that, from the officer himself.

There is rather little documentation as to how much of the public money was actually saved through this slow and complex procedure, and the reports of the Comptroller General are not of much help. For the fiscal year 1934-1935, Mansfield reports that the GAO questioned less than $11 of each $1,000 disbursed and that of this all but one dollar had been cleared by 1937—about 1/10 of 1 percent.[24]

In retrospect, it is not difficult to ridicule the first GAO and its practices. A few old timers may recall its effort to disallow the purchase of a prize mule by the Tennessee Valley Authority (TVA) for its agricultural demonstration program because such an expenditure was not specifically authorized in the law. Some who remember the first GAO recall its memorandum to the Department of the Interior questioning how a bureau of that department would use a camera it had purchased. The response was a pencilled notation: "To take pictures, you damned fool." It was initialled by Harold L. Ickes.

But for a good many others, GAO audits were neither trivial nor amusing. Disbursing and certifying officers for governmental programs had to be concerned with how the GAO would interpret the statutory powers of their agencies. Purchasing officers were concerned with GAO interpretations of what they could purchase and of proper purchasing procedures. Administrators of emergency programs facing sudden and unexpected contingencies were compelled to anticipate possible challenges when they were not specifically covered in statutory law. Official travelers had to prove that they traveled by the cheapest route or justify in detail any departures therefrom on grounds of official business.[25] Arguments in defense of any deviations from legally prescribed rules had to be made in writing to clerks sitting at desks in Washington, almost none of whom had any experience in the operational or managerial aspects of government.

In sum, the settlements of accounts and the audits by the first GAO undoubtedly contributed to the strict enforcement of law and regulation. They prevented or at least discouraged minor transgressions of propriety. On the other hand, they undoubtedly added to the procedural requirements and delays. It is curious and perhaps symbolic that the individual sets of accounts and their supporting documents were customarily encased in packages bound, as in ancient British practice, in strips of red tape.

Prescription of Accounting Forms and Procedures

In the first year of the GAO, the Comptroller General set up a small investigations staff to make spot inspections of agencies and their bookkeeping systems and to develop standard systems and forms for agency accounting and financial reporting. Among its first jobs was the auditing of the Emergency Fleet Corporation; several years later it was involved in the

audit of the TVA; later, according to the Comptroller General's annual reports, it conducted investigations of accounting practices in a number of agencies.

It is difficult today to assess the work of the GAO in this field because the documentation that exists is conflicting. Some reports suggest that the GAO was helpful in bringing some order and uniformity to a chaotic and primitive accounting situation; others that it lacked the technical expertise for the job, which it largely botched; still others, that it prescribed forms and procedures geared to reconciling agency systems with GAO accounts, which meant that they were of little use for purposes of agency management or to the Treasury Department or the Bureau of the Budget.

The GAO's first major attempt to standardize and modernize federal accounting practices was its issuance in 1926 of Circular 27, which provided a statement of procedures and a chart of accounts to be followed by all agencies. In 1943, Circular 27 was succeeded and somewhat revised by the Comptroller General's General Regulations 100, which at least technically remained in effect until it was officially killed in 1959. One writer describes Circular 27 as "important because it marked the development of a new concept for installation in one system of the cost (or accrual) basis of accounting alongside accounting for appropriation funds in Federal Government agencies."[26] The same author, however, reported that General Regulations 100—and presumably its predecessor, Circular 27—"were not generally accepted nor the prescribed system installed by many of the agencies."[27] Other writers are less generous about General Regulations 100, suggesting that the system it prescribed was impossibly complex, that it was virtually useless for managerial or control purposes, and that it was more an obstruction than an aid in the development of useful federal accounting systems.[28]

Studies of government accounting practices made after the era of the first GAO, such as those by the two Hoover Commissions and their task forces, indicate that federal accounting was still amateur, of little use to management, duplicative, unintegrated, and bogged down in excessive procedure and red tape. The forms and procedures prescribed by the GAO may have served the GAO's purposes. But there is little evidence that the GAO provided effective leadership in the reform and modernization of accounting for the government as a whole.

GAO Conflicts within the Government

The positions of auditors are not designed to foster friendship and popularity among those who are audited, even under the best circumstances. Auditing entails, among other things, finding fault with the work of others, and the more faults that can be identified the more defensible is the work of effectiveness with which the corporations were carrying out their purposes. It included the statement:

> It is necessary in all corporations to measure the costs of the activities in relation to the accomplishments, from the standpoint of justifying the activities, as well as for the purpose of showing the effectiveness with which the activity's responsibilities have been discharged.

That early document presaged the emphasis given many years later to program evaluation. It was supplemented by a number of documents in 1950, and was ultimately superseded by the development of the *Comprehensive Audit Manual* on September 1, 1952, prepared primarily by Ellsworth H. Morse, Jr.[15]

One of the first and most ambitious audits of the new Division was its ten-volume study of the Reconstruction Finance Corporation (RFC) and its subsidiary corporations, which was submitted to Congress in June 1946, replete with criticisms of the corporation's financial and other operations and decisions. The report was the occasion for congressional hearings and was enthusiastically received by the House Committee on Expenditures in the Executive Departments.[16]

A later audit of the U.S. Maritime Commission proved to be a landmark in the history of the GAO.[17] The Maritime Commission was not established as a corporation, but, pursuant to the Comptroller General's instructions, the Corporation Audits Division conducted its review in accordance with the principles applicable to commercial transactions. The report on the audit, submitted to Congress in February 1950, was also well received in Congress. The success of the audit helped convince the Comptroller General of the feasibility of site auditing of regular departments and agencies other than corporations and of the capability of the GAO staff to carry on such audits. It contributed to the decision, described later, to develop the program of comprehensive auditing for the government in general.

Some critics, including academic scholars, objected to the Corporation Control Act at the time on the grounds that subjecting the corporations to the budgeting, auditing, and other financial controls of the government would critically damage their flexibility and managerial freedom. Professor Herman Pritchett, for example, wrote a few months after the act's passage that:

> It goes far toward completing the task of eliminating the features which have made government corporations useful instruments for enterprise purposes. . . . The pattern of control imposed means that, for good or ill, American experience with autonomous public corporations is substantially at an end.[18]

Whether because of the act or not, there is no doubt that there has been

much less reliance upon the corporate device, even for business-type operations, since 1945. The number of federal corporations has declined substantially, as has their relative importance in the totality of government finances.

On the other hand, Congress and the executive have invented or utilized a congeries of other types of enterprises, public and private or in the "twilight zone" between the two, to provide substantial managerial freedom and autonomy.[19] Further, they have relied increasingly upon contractual and subsidized arrangements with private businesses and not-for-profit institutions, including universities, all of which later raised even thornier problems of public accountability.[20] Audits of government corporations, which since 1975 are required only once every three years, now comprise only a small fraction of GAO work. The significance of the Corporation Audits Division really lay elsewhere. The division itself was merged in 1952 with several others to form a new Division of Audits, of which its staff provided the solid backbone. It upgraded the caliber and image of the GAO in the profession of accounting. And it was the first major step toward a new concept of the GAO's role and function in the field of auditing.

The Reform of Federal Accounting Systems

The second movement that led to revolutionizing the GAO's orientation and activities in accounting and auditing likewise stemmed, at least in considerable part, from prewar criticism and dissatisfaction in the executive branch and the conflicts arising from them. Conceptually, the critics were supported by the conviction of many in the executive agencies, and in the public administration fraternity generally, that the Comptroller General should not be both accountant and auditor—that accounting, and the functions of advance decisions, disallowing expenditures, settlements, and so forth, were properly executive responsibilities. Further, the Treasury Department complained about the duplicating nature of central accounts and the difficulty if not impossibility of instituting an integrated and modern system of accounting for the government as a whole as long as the GAO insisted on forms and procedures primarily to accommodate its own requirements. The Treasury Department and the Bureau of the Budget (BoB) joined forces in issuing a glossary of terms and instructions for reports on appropriations, obligations, apportionments, and like matters, quite unrelated to the GAO stipulations. Edward F. Bartelt, commissioner of accounts and later fiscal assistant secretary of the treasury, became for many years the leader in seeking an integrated accounting system useful for agency management, consolidated government-wide financial reporting, and the integration of budget and accounting needs. He directed the Treasury Department's system of nationwide accounting for emergency relief payments, starting in 1935, which achieved a spectacular success (see chapter 3). In 1938, he organized a committee to survey and develop plans to integrate the various accounting systems in the Treasury Department and in some agencies with a view to better serving managerial needs. Later, in 1939 and 1940, a group of Treasury Department officials were loaned to the BoB, which had just been made a part of the Executive Office of the President, to advise on how needs for financial information in connection with the budget process might best be served. This effort resulted in an executive order[21] that directed the secretary of the treasury, with the approval of the director of the budget, to establish a system of financial records and reports needed in the budget process. Part of the purpose of the order was to force, or to at least encourage, the GAO to adapt its requirements to the needs as perceived by executive agencies. Walter F. Frese, who had been prominent in many of these Treasury Department and BoB initiatives and who would later be the hub of reform efforts in the GAO, sought to enlist participation in this work on the part of GAO officials; at one point, GAO, BoB, and Treasury Department representatives planned a pilot test in a single agency.[22] But Frese was reassigned, the test did not come off, and further developments were postponed because of the war. The executive order apparently had little impact on GAO practices, but these prewar experiences had illuminated some of the problems and needs and had inaugurated the idea of a cooperative approach among the financial agencies most concerned.

According to one account, the seed that led to the transformation of the GAO was planted in the mind of Comptroller General Warren before World War II in a chance meeting on a Washington street car with Eric L. Kohler, then Comptroller of the Tennessee Valley Authority. Kohler commended to Warren's attention the recent book by Harvey C. Mansfield, Sr., on *The Comptroller General* (discussed in the Introduction above) and subsequently sent him a copy to read.[23] That book may have been the source of Warren's later initiatives. At any rate during the war and the immediate postwar months, Warren, with the encouragement of his special assistant, Frank Weitzel, became concerned about the need to improve accounting practices in the government and increasingly doubtful about the effectiveness of the GAO's auditing and other controls. Warren launched his crusade immediately after the war. In 1950 he said:

> On the day after the surrender of Japan, I called a meeting of my staff and told them the No. 1 problem in the General Accounting Office from that date was improvement of accounting in the Government. Because of the legal responsibilities and interests of the Treasury Department and the Bureau of the Budget, from the standpoint of fiscal administration in the Government, I felt it was essential to have their full participation in any such program. Because the day-to-day maintenance of accounting systems is the responsibility of the various administrative agencies their cooperation was just as important.[24]

Warren's memory in 1950 may have misled him about his statement in 1945 with respect to collaboration with the executive agencies. His good friend, James E. Webb, also from North Carolina, recalls "twisting Warren's arm" about collaborating with the Treasury Department and the Bureau of the Budget after Webb became director of the budget in 1947. Webb later wrote that Warren's response to his urging was: "What you are asking me to do is to reorganize the General Accounting Office and nobody ought to be asked to do that."[25]

In any case it was a happy coincidence that Warren and John W. Snyder, secretary of the treasury, and Webb, were all congenial Democrats from the south. They were encouraged toward a collaborative approach by the Senate Committee on Expenditures in the executive departments and by trusted aides: Warren by Weitzel and others in the GAO; Snyder by Bartelt and others in the Treasury Department; Webb by Frederick Lawton, assistant director, and others in the Bureau of the Budget. The three agreed in December 1947 to collaborate in the stimulation of a Joint Accounting Improvement Program (JAIP),[26] in which all departments and agencies were to participate. The JAIP was announced in a celebrated letter from the Comptroller General to the heads of all agencies on October 20, 1948, which urged their participation in the development of accounting systems suited to their own managerial needs and tied in to an integrated government-wide accounting pattern. Leadership would be provided by the Comptroller General with the support of the secretary of the treasury and the director of the budget, and the effort would be spearheaded by a small, highly qualified GAO staff, helped as needed by staff from the Treasury Department and the BoB. The letter promised continuing review of GAO reporting requirements and assurance that its audit programs would "be developed in balanced relationship with internal control considerations."

Warren transferred some of the functions of his Office of Investigations to the new Accounting Systems Division, which would be the nucleus of the joint program. And he went outside the GAO for the director of the new division. Probably on the recommendation of Bartelt of the Treasury Department, he appointed Frese, who had previously worked in both the Treasury Department and the BoB but not in GAO. Frese in turn appointed a number of administrative and accounting professionals, many of whom had had experience in the executive branch. His total professional staff grew to about seventy.

The JAIP was an altogether unique organization created without benefit of legislation through the cooperation of leaders of one legislative and two executive agencies. It sidestepped the constitutional and organizational issue that had so long stymied effective action to improve financial management. And it constituted a dramatic reversal in the stance of the GAO. Henceforth, that organization would recognize the primary responsibility of the individual agencies to develop and operate their own accounting systems; it would provide standards, guidance, and technical assistance in that work, and it would review and approve such systems once in place. It would encourage the development of internal audit systems in the agencies and would give due weight to the requirements of financial information for internal management, for budget preparation and execution, and for the overall needs of the Treasury Department and the Bureau of the Budget.

The style of Frese, chief of the GAO's Accounting Systems Division, which provided the principal staff for the JAIP, was directly reflected in its performance. Frese liked to think of its role as that of a catalyst—not of a policeman or director or even consultant. The ideas should come up from below, not be prescribed from above. Accounting systems should center on the needs of managers who made substantive decisions, not the accounting technicians. Financial information should go to the places where it would be most useful for managerial decisions, however far down in the hierarchy. He was suspicious of uniformity and standardization, preferring systems tailored to the needs of the individual agencies. And though he disdained slogans and the technical language of some accountants (like "accrual accounting"), a favorite among his expressions was integrated programming, budgeting, accounting, and reporting.

The achievements of the JAIP in its first eight years were gradual rather than spectacular and somewhat spotty because of Frese's predilection to focus on individual agencies rather than on sweeping reforms and standards. Overall, they were impressive, possibly the most sweeping overhaul of federal financial procedures since the beginning of the republic. It is, however, difficult to attribute specific changes and actions to the JAIP as such, partly because of the participatory nature of its operations. Its contributions were expressed in legislation, directives of various kinds and at various levels, changes in operating practices, and changes in personnel policies and in the personnel themselves. In many of these, the JAIP was but one of several contributors or a catalyst among them. It might lay some claim to almost all the major changes in financial management that were made during those years, but exclusive claim to almost none of them.

The emphasis placed by the JAIP on the responsibility of the executive agencies to develop and maintain their own accounting and internal auditing systems obviously had serious implications for some of the traditional activities of the GAO—that was the other side of the coin. The JAIP could hardly succeed unless many of the old GAO requirements and procedures were modified, relaxed, or abolished. The Accounting Systems Division joined the Corporation Audits Division in its advocacy of comprehensive, on-site auditing to replace the centralized voucher checking that had for so long been the main dish in the GAO's menu.

In a lengthy memorandum of July 14, 1949, to the Comptroller General, Frese enunciated three main principles growing out of the agreed policies of the JAIP.

1. The individual operating agencies of the Government are the key points for effectuation of real control over the financial operations of the Government. Accordingly, the joint program, and the exercise of responsibilities for prescribing systems, must be directed at providing effective controls in the agencies, and, as a consequence, in the whole system of accounting in the Government. The joint program states in this respect "that the keeping of proper records and exercise of proper control at that point (i.e., in each agency) are the foundation on which the entire system of accounting and reporting in the Government must rest."

2. The consolidation and necessary integration of accounting processes for the Government as a whole will be accomplished with the proper integration of accounting processes of the individual agencies with the accounting of the Treasury Department. The "linking together" of agency and Treasury accounting systems will provide "internal controls" in the accounting for the Executive Branch as a whole and will enable the Treasury Department to develop, on the basis of its own and agency accounting results, composite financial statements for the Government as a whole.

3. The control and audit procedures of the General Accounting Office should be adjusted to the effectiveness of accounting and internal control in the agencies and in the Treasury Department. This will result in the maintenance of control by the General Accounting Office on a broader and more effective base through the prescribing of accounting systems, systems inspections, and comprehensive audits of accounting records, including those of the Treasury Department.

Frese defined the term *comprehensive audit* as "the verification of assets, liabilities, and operating results, combined with a voucher audit with power to take exceptions, aimed at the proper level, such power to be used with discretion." The memorandum went on to make a number of specific recommendations, including the abolishment of a variety of records, accounts, and ledgers in the GAO and the transfer to the Treasury Department of the function of matching and reconciling checks with checking accounts. Frese argued that his recommendations would make the GAO's control far more effective at the same time that it reduced its personnel and costs.

The potential impact of the Frese recommendations upon the whole structure and orientation of the GAO was obviously tremendous. They would turn the auditing function around, virtually abolish most of the records and controls of the large and powerful Accounting and Bookkeeping

Division, and remove the check-reconciling and some other functions. They threatened the status and the jobs of thousands of officers and employees, including a great many of the old-timers. On receipt of the memorandum, the Comptroller General sent copies to the heads of all divisions and offices for comment. The responses covered the spectrum from full approval on the part of the director of the Corporation Audits Division to the total and vituperative opposition of the chief of the Accounting and Bookkeeping Division. The latter officer described the proposals as "(1) being very definitely and unwisely revolutionary; (2) unduly extravagant in promises; (3) inaccurate in appraising and reporting upon some of our present practices and in stating accomplishments under the joint program; (4) undeveloped to an extent which leaves entirely too much to conjecture; (5) taking away from your direct supervision functions essential to the proper performance of your duties; and (6) being incapable of accomplishment under existing law."

The chief of the Audit Division generally approved with minor modification, while the chiefs of the Investigation and Reconciliation and Clearance Divisions opposed with vigor. The operations of the Postal Accounts Division were specifically exempted from Frese's memorandum, but its chief could hardly fail to see the handwriting on the wall. He argued that "the audit for accounting purposes and the audit for legal purposes are . . . separate and distinct and unrelated" and that the legality audit, which required detailed review of every transaction, should never be sacrificed. He implied that Frese's proposal would do just that—and he was certainly correct.

In spite of the contrary advice of several of his most influential lieutenants, the Comptroller General moved promptly and decisively. On October 19, 1949, he issued Administrative Order No. 70, which in general terms endorsed the bulk of Frese's auditing proposals: the comprehensive audit and the evaluation of agency systems at the site of operations. A few weeks later, on November 29, in a memorandum to the chiefs of GAO divisions and offices, he specified in greater detail the decisions he had reached, including the abandonment, as rapidly as possible, of the bulk of the central records and the operations connected with them. Most of the Frese recommendations were dealt with. Warren opened his memorandum with a statement of policies, including the adoption of the comprehensive audit "as and when it is determined to be feasible, advantageous and otherwise permissible." Most sweeping of the policies was the second:

> All operations in the General Accounting Office not essential to effective exercise of its audit and control responsibilities, in the light of the comprehensive audit policy or otherwise, and which are not specifically required by law will be eliminated as rapidly as possible.

He further mandated that the divisions submit recommendations for legislative changes needed to effectuate his policies. Warren's directives of October 19 and November 29, 1949, were probably the crucial keys in the turnabout of the GAO.

On November 29, he also designated Ted B. Westfall, then assistant director of the Corporation Audits Division, to lead a study of organization and operations of the GAO and to develop plans for its transition to the new role—under the aegis of the Accounting Systems Division. Meanwhile, Frese and others concentrated on the preparation of legislation that the general counsel had advised would be necessary to make the proposals fully effective.

The First Hoover Commission

Concurrent with many of the developments described above and very relevant to them was the work of the first Hoover Commission,[27] which reported in February 1949. Composed of representatives and appointees of the President and of both houses of Congress, equally divided between the political parties, it conducted the most exhaustive and elaborate study of the executive branch as a whole in American history to that time. Its reports, which totaled nineteen in number, were far more detailed than that of the Brownlow Committee more than a decade before, but basically consistent in philosophy and approach. The Hoover Commission instituted the practice of delegating to task forces of experts in various fields investigation, research, and the development of recommendations; seventy-eight task force studies were published. Most relevant to the GAO was the Task Force on Fiscal, Budgeting, and Accounting Activities. That task force in turn engaged the services of individual specialists or groups of specialists in particular areas. The group that concentrated on accounting was in fact the Committee on Federal Government Accounting of the American Institute of Accounting. Its chairman was T. Coleman Andrews, who had been the director of the GAO's Corporation Audits Division during its first two years. As representative of the Comptroller General, Frese attended most of the meetings of the committee, which was also assisted by Bartelt of the Treasury Department and Lawton of the BoB. All three were of course intimately associated with the Joint Accounting Program.

As one might anticipate, the report of the Andrews Committee was supportive of the efforts and proposals of the Corporation Audits and Accounting Systems divisions, both of which were well underway during the course of its deliberations. Specifically, it endorsed the focusing of accounting responsibilities on the agencies, the comprehensive rather than the voucher audit, site auditing, steps to make the accounts and reports more clearly reflect real costs (mainly through accrual accounting), and a closer relationship between the accounting and budgeting systems. These to the principles and programs that were already being pushed. They accorded with the major recommendations of the Hoover Commission's report, *Budgeting and Accounting,* except that proposing an accountant general, as well as those of the Joint Accounting Improvement Program and the GAO's Accounting Systems Division, which played a major part in drafting the bill. A few amended previous legislation to make possible the full implementation of the JAIP's proposed policies. Among its major provisions were that:

- the accounts provide full disclosure of financial operations and adequate information for formulation and execution of the budget;
- maintenance of accounting systems and financial reporting be a responsibility of the executive branch;
- the joint program for accounting improvement (JAIP) continue;
- the Comptroller General, after consulting the secretary of the treasury and the director of the budget, prescribe the accounting principles and standards for the agency systems and for integrating them with the general financial requirements of the Treasury Department;
- the Comptroller General cooperate with the agencies in developing their systems and review and approve them when he deems them adequate;
- as soon as practicable, agency systems be placed on an accrual basis;
- central accounting and reporting by the Treasury Department be consistent with the principles and standards of the Comptroller General;
- when the secretary of the treasury and the Comptroller General agree that existing requirements with respect to requisitioning of funds, advances, and warrants are no longer necessary they may jointly issue regulations to waive them;
- the Comptroller General may discontinue the maintenance of his central accounts when he judges them no longer necessary;
- in determining his auditing procedures and the extent of voucher checking, the Comptroller General "give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control" (the so-called comprehensive audit);
- agencies retain all financial documents whenever the Comptroller General determines they are necessary for site audits.

The 1950 act gave congressional sanction to what was already progressing under the aegis of the Joint Accounting Improvement Program and the

GAO's Accounting Systems Division. None of these changes was accomplished overnight. They were given effect step by step over several years—from about 1948 to 1955. Their net effect in that period was a revolution in federal accounting and in the GAO.

Internal Reshaping of the GAO

As noted earlier, after Comptroller General Warren had decided in late 1949 to change the direction of the GAO, one of his first moves was to institute a managerial and organizational survey by a task force under the direction of Ted B. Westfall. Among the first missions of the group was to assess the usefulness of voucher checking as it was then practiced. The conclusions of that study were that the values were far outweighed by the costs and that in fact a large part of the voucher audit was simply a rote exercise. Sheet after sheet of the vouchers were simply stamped "VA," which meant, not Virginia nor Veterans Administration, but "visually audited," which in turn meant seen or quickly scanned but not examined. Studies of various other checks and of the records kept in the GAO similarly concluded that they were costly and unnecessary or could be better conducted or maintained elsewhere—in the agencies and in the Treasury Department.

The consequences consisted of a series of recommendations, usually followed by administrative action, to alter fundamentally the stance and the functions of the GAO. One by one, agencies were exempted from the requirement of sending their vouchers and accompanying documents to the GAO in Washington (except in the field of transportation, which remained centralized). In turn, the GAO established offices within the various agencies to carry on what were then called comprehensive audits, on a selective basis at the site of operations. GAO field offices were authorized to do the same outside of Washington. The movement of truck and freight cars full of fiscal documents to Washington gradually declined. The audit of individual vouchers, which had been for about thirty years the pièce de résistance of the GAO, was gradually abandoned except where its need was indicated in a comprehensive audit.

For the traditional voucher checking, which was essentially a semi-technical, clerical review of agency bookkeeping, were substituted two quite different kinds of activities. First was the assistance to agencies in the development of accounting systems in accordance with general standards and principles developed by the GAO, followed by GAO review of the systems of individual agencies to be blessed by its approval or criticized by its findings of inadequacies. The GAO had, almost from its start, prescribed forms, classifications, and reports for the agencies, but it had offered little in regard to their overall accounting systems. Pursuant to the provisions of the Budget and Accounting Procedures Act of 1950, the GAO began to issue in 1952 its first *Accounting Principles Memoranda,* which set forth in quite general terms the basic principles of an adequate accounting system in an administrative agency. It was the grandfather of the GAO's current *Policy and Procedures Manual for Guidance of Federal Agencies.* But the basic idea has not changed. Rather than checking on the individual transactions of agencies, the GAO would review the systems whereby the agencies maintained and checked on their own transactions and verify the adequacy of those systems, where necessary, by sample checks of the transactions.

The second substitute for voucher checking was the activity then known, somewhat misleadingly, as comprehensive auditing. Use of the term was apparently derived from the old Corporation Audits Division, which reviewed the totality of the financial condition (income and expenses, assets and liabilities) of the government corporations, more or less modeled on the practices of public accounting firms in the private sector. But from the start, the audits of government corporations went well beyond the accustomed boundaries of public accounting firms. They dealt not only with the financial condition of the government corporations but also with the legality and honesty of their activities and the wisdom and effectiveness of their managerial decisions. As noted earlier, the first of the corporation audits (of the Reconstruction Finance Corporation) entailed ten volumes, and one subsequent audit resulted in several years of negotiations with the corporation's management before a report could be issued.[37]

The extension of corporation-type auditing to the typical appropriation-supported activities of government entailed some modification of terminology. The convenient term was *comprehensive auditing* of the overall adequacy, legality, honesty, and—to a varying extent—efficiency in the application of public funds. Obviously, the GAO could not focus at once on every financial and managerial aspect of an agency's operations; a comprehensive audit would direct its attention to areas of prime importance or where there was reason to expect some deficiency. Therefore, a comprehensive audit was in fact selective, not total as the adjective suggests. The expression was intended to indicate that the audit was not restricted to the review of individual transactions nor to the strictly financial aspects of an agency's operation. The checking of vouchers could be pursued in areas where the general audit suggested that such a review was necessary. But the skills involved in comprehensive auditing differed fundamentally from those of voucher checking: they required investigations of the general system of agency management and of decisions from the top down. Except as a supplement to comprehensive audits where circumstances indicated, voucher checks gradually declined.

A similar fate befell the control over expenditures and receipts and the accompanying record keeping. Most of the GAO records were either abolished or sent to central records storage bases; for them was substituted a

GAO review of Treasury Department accounting and records systems. The GAO had, up to then, been keeping "detailed accounts for appropriations, expenditures, limitations, receipts, public debt as well as personal accounts with accountable officers. In all, maintenance of about 500,000 ledger accounts was discontinued in GAO, and just as important was the elimination of millions of documents that had to be prepared and sent to GAO by Federal agencies."[38]

The Westfall study resulted in fundamental organizational changes. The Postal Accounts Division was eliminated as a consequence of the Post Office Department Financial Control Act of 1950. A postal audits section was retained and later consolidated in 1952 with the old Audit Division, the Corporation Audits Division, and the Reconciliation and Clearance Division into a new Division of Audits.[39] The Accounting and Bookkeeping Division, one of the largest and most influential of all, was simply abolished—along with most of its variegated record-keeping responsibilities.

Concurrent with organizational changes in the headquarters were major adjustments in field operations. It will be recalled that a field organization consisting of six zones and about thirty field stations had been established during the war to audit military contractors. In 1947, the War Contract Project Audit Section, which supervised the operation, was terminated and its responsibilities were transferred to a Field Audit Section of the Audit Division. A number of other duties were assigned to it, including the auditing of practically all civilian payrolls. In 1952, the Comptroller General announced the establishment of twenty-three regional audit offices. The zones were abolished and leadership was vested in an assistant director of audits for field operations. At the same time, the regional offices were given new responsibilities, consistent with the reorientation of the headquarters: comprehensive audit and reporting of the accounts of accountable officers; auditing of the government corporations; review of agency systems of internal control and procedures against GAO standards; and others. This action has resulted in substantial decentralization of GAO operations and personnel to the field (in 1978, about half of the staff were in the field). A few years later, in 1956, the field staff of the Office of Investigations was merged with the field auditing offices, and the Field Operations Division was established. Although there have been a number of consolidations and relocations of the regional offices, the fundamental pattern remains as it was established under Warren's leadership in 1952.

At about the same time, though stemming from a different source, the GAO expanded its audit operations to financial transactions overseas. In 1951 and early 1952 a great deal of concern had been expressed by members of Congress as well as officials of the GAO about the large scale of American expenditures abroad for economic recovery and rehabilitation as well as for the military, principally in Europe and the Far East. At the time, the GAO shot during the Civil War and the loss of a merchant vessel during the War of 1812.

Much of the claims work is routine in character, but a few involve extensive investigation and legal analysis. As in the cases of bid protests, the GAO's claims activities are essentially a service to the agencies and individuals involved. It provides a convenient, relatively inexpensive means of resolving disputes between public agencies and individuals by an agency generally regarded as impartial and authoritative.[30]

Financial Management

Changes in the stance and activities of the GAO in the area of financial practices in the decade following the Staats appointment were less spectacular and less widely understood than in other areas. Except for noisome scandals, financial management is seldom the object of newspaper headlines or even of much congressional interest beyond a very few congressmen in a very few subcommittees. In proportion to the GAO's total workload, that directed strictly to financial management continued to decline—to about ten percent at the time of this writing. Yet, during this period there were major shifts in federal financial practices to which the GAO made substantial contributions, and there were significant changes in the GAO's own posture and responsibilities in the financial area. The GAO retains and, in some quarters at least, treasures its authority to disallow payments that it considers illegal or unethical, though it seldom uses it. In the main, it relies upon the internal auditors in the various federal agencies to check on the propriety of payments; it then audits the operations of the internal auditors. Its main concern is the adequacy and reliability of *systems* in the operating agencies, not individual payments and receipts.

Viewed in retrospect, the changes made during the first decade of the Staats term were gradual and incremental, but they were also fundamental. He did not view the GAO as a public accounting firm for the government as had his predecessor, Joseph Campbell. In the financial area at least, he envisioned the GAO as one of several instruments, executive and legislative, to improve the financial management of the government. And he thought the two branches could and should work together. This underlying theme was demonstrated in a variety of activities which are summarized in the paragraphs that follow.

The President's Commission on Budget Concepts

In 1967, President Lyndon Johnson established and appointed a sixteen-member Commission on Budget Concepts to make recommendations on the content, organization, and presentation of the federal budget. The commission was a mixed body of private citizens and prominent federal

officials, chaired by a prominent banker who became secretary of the treasury. Comptroller General Staats was a member, and the GAO contributed a great deal of staff time to its various task forces. The commission's report[31] recommended perhaps the most far-reaching changes in the format, inclusiveness, and definitions in the budget since 1921. Its basic thrust was that the budget be unified and comprehend virtually all federal financial transactions, whether or not they are appropriated, such as operations of trust funds, loans, and other matters previously excluded.[32]

All of the commission's major recommendations were approved by the President, and all but one were put into effect almost immediately. But the one exception was, for the GAO, one of the most important of all. The commission recommended that all revenues and expenditures be shown in the budget in terms of accruals rather than cash, and that budgetary surpluses and deficits be stated in terms of accruals rather than cash receipts and outlays. The commission's proposal did not go as far as that of the second Hoover Commission, which had recommended that appropriations be made in terms of accrued expenditures rather than obligating authority. The President's 1967 commission did not propose to change the base of appropriations. But its recommendations would have significantly changed the amounts of surpluses and deficits.[33]

However, the accounts of some of the largest agencies and programs in the government, including most of the Department of Defense, were maintained on a cash rather than an accrual basis. The Bureau of the Budget (later the Office of Management and Budget) deferred action on this recommendation year by year until, in 1972, it deferred it indefinitely, and shifted the responsibility of pushing for the implementation of the proposal to the Joint Financial Management Improvement Program. The GAO was, and is, the lead agency of the JFMIP, and accrual accounting had been a major GAO objective for many years.

The Review and Approval of Accounting Systems

It may be recalled that the Budget and Accounting Procedures Act of 1950 provided that the Comptroller General prescribe accounting principles and standards for agency systems; cooperate with the agencies in developing their systems; and review and approve them when he deems them adequate. It also prescribed that all agency accounting systems be placed on an accrual basis "as soon as practicable." The GAO has always included accrual accounting among its principles and standards and made it requisite for approval of an agency accounting system—though exceptions have been allowed when accruals were deemed infeasible. But the Accounting Systems Division, which had been the prime mover in cooperating with the agencies in the development of systems, was abolished in 1956, its functions and personnel being combined with the audit divisions. Thereafter, there was declining emphasis upon cooperative work with the agencies and little organizational focus for review and approval of agency accounting systems. The number of accounting systems that were actually approved by the GAO grew at a snail's pace.

In 1964, 1966, and again in 1967, the House Committee on Government Operations held hearings on the GAO's authority and progress in approving agency accounting systems and considered, but did not pass, statutory changes to strengthen its enforcing powers. Comptroller General Staats, however, undertook to centralize within a single staff the advice, review, and approval functions. A new division, the Financial and General Management Studies Division (better known within the GAO by the acronym FGMSD, pronounced "figmas"), was established in 1971, and these activities became a responsibility of that division. This was in some respects a revival of the old Accounting Systems Division of the late 1940s and early 1950s, although the size of its systems approval staff is only about two thirds that of its predecessor.

During the same period, the procedures for handling accounting systems were changed and formalized. First, the GAO separated the approval of agency principles and standards (within the more general GAO prescription of principles and standards) from the approval of accounting systems in operation. Then, in 1967, the procedure was extended to three steps: approval of principles and standards; later, approval of system design; and still later, approval of systems in operation. A further modification occurred in 1969. The basic approvals became the first two steps. Audits of systems in operation would be conducted by a separate group (within FGMSD) later, as time and priorities permitted. This is the present practice.[34] Under it, the proportion of agency accounting systems approved by the GAO in their statements of principles and standards grew to about 98 percent in 1977; and the proportion of those whose designs have been approved grew to about 60 percent in 1977. Only 32 of the 198 systems that had been approved by 1977 were approved prior to 1966. Unfortunately, some of the largest federal systems in terms of the dollars involved are not approved, particularly those in the Departments of Defense and Health, Education and Welfare. Probably a bit more than one third of federal expenditures are accounted for under systems whose designs have been approved by the GAO.

While agency accounting practices have considerably improved in terms of the GAO's standards, particularly in the last decade, it is equally clear that they still have a very long way to go. There are three principal kinds of obstacles. The first is political: the appropriations committees and subcommittees of Congress, particularly those involved in defense, have not been enthusiastic about accrual accounting, preferring to consider the simpler and traditional cash and obligation accounts. A second obstacle is administrative: accrual accounting is more difficult and more costly than

accounting on the basis of cash, which would have to be continued anyway. The third obstacle has to do with the tools of enforcement: the GAO has no feasible "club in the closet" for those who do not live up to its rules. It could conceivably be empowered to stop payments of delinquent agencies, but the punishment would grossly exceed the crime, and it would penalize many who had no part in the crime.

The problems of enforcement of federal acts directed to internal administrative practices are demonstrated in other measures. The act sponsored by Senator John F. Kennedy in 1956[35] directed that, in addition to accrual accounting, all agency budgets should be cost based. This requirement has not been modified, yet it is probable that, at the time of this writing, the number of agencies whose budgets are truly cost based could be counted on the fingers of two hands. There is no machinery for enforcement beyond persuasion, and persuasion is not very effective if the appropriations subcommittees in Congress are not themselves persuaded.

Interagency Cooperation: The Joint Financial Management Improvement Program

The development of accounting systems on a cooperative basis between the GAO and individual agencies was paralleled by the renewal of the cooperative efforts of the JFMIP during the late 1960s and the 1970s. It will be recalled that one of Staats' early actions as Comptroller General was to arrange for the participation of the chairman of the Civil Service Commission in the joint organization. Later, when responsibilities of the Office of Management and Budget for financial management policies were transferred to the General Services Administration in 1973, the administrator of that agency became a full-fledged member. But in 1975, these functions were moved back and the General Services Administration dropped out of the JFMIP. It operates today with four agency members. The principal officers seldom convene, but each has designated a representative for his agency (the GAO's representative is the director of the FGMS Division), and these four meet about once a month as a steering group to provide general direction. In addition, each operating agency has named a liaison officer for his agency to work with the JFMIP.

During its first twenty-five years, the JFMIP (originally the Joint Accounting Improvement Program) operated without any permanent staff of its own. Most of its work was conducted or led by staff from the GAO. In 1969, it established an office of executive secretary, drawn from one of its sponsoring organizations. Then, in 1973, it created the office of executive director with a small permanent staff to provide continuing leadership of its work.

The principal functions of the JFMIP are to serve as coordinator, stimulator, and catalyst toward the improvement of financial management practices throughout the government. It has sponsored and assisted a number of individual agencies in the development and conduct of innovative and experimental projects in the area of financial management; sponsored seminars and training programs in the field; and helped in the establishment of programs in financial management at universities—most notably, the Institute for Applied Public Financial Management at American University. It has also participated in government-wide studies directed to specific financial problems, such as the use of letters of credit in connection with federal grants to state and local governments; a system for electronic fund transfers of recurring federal payments from the Treasury; studies of statistical sampling procedures in the audit of financial transactions; the management of money within federal agencies; and the use of operating budgets within agencies. Beginning in 1973, it assumed leadership in efforts to improve productivity in federal agencies and served as information gatherer, clearinghouse, and reporter on such efforts. In 1975, Congress established a National Center for Productivity and Quality of Working Life,[36] and the following year the work of the JFMIP in this area was transferred to the center. In 1977, it undertook a major inquiry, led by staff assigned from the GAO, directed to the improvement of auditing practices in state and local governments.

But perhaps the most significant role of the JFMIP over the years has been symbolic. It has been an institutional expression of efforts in the federal government to cooperate in the improvement of financial management practices. And the principal leader of these efforts has in fact been a legislative agency, the GAO. In this regard, the JFMIP has reassumed essentially the same stance as when it was founded in the late 1940s, though its posture today in terms of what went before is less radical and its activities probably less prominent.

Intergovernmental Cooperation: The Intergovernmental Audit Forums

The deluge of new federal programs involving grants to state and local units of government during the 1960s gave rise to growing concern about the propriety, the efficiency, and the effectiveness with which those funds were spent by the recipient units. The jurisdiction and scope of federal agencies, including the GAO, to audit the application of funds after they had been transmitted to state and local governments was sometimes doubtful, and thorough, comprehensive federal audits, even where legally possible, were practically infeasible. The machinery for auditing at state and local levels varied tremendously, as did their approaches, techniques, and capabilities. Further, in those grant programs in which two, three, or more levels of government contributed funds, there was the possibility of duplication in auditing and sometimes of working at cross purposes.

By 1970, it had become evident to Congress, to the executive branch, and

to the GAO that the national government should do what it could to improve auditing standards and practices in state and local jurisdictions and to foster cooperation and coordination among all the levels of government in their conduct of audits. In that year, under the additional stimulus of the Legislative Reorganization Act of 1970, the GAO undertook preparation of standards for governmental auditing for state and local as well as federal governments. It was published by the GAO during 1972 under the title of *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions*. This has been followed in succeeding years by a series of supplements and other publications providing more detailed guidelines, case examples, and directories (of state and federal audit organizations).

In a meeting in September 1972 of the Comptroller General, the assistant director of the Office of Management and Budget, and six state auditors, it was proposed that there be established on the national and regional levels audit councils for the purpose of improving the planning and coordination of auditing efforts at all levels of government. The proposal received widespread endorsement, and there was subsequently established a National Intergovernmental Audit Forum in Washington and a pilot regional forum in the Southeast Region under the auspices of the GAO's regional office in Atlanta. By the fall of 1974, intergovernmental audit forums had been established in all ten of the federal regions.

The national and the ten regional forums have become significant continuing mechanisms for exchanging information and views, solving problems, implementing audit standards, coordinating auditing efforts, and doing cooperative audit work. They meet two to four times a year and periodically there is a conference of representatives from all of them. Most of their membership consist of federal, state, and local auditors, though a few program officials are also members. Although each was chartered individually and they are organizationally independent of one another, their leadership and most of their financial support (about half a million dollars) comes from the GAO. The chairmanship of the national forum alternates between officials of the GAO and the Office of Management and Budget while six of the ten regional chairmen have been GAO regional managers. All of their executive secretaries are GAO officials.

Although the audit forums can point to some achievements already in their young lives, their greatest promise lies in the future. Simply getting acquainted, carrying on dialogues about common concerns, and identifying mutual problems are a contribution to the workings of the federal system. From the standpoint of the GAO, they offer channels through which to educate and give operational meaning to its audit standards and to extend the sights of state and local auditors beyond the traditional limits of financial reviews to its own, broader objectives of auditing managerial effectiveness and program results. Auditors at all levels may more effectively tackle problems of standardizing and simplifying federal grants and the auditing of them, test and conduct audits on a joint basis, enlarge the confidence and trust in the work of the auditors of other jurisdictions, and approach problems of mutual concern on a more understanding basis

The Impact of the Computer on Financial Management and Auditing

State and local governments, like federal agencies, have had increasingly to deal with automatic data processing in managing and auditing their finances Beginning in World War II and accelerating rapidly thereafter, computers have tremendously increased the speed and the capacity to handle information, including of course accounting information. By 1976, there were more than 9,000 computers in the federal government, costing over $10 billion per year. Only a fraction of computer use is directed to financial management and auditing, but the bulk of federal payrolls and other payments are now handled by computers

The computerization of financial practice has greatly complicated the management and auditing of federal expenditures. In the United States system of financial control, from the time of Alexander Hamilton, individual officers, designated as disbursing or certifying officers, were held personally accountable before making or authorizing payments Auditors in the agencies and in the central auditing agencies—under the comptroller of the treasury or later in the GAO—would check the propriety and accuracy of each transaction on the basis of checking the paper evidences. Any discrepancies or mistakes that could not be corrected or otherwise adequately explained, would be the basis for disallowing payments, and the officers who authorized them would be personally accountable to make them up to the government.

The principle of personal accountability of certifying officers has not changed But the documents themselves on which their payments are based may not exist or, where they do, are often in widely scattered geographic locations In computerized systems, their amounts and supporting information are entered on tapes, and the computers make the calculations and reconciliations and even write the checks. This means that the certifying officers, as well as the auditors who check up on them, are basically dependent not only on the pieces of paper that support their transactions, as in the past, but also upon the adequacy of the computer systems and the safeguards that can be built into those systems.

Much of the GAO's work in the areas of financial accounting and auditing has therefore come to concern the ever more complex and sophisticated computer systems It includes advice and the issuance of reports on accounting and financial information systems, automated payroll and property accounting systems, and systems for the internal audit—as well as GAO audit—of accounting systems in operation. Most of this work is

centralized in the GAO's Financial and General Management Studies Division, which now accounts for more than two thirds of all of the GAO's work specifically in the financial field In addition, that division provides technical assistance to all the operating divisions of the GAO when their studies require specialized expertise in automatic data processing, systems analysis, statistical science, and actuarial science

In Retrospect: The Third GAO and Its Predecessors

The years of 1966 to 1978 witnessed a gradual but persistent change in the GAO's perception of its purpose and an enlargement of its scope In governmental circles, particularly in the legislative branch, the change and enlargement have contributed to an image of considerably greater stature and confidence The Comptroller General himself has become more visible and more influential, a situation reflected in the substantial number of important assignments, official and unofficial, he has been given beyond the running of the GAO [37]

The Comptroller General has retained most of the specific powers bestowed upon him by the Budget and Accounting Act of 1921 and has acquired some new ones along the way A few, like the rendering of decisions and advice on legal questions, have grown in importance and influence Some, particularly in the areas of financial accounting and controls, were changed both in law and practice. The original provisions became simply obsolete and irrelevant because of the exploding growth and scope of federal activities, as well as technological and professional advances In these fields, the GAO has moved from a plodding and laggard second cousin to a posture of leadership, not alone in federal management but increasingly in society at large

Since World War II, the change in the GAO's attitudes and approaches have generally, though not always, been in certain common directions

- from frugality in expenditures toward effectiveness,
- from audits for legal compliance toward reviews of management,
- from suspicion of and hostility to the executive branch toward cooperation and collaboration;
- from individual transactions toward systems and problems,
- from a punitive approach toward a corrective approach,
- from nearly total independence toward interdependence with Congress;
- from concerns about the past toward concerns about the future,
- from concentration of auditing in itself toward devolution to executive agencies,
- from strictly financial matters toward costs and results of programs.

The processes of change are far from complete and probably never will—or should—be It is at least doubtful that, in the summarization above, the first items of the pairs mentioned should ever be totally neglected in behalf of the second items

The changing activities of the GAO have to a considerable extent mirrored the differing perspectives on the GAO's objectives of the four men who have governed it through most of its history. Comptroller General Staats has made it clear that in his view the purpose of the GAO is to improve the performance of government—wherever and however it can be improved Probably all of his predecessors would agree But each would have taken a somewhat different position on the question of what the GAO should do to improve it. McCarl would no doubt have held that the GAO should make sure that public financial transactions are honest, legal, and frugal. Warren would have argued that governmental improvement depended partly on collaborative efforts with the executive branch in improving financial management and on the audit of financial systems Campbell would likewise have relied on the audit of financial systems plus the review of problem areas to spot, penalize, and correct faulty transactions—especially in the area of contracts. Staats would maintain these functions but lessen their importance in comparison with the assessment of the effectiveness of government programs and advice to Congress and the executive branch on how to improve it.

The disparate views of these four Comptrollers General were not as inconsistent as may at first glance appear. Each of them was at least roughly consonant with the values, mores, concerns, methods, and technologies of the government and the society during the period in which they served or began their service It should therefore be useful to examine the GAO from the standpoint of its role in the federal government and American society today

Notes

1 For example, warrants are now used almost solely to authorize expenditures when appropriations have not passed the Congress and continuing expenditures are authorized by congressional resolutions. A most interesting recent example of the disallowance of expenditures was the GAO's threat to disallow payments for Secret Service protection of Spiro Agnew after he had resigned from the vice presidency—a threat addressed to the secretary of the treasury. And a little known vestige of the settlement power is that the Comptroller General every month issues a certificate of settlement to cover the salary and expense allowance of the President of the United States.

2 The "finality" of GAO decisions has been challenged from time to time by executive agencies, especially the attorney general

3. A number of other illustrations of GAO legal work are discussed in the succeeding sections of this chapter on bid protests, the Philadelphia plan, and impoundment control In addition, the companion volume, Erasmus H Kloman, ed , *Cases in Accountability. The Work of the GAO* (Boulder, Colo · Westview Press, 1979), includes two cases focused on Comptroller General decisions, dealing with intervenor expenses and a bid protest Four other cases illustrate legal contributions to GAO audits and evaluations those dealing with the FBI, the liquid metal fast breeder reactor, *Mayaguez,* and crime in federal recreation areas.

4. Much of the historical material in this section is based upon an article by Thomas D Morgan, "The General Accounting Office One Hope for Congress to Regain Parity of Power With the President," *North Carolina Law Review* 51 (October 1973).

5 Section 236 of the Legislative Reorganization Act of 1970, P L 91-510, 31 U S.C 1176

6. Perkins v. Lukens Steel Co , 310 U S 113 (1940)

7. Ibid.

8. For an illustration of bid protest activities see "Bid Protest. Lockheed and the Space Shuttle Solid Rocket Motors," in Kloman, ed , *Cases in Accountability*

9. Some of the historical material in this section is based upon the article, cited earlier, by Thomas D Morgan, "The General Accounting Office "

10. 47 Comp. Gen. 666, 669 (1968).

11. 48 Comp Gen 326, 328 (1968)

12. "Order to the Heads of All Agencies from Assistant Secretary of Labor Arthur A Fletcher Announcing the Revised Philadelphia Plan 6, 9 (June 27, 1969)," reprinted, 115 *Congressional Record* 39 (1969).951-53.

13. 49 Comp. Gen 59 (August 5, 1969)

14 42 Op Att'y Gen 37, pp 5, 9

15. U S Congress, Senate, 115 *Congressional Record* 39 (1969).126

16. Section 904, H Rept 15209, 91st Cong . 1st Sess (1969)

17 In a statement on December 22, 1969, the President wrote that he shared "the Attorney General's serious doubts as to the constitutionality of this amendment and may have to withhold my signature from any legislation containing it." *Presidential Documents 1778* (1969), week ending Saturday, December 27, 1969.

18. Ibid If the omnibus GAO Bill (H R. 12171, 95th Cong., 2nd Sess) now before Congress passes, such authority would be provided the Comptroller General.

19. Contractors Association of East Pennsylvania v. Secretary of Labor, 311 F. Supp. 1002 (E.D. Pa. 1970)