



State of Washington
Olympia

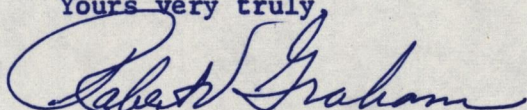
ROBERT V. GRAHAM
STATE AUDITOR

September 18, 1967

Dear Sir:

Enclosed for your information you will find
a self explanatory sample copy of a letter form
special interim report to Governor Daniel J. Evans
and each member of the Washington State Legislature.

Yours very truly,


State Auditor

RVG:hr

ROBERT V. GRAHAM
STATE AUDITOR



[Enclosure. 1967 Sep 18]
RICHARD L. HUSK
ASSISTANT STATE AUDITOR

The State of Washington

OFFICE OF
STATE AUDITOR

Olympia

September 15, 1967

The current annual post audit in the State of Washington is now a reality. All audits for the fiscal year ended June 30, 1966 have been completed and audits for the fiscal year just closed are underway. This has been made possible by the application of a standard audit procedures manual developed by this office, deployment of staff in specific areas of assigned responsibilities and application of modern scientific sampling. Additionally, other new found skills were employed as a product of a management and fiscal systems section in the State Auditor's office.

The Honorable
Washington State Representative

The training program, conducted over a two-year period, was comprised of first five were of one and two day's duration conducted by the State Auditor's staff. Areas of coverage included standard audit procedures, writing, performance auditing, systems analysis and systems flow charting techniques. The sixth seminar was held during the month of September.

Dear Representative:

This special interim report, in letter form, is submitted pursuant to RCW 43.09.050 and RCW 43.88.160.

The thirty-ninth biennial report of the State Auditor to the Governor and State Legislature at the fortieth regular session outlined two new areas of audit endeavor to supplement the historic "fiscal-legal" type audits: computerized audits to cope with the technology of the computer age, and performance audits to fulfill the legislative mandate of the "budget and accounting act" which directs the auditor to determine agency compliance with "the will of the Legislature" in agency expenditure programs; to set forth plans "for lessening expenditures, for promoting frugality and economy in agency affairs and generally for an improved level of fiscal management".

These legislative directed duties were designed to provide an audit service to the Legislature to better equip the Legislature to exercise its "power of the purse string", thereby utilizing the post audit in a system of legislative control. The fundamental or underlying principle of such control stems from the doctrine of the separation of executive and legislative powers and was put by Woodrow Wilson this way; "Power and strict accountability for its use are the essential constituents of good government".

With a two-year work measurement study and audit standards established, this "performance" post audit function then is designed to assure improvement of legislative tools for making prudent legislative policy, by enabling the Legislature to keep abreast of developments in the executive branch. The post audit in its total mission, fiscal-legal-performance, is a tool available to the Legislature to ensure executive compliance with legislative policies and to hold administrative officials accountable for their conduct of office.

Contemporary happenings have made it possible for the Office of Auditor to fulfill its total constitutional/statutory audit responsibility to the electors and its responsive role of service to the legislative body. This service complements the work of both the Legislative Budget Committee and Legislative Council.

The 1965 session appropriated sufficient funds to this office so that we might bring the state department, commission and agency audit (examination) reports to a current annual post audit position, while at the same time conducting a training program for the entire audit staff in the data processing and performance audit areas. The latter was made possible by the creation of a management and fiscal systems section in the State Auditor's office.

The current annual post audit in the State of Washington is now a reality. All audits for the fiscal year ended June 30, 1966 have been completed and audits for the fiscal year just closed are underway. This has been made possible by the application of a standard audit procedures manual developed by this office, deployment of staff in specific areas of assigned responsibilities and application of modern scientific sampling techniques. Additionally, other new found skills were employed as a product of our training program.

The training program, conducted over a two-year period, was comprised of six seminars. The first five were of one and two day's duration conducted by the State Auditor's staff. Areas of coverage included standard audit procedures, statistical and scientific sampling, automatic data processing, internal control, effective report writing, performance auditing, systems analysis and systems flow charting techniques. The sixth seminar was held during the week of August 14th through 18th, 1967, and consumed some 53 hours of classroom instruction in punch card and management computer concepts, audit of data processing systems and performance audit concepts. Nationally recognized educational representatives of the computer industry and Dr. Lennis M. Knighton of the University of Texas, a noted expert in the field of performance post audit in state government, were utilized in the latest seminar. The basic text for the seminar were Chapters 500 and 600 of the State Auditor's Audit Procedures Manual, entitled "Performance Post Auditing", and "Auditing Automatic Data Processing Systems", designed by the management and fiscal systems section of the Auditor's office.

During the past two years each examiner in the State Auditor's office has devoted many personal hours to the educational process through planned reading programs. This is in keeping with the office policy that each state officer or employee has a personal responsibility to sharpen his skills in order to completely fulfill his job requirements.

With a two-year work measurement study and audit standards established, this office is now engaged in implementing an enriched program of fiscal-legal-performance audits titled "Operation New Start". Deployment of staff to accomplish the program has been made as a team effort. Six 4 and 5-man teams have been appointed and areas of responsibility assigned. Entrance conferences are held with top agency management to explain the addition of our service role to the Legislature and to gain the confidence of agencies in this new audit effort.

Whereas the performance audit is designed primarily and statutorily as a service to the State Legislature, hopefully other specific objectives of benefit to the executive or administrative can be attained as a by-product of our audit function:

1. Inform concerned state officials of favorable and unfavorable conditions in the state organization and operation;
2. Work with and assist said state officials to remedy unfavorable conditions;
3. Reduce costs or prevent cost increases in state government;
4. Identify additional sources of revenue;
5. Improve the quality of state services.

Our present method of operation does not envisage one great thrust into the performance audit field, but rather a planned and calculated beginning to produce the best possible tools for legislative control, commensurate with other changes necessary before a full blown performance audit is possible, i.e.: Installation by the Central Budget Agency of a planning-programming-budgeting system (PPBS); well established accounting systems tailored by CBA to fit individual agency needs with agency accounting staff support to take part in management decisions; well defined work measurement standards by CBA; strong agency and CBA internal audit programs; well defined and documented management standards by each agency relating to both personnel and program.

There are impediments which must be recognized, both internal (that is within the framework of government) and external (interpretation of audit findings by news media). Experts in the governmental auditing field point out that in order for the post audit to become an effective control element in state government, it must have the full support of the Legislature, which it is intended to serve. Such support is categorized in four important areas:

First is the legislative provision of adequate authority for the auditor to carry out his work. The constitution and legislative enactments provide unique independence and necessary authority to accomplish the task.

Second, the auditor must be given adequate funds to perform the job he is expected to do. The 1965 and 1967 Legislatures have provided reasonable resources to accomplish the goals established to carry out the audit function.

Third, the Legislature must make a conscientious effort to provide the auditor with a clear expression of its will concerning agency operations. This area presents some perplexities, particularly in the program budget area, as was more fully explained in our last prior biennial report on pages 29 through 31. Additional study and action by the Legislature is necessary in this area.

Finally, the Legislature must assume the responsibility for reviewing audit reports and assisting the Central Budget Agency in enforcing audit recommendations. The Legislature is presently in a favorable position with the expansion of the Legislative Council and the ability of the existing Legislative Budget Committee to receive and review the audit reports on a continuing basis during the interim period through its subcommittee structure. Recommendations to the Legislature as a whole can be made as appropriate.

In assuming this new responsibility, we have sought at all times to inform agency management that we fully recognize our areas of limitation. We realize that there will always be circumstances that will be outside our sphere of technical competence to consider. We do not intend to substitute our judgment for the expertise of professional technicians in fields not within our capability to review. When occasions arise necessitating the counsel of technical experts we will recommend that agency administrators avail themselves of such service but we will not attempt to provide this expertness ourselves. We consider ourselves to be fact-finders for the Legislature -- it will therefore be our prime consideration to inform the Legislature of Executive implementation of legislative policy.

We expect to continue refinement of our biennial report to the Legislature. In this area, using the last report as a criteria, we feel that the Legislature has, as a body, taken proper recognition and review of the biennial report. New and greater opportunities for legislative control lie in the permanent interim committee activities. Suggestions in this category, concerning legislative review, do not involve an infringement upon existing authority of the Attorney General or Central Budget Agency in the review and enforcement of audit recommendations.

Externally, the problem centers on expressed agency concern that the examination reports under the law are public records. Whereas the historic fiscal-legal audit exceptions could be documented at the point of violation by citing the appropriate law, court case, attorney general's opinion, Central Budget Agency or other regulation, such is not the case on every point in the performance audit area. Performance audit recommendations may sometimes be of a nature such that reasonable opinions could differ, falling in the "value judgment" area. Herein lies the concern of individual agency managements that the public press will report performance audit recommendations as if they were fiscal-legal audit exceptions. Recognizing this as a possibility, special efforts have been taken in the proposed report writing format to clearly distinguish between audit exceptions and audit recommendations. Additionally, the examiner staff has undergone special training in "effective report writing" to fairly and equitably present all report material. One additional step has been initiated in the new audit approach, implementation of the audit "exit conference". This conference will afford top level agency management a forum in meeting with the auditor and staff to fully discuss audit exceptions and recommendations.

The Legislature in our state, along with many others in the Nation, is undergoing an evolutionary period of change in establishing its role as "a well-spring of public policy, a primary initiator of rules, a master of the public purse", in an environment of "creative federalism". Legislatures are both a part and a reflection of the political, social, and economic changes and circumstances of the social structure which surround them, and they therefore move in the same direction as do other institutions in society. The use of sophisticated and scientific management techniques within the framework of government will come just as surely as they have in the business climate. The strengthening of the control system in government will likewise parallel that which is being developed in commercial enterprises.

It is within the framework of these considerations that the state auditor's fiscal-legal-performance audit function hopefully will afford the legislative body those tools necessary to meet the challenges of the 1970's in exercising legislative control by policy setting and after-the-fact administrative overview to secure faithful, efficient, and effective administration of government programs.

It is recognized that the post audit is only one of many tools which the Legislature may use in a system of legislative control. The state auditor's office views this system as a positive force, not a negative one. The purpose is to improve and provide guidance to administration, not to restrict or hinder it. The difficulty in such a system is to devise and maintain methods which will preserve the proper balance by keeping the activities of executive officials under effective scrutiny and control while at the same time preserving the values of administrative flexibility and discretion. The views of this office in this respect were recorded in our last prior biennial report at page 30:

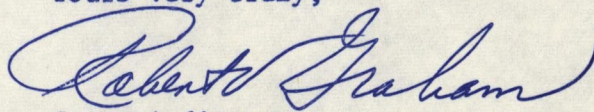
"It is the state auditor's statutory responsibility to strengthen and promote the improvement of operations of all agencies of state government in order to achieve maximum efficiency, economy, effectiveness, responsibility and equity in the conduct of activities and programs as approved by the state legislature. Performance auditing in state government, broadened beyond financial or purely fiscal-legal auditing, constitutes an important means of guaranteeing that state government is responding to the desires and needs of the people and that the balance of power inherent in the structure of state government is being observed in fact, as well as in theory."

The first biennial report of the Joint Interim Committee on Facilities and Operations of the Washington State Legislature titled "On Modernization of State Government" recognizes the advisability of the Legislature to "exercise fully their inherent power" further pointing out "In the aftermath of reapportionment of our State Legislature has come a heightened interest in improving the effectiveness of the State Legislature."

The constitutional/statutory independent audit authority vested in the Office of State Auditor makes this office a natural ally with the Legislature in its quest for "improving the effectiveness of the State Legislature", thereby improving our total state and local governmental operation.

The purpose of this report is to make you aware that the State Auditor's operations are geared to render a post audit service designed to assist the Legislature in this worthy, but very difficult mission.

Yours very truly,


State Auditor