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"ACCOUNTANTS AND THE FEDERAL GOVERNMENT"

address given by Lyman L. Bryan,
Director, Washington Division, American Institute of CPAs

at the Oklahoma Society of CPA's Awards Dinner

September 15, 1967

Distinguished fellow Oklahomans...It is a real privilege to be with you tonight as you honor successful CPA candidates from all over our State. It is a real pleasure to visit again with so many old friends.

To follow in the time-honored tradition of all speakers, I would like to open by telling a story, or more precisely, by telling you a true story about something that shouldn't happen to a dog. But it did happen to a dog ... my dog ... when I was a small boy, growing up in the South Canadian River bottom, over south of Oklahoma City. My dog's name was Tag, and this was the day I took this dog on his very first hunt.

On this cold, wintry day we were out hunting jack rabbits in a field, and old "Tag," who was a quick, but short-legged sort of a dog, managed to flush out a full-grown jack rabbit. Now I don't have to tell anyone here about the size and speed of a McClain County river bottom jack rabbit, but a grown man can hold one up by the ears at shoulder length, and its feet will touch the ground. The only thing they're good for is to shoot at. If you can shoot at one going down wind, you have a slight chance, but, if it's crossing your line of shot, you're just wasting your time. They run so fast and are so smart that you can only come in range with a rifle.

Now this scene developed. Tag flushed old Jack, and chased him straight away, and since Tag was in my line of shot, I never had a chance. But Tag was young and eager, and he didn't know he couldn't catch this big rabbit. He would run, and he would puff,

and that jack rabbit would run a few steps - and stop - and turn around and grin at Tag. Then the rabbit would run a few more steps, looking back over his shoulder just to see how long this stupid dog wanted to play this one-sided game.

This went on and on until the jack rabbit got so amused he forgot for a second to look where he was going, instead of where he had been, and he ran smack into a tightly-stretched barbed wire fence, broke his neck, and bounced right back in old Tag's mouth.

Now aside from making a cocky, lifelong, rabbit-chasing idiot out of what could have been a perfectly good hunting dog, this incident taught me something ... Never look back ... As old Satch Paige once said, "There might be something back there, and it might be getting closer."

Not long ago, the American Institute, keeping its eyes ahead, and fixed on horizons for the accounting profession, took a very hard look at what the accountant of the future will need to know.¹ With these young people in the audience, and since they have just come through an essential part of this process, perhaps it will be appropriate to touch on just a few of the highlights of the common body of knowledge which it was felt the future accountant should possess.

As you may know, the Carnegie Corporation and the American Institute were joint sponsors of the study, which took several years to complete, and which stresses that all of us have much to do, in many fields, to meet the problems of the future, and that

¹ Robert H. Roy, the Johns Hopkins University and James H. MacNeill, Fordham University, "Horizons for a Profession, The common body of knowledge for certified public accountants," The American Institute of CPAs, 1967; a study sponsored by the Carnegie Corporation of New York.

the common body of knowledge needed for success in accounting will indeed be vast.

The study suggests, for example, that greater emphasis should be given to accounting research, and that our research programs should be broader and more sophisticated. It lays emphasis on a more extensive understanding of accounting concepts, principles and functions, and of ethics, both as a philosophy and as a code. It stresses the need for expanded knowledgeability in auditing areas.

It suggests more emphasis on breadth of education, with corollary shifts in current experience orientation. It suggests more extensive development of graduate education.

The study notes that more sophisticated mathematical concepts and capabilities will be required of tomorrow's certified public accountant, including increased knowledge and use of mathematical symbols in accounting. It notes future acceleration of the already apparent need for extensive computer knowledgeability. It suggests further expansion of concepts underlying professional development programs. It encourages further expansion of statistical sampling concepts, and their more effective utilization.

More extensive knowledge of written and oral English is a major recommendation of the study, including a proportionate emphasis in the examination taken by prospective CPAs.

As to the other humanities, it was felt that additional stress would be placed on these areas, particularly in the area of philosophy, as related to logic and ethics. Economics will be emphasized, and particularly, micro-economics, in view of its involvement with the individual organization. This is, of

course, not to ignore macro-economics, and inter-actions within the total economic environment. These are just a few of the basic areas of knowledge with which the successful accountant of tomorrow will need to be far more familiar.

The study also points out a need for better understanding, on the part of CPAs, of formal organizations, including increasingly complex business organizations and the various levels and agencies of Government.

I've saved this point of the common body study to the last... this point involving knowledge of Government...because this is one of the few areas where I, as Director of the Washington Division of the American Institute, and as a non-accountant, might properly add some personal comments based on my own observation over the past ten years.

One of the things that is getting closer to accountants, whether they are in Government or out of it, is social change. This is also true of doctors. Take Medicare. Clearly, the impact of Medicare on the medical profession is large already, and will continue to grow as time goes on.

Whether or not we agree with the social thrust, as individuals, the American constituency has, in the lifetime of most of us here, endorsed such permanent historical innovations as social security; bank deposit insurance; Federal mortgage insurance; rural electrification; Federal incentives to private retirement plans; arbitration for labor and management; aid to war-torn and underdeveloped countries; commitment of troops to aid in the disputes of other countries in

undeclared wars; programs of aid to lower-income groups...The list could go on and on. It is certainly a fact of life that innovation will go on and on.

These innovations, in addition to programs so old that we no longer regard them as innovative, provide the catalyst for functions which many accountants did not expect to be called on to perform in their lifetime.

Thus, the march of history forces innovations, and this, in turn, forces the professional to adapt to such innovations. You and I may or may not always like what history is doing, but change, whether technological or organizational, forces our adaptation. Mr. Orwell and I may not like computers, but when they blink their dispassionate little eyes at us, and tell us: "Do not bend, fold or mutilate," we cannot deny them. We conform.

Having the conservative feeling of a lost ball in the urban weeds, I would be the last to plead for a more complex world, or for the desirability of accelerated social change, but I do feel that the professional accountant, in and out of Government, must become increasingly aware, in an anticipatory sense, of the "well-spring" nature of these changes, and of their direct and inevitable impact on his own way of livelihood.

Government has become increasingly important to the accountant in public practice. This import is both direct and indirect. As an example of the direct, the 89th Congress strengthened the statutory position of the accountant in the field of tax practice and provided incentives to him for establishment of retirement plans for himself and his employees. Various laws of Congress and regulations of agencies have now been adopted, which assure that Federally-stimulated

independent audits be conducted only by auditors subject to appropriate State-level accounting regulation and standards. Over 60 programs of Federal agencies now stimulate a total of more than 45,000 independent audits each year all over the country. This compares with about 10,000 per year just 10 years ago.

These audit engagements may be Federally-stimulated, but the engagement of the auditor is almost always local. The community-level grantee, or borrower, or regulated client, or public authority engages the auditor, subject only to the formality of agency approval, sometimes at the regional level, but more often by Washington. While the agency will usually have worked with the American Institute on establishment of the environment and audit guidelines affecting such a program, these programs, which are announced in the Journal's "Washington Background" column, almost always involve community-level selection of the independent auditor, by the client subject to the agency's program.

The Securities and Exchange Commission, for example, stimulates about 12,000 independent audits per year, followed by the Department of Housing and Urban Development's 9,000, many of which involve cost certifications. The Rural Electrification Administration stimulates about 1,700 audits annually and the Federal Home Loan Bank Board is expected to stimulate nearly 2,000 audits annually during 1968. Thus, these four Federal agencies alone are responsible for stimulating nearly 25,000 independent audits each year, across the country. While these four agencies are used as an example, similar programs have been regularly described in detail in the Journal of Accountancy.

Nor are the engagements confined to business-type entities. American Institute Committees, working directly in this field, initiated recommendations which resulted in the policy recognition that the public accountant's contributions to financial control over social action programs enacted by Congress were needed, in the public interest, and should be encouraged, in instances where such help would be appropriate. Thus, the accountant in public practice may also find himself directly involved in social programs, such as Neighborhood Youth Corps or Head Start, which he could not have possibly anticipated a few years ago.

Now, let me just run over a few other types of organizations, simply to indicate the variety of other groups which are audited under Federal stimulus...The Interior Department utilizes independent audits of certain public lands users, subsidized mine operators and Indian tribal enterprises...The Labor Department requires audits of certain welfare and pension funds under its investigation...The Federal Power Commission requires audits of natural gas pipeline companies and certain electric companies...The Commerce Department requires audits of Federal bridge authorities...The Post Office Department requires audits of about 25 large urban Post Office cafeterias and vending machine operations...The Renegotiation Board receives several thousand annual defense contractor filings annually, based on independent audits...The Tennessee Valley Authority receives about 150 reports annually, based on audits of T. V. A. power users...The Forest Service receives audited reports from timber users and ski resort operators... About 2,800 farm cooperatives are independently audited each year,

under the encouragement of the Farm Credit Administration... Certain atomic reactor licensees are audited under Atomic Energy Commission requirements...The Agriculture Department utilizes audits of certain cooperatives, sugar beet processors, licensed warehouses and watershed districts...

This is by no means a complete list, and is only intended to indicate the variety and geographical spread of these engagements throughout the country.

The use of independent auditors in such programs has come about (1) because of the local availability of competent auditors throughout the country; (2) the resulting avoidance of agency travel costs and the freeing of agency personnel for necessary review work; (3) the fact that costs can properly be charged against the audited organization; and (4) the management assistance, based on local knowledge, that local accountants can render to such organizations.

Turning now to some of the broader areas involving the Federal Government and the accounting profession, American Institute Past President Tom Flynn once noted predictions to the effect that Governments could be expected to employ an increasing number of accountants, and that many of these accountants would influence key Federal policies; that economists, attorneys and public administrators would compete with accountants for such policy roles; that the various levels of Government would increase uses of public accountants in tax work and in Government-stimulated auditing and compliance work; that Governmental computer relationships with the clients of public accountants would rapidly increase; that

Governmental programs, in the long run, will continue to expand in number and scope and that the various levels of Government will continue to express interest in the qualifications of accountants and in the practice of accounting.

Clearly, an understanding of Federal, State and local Governments will be vital to the accountant of the future.

The impact of Government on the practice of public accounting today is already tremendous. For example:

The technical quality of documents produced by the Internal Revenue Service, the Small Business Administration, the Office of Education, the Department of Labor, the Census Bureau and other agencies can make life easier or harder for clients.

The accounting requirements of federal and state agencies can encourage or discourage the use of accounting practices helpful to investors and credit grantors.

Reporting requirements can be consistent or inconsistent with the auditor's role, perhaps leading to imposition of unjustified responsibilities on CPAs, or charges of substandard reporting.

Administrative regulations can ease or intensify the burdens of busy seasons.

Bills introduced in Congress -- about 25,000 in each Congress -- can strengthen or undermine fiscal responsibility of Government agencies. Federal or state agencies given large sums of money can put teeth in their controls by requiring cost certifications, compliance examinations and financial audits. Or they can encourage waste and inefficiency by vague or incomplete requirements in these areas.

American Institute President Hill Giffen recently told an audience of Federal accountants, and I quote:

"The President's 1968 budget has called for a channeling of over 17.4 billion dollars per year through State and local Governments. As other levels of Government become more directly involved in the direct utilization of massive resources under Federal programs, the problems of coordination will obviously increase.

"Taking note of these developments, and following the issuance by the Bureau of the Budget of bulletins spelling out guidelines which recognized the increased utilization, under State-administered programs, of independent auditors, we have suggested to the autonomous State societies of certified public accountants, that they try to become much more familiar with the problems of their State governments, much as the American Institute has attempted to do on the Federal level.

"We have also urged our State societies to invite regional representatives of major Federal agencies to address their State and local meetings, to increase their familiarity not only with such programs as those cited, but also to become more aware of all such developments, both as citizens and as accountants. A better interchange of information between the various levels of government, and appropriate societies of accountants, cannot fail to produce a more meaningful understanding of social forces which affect us all."

In separate speeches, President Giffen has suggested that State Society speaking invitations be extended occasionally to appropriate regional or local officials of such Federal agencies as the Housing and Urban Development Department; the Social Security Administration; the Small Business Administration; the Department of Health, Education and Welfare and the Federal Home Loan Bank Board, in addition to agencies traditionally receiving such invitations.

In another address, President Giffen urged accountants everywhere to take a more active part in community and public affairs, including candidacies for public office. Current participation in the latter realm is illustrated by the fact that the 90th Congress has over 300 lawyers, but only one certified public accountant. While more than 2,500 certified public accountants are now employees of various Governments, not many of these hold the appointive and policy positions which are often the reflection of extensive participation in public affairs at the State and local levels.

The accountant, as much as any other skilled professional, is entitled to exceed the role of interested adviser and to succeed to the situation where he takes active part in formulating public policy. His talents are needed both at functional and policy levels. Otherwise, vital public decisions will be made in accounting-related areas without adequate reference to skilled accounting advice.

The tremendous growth in the number of skilled accountants in Government employ is, in itself, a very healthy and valuable contribution by the accounting profession to better Government. Whether the Federal agency employs these functional skills internally,

or uses the outside accountant to complement its own financial control efforts, the public interest is far more effectively served when the accounting function is properly and effectively performed by people competent to perform it. Significantly, more and more accounting (or accounting-related) decisions are now being made within the agencies by people who are far better equipped to make them.

CONCLUSION

In this brief address, I have tried to cover just a few of the steps which accountants can take, if they wish, through their State and chapter organizations, to implement the common body of knowledge study recommendations leading to better knowledgeability of various levels of Government. To summarize:

1. Follow local, State and Federal Government developments closely, on the assumption that such developments affect members of every profession, in many ways.
2. Create committees dealing with the State Government, with committee components assigned to specific agencies or to problems similar to those described on the national front.
3. Invite local officials of key Federal agencies, as well as State and local officials, as speakers to state society meetings.
4. Be active in community and public affairs, and encourage your colleagues to do so.

Government is nothing more nor less than we make it. Hopefully, it will be made better for those who will follow us, if we all do our utmost to bring this about...Thank you.