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~~GAO Involvement in Audit Forum Movement~~ [GAO Involvement in Audit Forum Movement]

REMARKS OF ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES

AT THE
3RD JOINT CONFERENCE
OF THE



INTERGOVERNMENTAL AUDIT FORUMS
IN DALLAS, TEXAS

APRIL 25, 1980

I am especially pleased to be with you today at this third Joint Conference of the intergovernmental audit forums. I thank you for the opportunity to speak to you and share with you some thoughts about a real intergovernmental relations success story.

One of the highlights during my time as Comptroller General is the General Accounting Office's involvement in the audit forum movement. Our efforts started about 7 years ago when I met with a group of State auditors who envisioned representatives of Federal, State and local audit organizations meeting together to discuss and solve some of the issues that existed among them. One of these gentlemen is Bill Snodgrass, who I had hoped to see here today. As a result of that meeting, eleven intergovernmental audit forums exist today, and, while not all the problems have been solved, the relationship among auditors from all levels of government is much closer. In time, most of the major auditing problems will be solved and those here today, will be the ones to make this happen.

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I would like to take this opportunity to say thanks personally to you for the help and support that the forums have given me and the entire government audit community. Everywhere I go, people tell me what a great contribution the forums have made to improve the overall financial accountability at all levels of government.

The forums are an excellent example of what can be accomplished through intergovernmental cooperation. They have improved working relationships among government auditors by increasing coordination and cooperation and opening lines of communication between member audit organizations.

I have been pleased to notice the many meaningful projects being initiated or participated in by the forums. Your agenda for this conference testifies to this point. Several projects have already resulted in substantial improvements in financial accountability and will have far-reaching effects on government auditing. Among these are the following:

- The development of a standard financial and compliance audit guide.
- The study of the feasibility and desirability of a quality review system for organizations that perform audits at all levels of government.
- The development of guidelines for preparation of requests for audit services.

and have provided training

--The development of audit guidelines for reviews of economy and efficiency and for program results.

--The JFMIP study on the audit of federally assisted programs.

The forums have also performed a needed service to members by providing training that otherwise might not have been available or affordable. However, perhaps even more important, the forums have brought together groups of government auditors in an environment where they can discuss items of common interest.

This conference has again brought together the most responsible and diversified group of audit directors ever assembled in the nation, if not the world. This gathering exemplifies the commitment and interest among all government auditors to work together to meet the vast and growing audit requirements of all those who are concerned with governmental accountability.

In the past few years, we have seen an increased interest in governmental auditing as never witnessed before. Public officials, legislators, and citizens are asking whether funds are being spent properly, in compliance with laws and regulations, and free of fraud and abuse. They also want to know whether government programs are being managed efficiently and effectively.

Many have called the 1970s the decade of auditing. This may well be true. A number of events have occurred that have had definite impacts on government auditing. As we enter a new decade it is appropriate to assess the past and to look to the challenges of the future.

Since the 1976 Joint Conference of the forums several significant events have occurred. I would like to comment on four of them: the Inspector General Act, grant reform, fraud and abuse, and government accounting principles and standards.

INSPECTOR GENERAL ACT

On October 12, 1978, the President signed into law the Inspector General Act which established Offices of Inspectors General in 12 additional Federal departments and agencies. Such offices had already been provided for in HEW and the Department of Energy.

These offices were established to:

- (1) Conduct and supervise audits and investigations relating to programs and operations of the respective departments and agencies.
- (2) Promote economy, efficiency and effectiveness in the administration of, and to prevent and detect fraud and abuse in, programs and operations.
- (3) Provide a means for keeping the department and agency heads and the Congress fully and currently informed about problems and deficiencies relating

to the administration of programs and operations and the progress of corrective actions.

This law raised the level to which Federal internal audit organizations report. This should improve their organizational independence and should result in better follow-up on audit findings.

There is great significance in the Inspector General legislation for all levels of government. While the need to combat fraud, waste, and abuse was evident during the hearings, the final act recognized that, although detection is important, systematic and effective efforts of prevention are even more important.

Senator Chiles, during confirmation hearings for several nominees for Inspector General, indicated that Congress would look to the Inspectors General to help restore a sense of good order and discipline within the Federal establishment.

We in GAO continue to be concerned with whether the title "Inspector General" may give undue emphasis to the investigative, as contrasted with the audit, responsibilities of the Inspector General. We had proposed a different title--namely, "Auditor and Inspector General." The Congress apparently thought they met our concern by retaining the shorter title but providing for an Assistant Inspector General for Auditing and an Assistant Inspector General for Investigations. This is a matter in which we will continue to be concerned and will, in our future evaluations of the work of Inspectors General,

give particular attention to the balance between investigations and audits.

GRANT REFORM

I need not remind this group of the proliferation of federally assisted programs since the mid-1960s and the related problems that it has created, especially for government auditors and administrators. Neither do I need to recite the details that have led to the "single audit" approach now being implemented. This has certainly been adequately covered in your conference.

The single audit approach is a constructive step and the proper way to proceed. I fully support this approach. A great deal of progress has been made to date. GAO, in cooperation with the audit forums, has taken the lead in developing an audit guide for comprehensive financial and compliance audits of multi-funded grant recipients.

OMB has issued Attachment P to Circular A-102 requiring the single audit of State and local governments to satisfy Federal audit requirements, rather than continuing the grant-by-grant audit process.

Other progress has been made in improving audits of grants. For example, a number of the forums have projects underway to improve such areas as audit planning and coordination among audit groups.

I also believe the Inspectors General will play an important role in seeing that appropriate audit coverage is provided for grants.

Although progress has been made, much remains to be done before the single audit can be fully implemented. Full acceptance and implementation will not come easily and certainly will not be accomplished overnight. The time is ripe for this new emphasis which should promote more efficient use of limited audit resources at all levels of government. The single audit approach deserves the attention and support from all of us to make it work.

In my testimony before the House Subcommittee on Intergovernmental Relations and Human Resources, which is considering the extension of revenue sharing, I placed particular emphasis upon the need to provide for a single audit of Federal grants, including revenue sharing. It is my hope that the Subcommittee, in its report, will take note of this and support the idea which the intergovernmental audit forums have so strongly endorsed.

FRAUD AND ABUSE

As many of you know, GAO's increased emphasis on fraud prevention and detection began in 1976. We wanted to ascertain whether Federal agencies had adopted effective policies and procedures for combating fraud. In 1978, we issued a report to the Congress which pointed out that no one really knows the magnitude of fraud and abuse in government. However, all indications are that it is a problem of critical proportions.

Shortly after our report was issued, I established a Task Force for the Prevention of Fraud to perform a three-fold mission:

- assess the scope of the overall problem of fraud and illegal activities against the Federal Government.
- operate a nation-wide, toll-free hotline which could be used by citizens anywhere in the country to report instances of fraud in Federal programs.
- conduct "vulnerability assessments" within selected agencies.

The first of these three efforts deals with known instances of fraud, its causes, and actions taken by management to prevent its recurrence. We are asking the question, "Why did fraud occur?" We are identifying the kinds of illegal activities that are occurring, and at what cost, and determining what means are available for prevention and detection. We want to know whether the fraud has occurred because agency control systems have failed. We also want to know what legal and administrative remedies were taken, and conversely, if none were taken, why they were not.

Based on information obtained by us to date, it is clear that a wide variety of Federal programs and activities are affected. Cases of fraud involve many areas, including:

- Payroll
- Loan Guarantees

--Theft of Equipment

--Educational Benefits Programs

The second area undertaken by the Task Force is the operation of a nation-wide hotline. We announced the hotline telephone number in January 1979, and after the first 14 months of operation had received more than 16,000 calls and had written up over 8,000 allegations, that is-we determined that there appeared to be sufficient evidence to warrant follow-up.

Computer analysis of trends of the calls is currently in process and the follow-up on these hotline leads has begun. Additional calls are being received daily, and will be handled by the same process.

Substantive calls have been received from all 50 States, the District of Columbia and a few overseas locations. Almost all Federal Government entities are affected, including GAO.

Allegations being reported cover a wide range of abuses--theft, private use of Government property, working hour abuses, improper financial transactions, improper expenditure of grant funds, cheating on benefit eligibility, and payment of bribes or kickbacks. The amount of money involved in these allegations varies, but the dollars involved, as we see it, are less important than what all this does in terms of destroying people's confidence in government.

I want to emphasize that, to determine whether the Government's fraud prevention efforts are adequate, GAO's interest is in the financial and management systems used to account for funds. We prefer to work with agency Inspectors General to get individual cases investigated. As of March 15, 1980, we had referred over 4,000 cases to the Inspectors General and other investigative officials for review.

We are monitoring the results of the Inspectors General work in order to develop profiles of fraudulent activity and agency actions to prevent them from recurring. This information will aid our evaluation of internal and management controls necessary to prevent fraud.

Our third effort, vulnerability assessments, is what we call our effort to estimate the susceptibility of agencies and their programs to fraud and abuse.

In making our vulnerability assessments, we evaluate the adequacy of internal controls over major administrative and program-related tasks to determine whether someone could have, or has, abused or misused Federal assets. To protect Federal funds and other assets adequately, departments and agencies must have preventive controls over tasks being performed as well as after-the-fact controls, such as internal auditors who test the systems of internal control, to provide assurance to top management that programs and funds are being administered and performed correctly.

Based on our work, we believe that all of the agencies visited are vulnerable to fraud and abuse. This is because Federal headquarters, regional offices, and other field locations and grantees have inadequate internal controls over their operations.

Detection of fraud and abuse is important. However, detection should not be our primary concern as auditors and managers. Our major efforts should be devoted to constructing systems of internal control that will help prevent fraud and abuse and decrease the likelihood of error and waste. I urge each of you to join me in this effort.

GOVERNMENT ACCOUNTING PRINCIPLES AND STANDARDS

The setting of government accounting principles and standards is receiving a lot of attention these days. Some believe that the accounting for governmental entities should use the same basic standards as those used for profit-making entities. We, in GAO, do not agree with this view. We believe there are basic differences between governmental and commercial accounting information needs.

One difference is in their goals. The basic goal of a commercial entity is to make a profit. On the other hand, government's goal is to protect and serve its citizens and to promote their general welfare.

Another difference is that governmental entities are accountable to citizens, not to stockholders.

These two basic differences, in my opinion, result in different information needs. Therefore, I believe that governmental accounting principles and standards must be considered separately from those established for profit-making entities, even though some of the principles and standards may turn out to be the same.

The question of who should set the standards for State and local governments has received a great deal of attention in recent months. Many people in government believe that the FASB should not be the standard-setting body for government. They are busy setting standards for the private sector and in all likelihood would try to fit government accounting into a commercial framework.

I believe the solution to setting government accounting principles and standards is to have the various interested organizations work together.

I am pleased to announce that the American Institute of CPAs, the Financial Accounting Foundation, GAO, and the Municipal Finance Officers Association are joining to charter a new foundation to support a State and Local Government Accounting Standards Board.

This is indeed an encouraging development. We continue, of course, to have the problem of adequate financing for such a board. However, with the kind of support which I believe we now look forward to, this should not be an insurmountable problem. It would be my hope that language can be included

in the House Subcommittee on Intergovernmental Relations and Human Resources' report, if not indeed in the actual wording of the legislation extending revenue sharing, to provide some Federal assistance through the revenue sharing route. I doubt whether it would be desirable or feasible to have the entire cost borne by the Federal Government, but certainly the Federal Government has a strong interest in this area, so I believe it would be appropriate for some financial assistance to come from it.

CHALLENGES TO THE FORUMS

In my opening remarks, I referred to the forum movement as a real intergovernmental relations success story. I see an even greater role for the forums in the future. You, in the audience today, have proven that members from the various levels of government can join forces to help solve problems common to all of us.

I urge and challenge you to not only maintain but to expand on your current efforts to:

- Improve communication, cooperation and coordination among auditors at all levels of government.
- Provide training and assistance to those auditors who review government programs and activities.
- Promote the acceptance and implementation of the single audit concept.
- Promote and assist in the development and use of government accounting standards and principles.

--Continue to serve as a medium for generating new ideas and ways to improve governmental accountability.

COMMUNICATION, COOPERATION AND COORDINATION

While you have been successful in improving the relationship among governmental audit organizations, you must not cease to continue this effort. Due to the diversified nature of government audits and the ever increasing complexities of our work, we must constantly work toward improved communication, cooperation and coordination of our efforts.

TRAINING

As funds for such activities as training and staff development become even more scarce, and as the requirements for added skills of our audit staffs increase, we must seek other sources for staff development. The forums have helped fill this gap in the past. You will probably be called on to an even greater extent in the future to provide training for your members and their staffs. I would encourage you to meet this challenge, and I am confident that you will do so.

SINGLE AUDIT APPROACH

There have been those who have stated that the "single audit approach" is a matter "whose time has come."

It goes without saying that the forums are a key factor in implementing this approach. Each member of the forums is a key player. Back in 1976, in a letter to Bill Simon, Secretary of the Treasury, I suggested that the JFMIP was the

appropriate organization to help find solutions to problems involving the audit of federally assisted programs. At that time I recommended that the JFMIP staff work closely with and through the intergovernmental audit forums since they were already working to solve related problems.

Upon completion of the JFMIP study, in which many of the forums assisted, the other JFMIP Principals and I agreed that the forums should be asked to assist OMB in the implementation of the single audit concept.

I encourage and ask your support in carrying out this worthwhile cause.

ACCOUNTING PRINCIPLES AND STANDARDS

I encourage you, especially State and local members, to support the various efforts underway by organizations such as the NCGA and the AICPA in their studies of governmental accounting principles and standards.

You can play a key role in encouraging officials at all levels of government to establish sound financial accounting systems in accordance with accepted accounting principles and standards.

GENERATING NEW IDEAS AND WAYS TO IMPROVE GOVERNMENTAL ACCOUNTABILITY

Most of your efforts since the inception of the forums have been spent on solving known existing problems. I see the role of the forums changing. I believe that one of the greatest challenges to you and the forums in the future will

be to serve as an environment for generating new ideas and ways to improve accountability in government. To do this, you will need to continue such current efforts as the Quality Review Project and the development of expanded scope audit guidelines.

CONCLUDING REMARKS

As most of you know, my term as Comptroller General will end next March. That is one of the main reasons that I wanted to be here for this Joint Conference, in order to express my personal appreciation for the support which all of you have given to the intergovernmental audit forum movement. You can take great pride in what you have accomplished and I hope that joint meetings of this type can be held periodically--perhaps every two years. Communication, both in formal sessions and in informal sessions, can be of tremendous importance as we learn from each other the changing role that auditors throughout the world are experiencing.

It seems to me that we have seen two major changes in the role that you as auditors have experienced over the past 14 years. One of these is the changing nature of auditors' work. As programs have become more complex and more expensive, legislators and the public have come to expect that auditors should extend their interest beyond strictly financial and compliance auditing to whether funds are spent economically and efficiently, and whether these funds are

achieving the results intended by the framers of statutes. This has meant that auditors have had to extend their horizons, sharpen their skills, and bring in new talent to deal with highly technical and specialized problems.

The other major development is the changing relationships among levels of government within the United States. Federal grants have grown rapidly over the past 15 years to the point where Federal assistance now represents roughly one-fourth of all State and local government revenues. This has changed the interest and role of the Federal Government in the auditing of Federal assistance programs. It has meant that auditors at all levels of government have had to work more closely together. Here again the forum movement has played and will need to continue to play an important role.

I wish each of you and your forums continued success.