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Morton Levy

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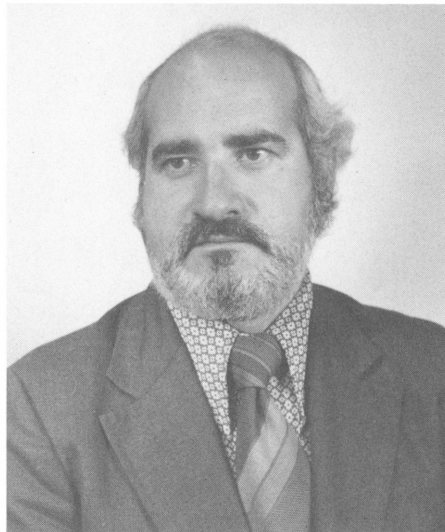
Accountants for the Public Interest: A New Concept

Morton Levy, CPA
San Francisco, California

The author describes the formation of the organization, its process of client selection, and some recent projects the group has undertaken.

The local neighborhood legal assistance office had a problem concerning an accounting review and analysis of a proposed Redevelopment Agency bond issue; a Washington, D.C. environmental and health law group needed assistance in analyzing and evaluating the financial statements of three hospitals being sued for failure to provide a "reasonable volume of free care" under the Hill-Burton Act; a consumer group couldn't cope with the accounting ramifications of a proposed utility rate increase case; the city-wide PTA sought counsel as to the interpretation of the budget and financial statements of the School District; a prison law project sought help on the propriety of the sources and uses of inmate welfare funds; a citizens' group needed advice concerning the effect of a municipal takeover of electrical distribution facilities on the utility bills and the city budget; another citizens' group wanted a study of the city government's investment of idle funds.

Until a short time ago, none of these groups would have found it possible to locate an organization to fill those needs. Not so in the San Francisco Bay Area any more. In early 1972, a corporation was formed to provide services only to such



Morton Levy, CPA, is a graduate of Northeastern University in Boston, Massachusetts, and holds CPA certificates in Massachusetts and California. He was an instructor at Golden Gate University in San Francisco before becoming a partner in the San Francisco CPA firm of Harb, Levy, Weiland and Ring. He is the founder and executive director of Accountants for the Public Interest.

Accountants for the Public Interest, a non-profit organization, publishes a Quarterly Report which can be obtained without charge by contacting the organization at 351 California Street, 16th floor, San Francisco, California, 94104; tel: (415) 956-3222.

types of organizations, in such types of cases and projects.

Formation of API

Accountants for the Public Interest (API), a non-profit corporation, was organized by a group of San Francisco Bay Area accountants and educators to provide accounting counsel without fee to those organizations serving the public interest. Its first year operations were funded by a foundation grant. It is staffed by a part-time executive director (the author) and a secretary. Control is vested in a Board of Directors (presently consisting of twenty-two persons) and a seven-member Executive Committee. The work is performed by a group of approximately thirty volunteer accountants (including Board members) supported and supervised by the executive director. Future plans include the utilization of upper division and graduate students as assistants to the professional accountants.

The founding members all shared certain similar concerns. They felt that the accounting profession was not providing them with quite the degree of personal satisfaction they desired, that the profession itself had a broad responsibility to

society which was not being adequately fulfilled, that the accounting profession was uniquely qualified to serve in public interest matters since it is the only profession educated, trained, and recognized for its independence and objectivity, and that there was a frequent need for accounting advice in studies, cases, and projects presently being conducted by public interest law organizations and community groups. We decided to organize a structure within the profession to provide assistance to public interest organizations which could not otherwise have access to our expertise. We then incorporated, began the search for funding and selection of the Board of Directors, and were granted exemption under I. R. S. Section 501(C)3. The San Francisco Chapter of the California Society of CPA's, the staff of the California Society, and the California Board of Accountancy were all kept informed of our plans and progress.

Our next step was to contact many potential "client" agencies in San Francisco to inform them of the formation of Accountants for the Public Interest and to discuss with them the scope of our proposed services. Among those contacted were the San Francisco Lawyers' Committee for Urban Affairs, the Youth

Law Center, the NAACP Legal Defense Fund, the Association of California Consumers, California Public Interest Law Center, San Francisco Neighborhood Legal Assistance Foundation, California Rural Legal Assistance, Public Advocates, Inc., and the San Francisco Conference on Religion, Race, and Social Concerns. We made it clear to these organizations that we would not be advocates — that our work and our conclusions would be strictly objective, and that we were prepared to provide them access to impartial, independent data analysis by competent professionals. We recognize that our credibility will not long endure if we are unable to remain objective. We believe that we have been successful in doing so.

Criteria for Client Selection

One of the first major operational problems we faced was the necessity of limiting the scope of our activities. We easily settled the question of whether or not we should be involved in assistance to minority small businesses. The San Francisco Chapter of the California Society of CPA's, through its Committee on Urban Affairs, was actively involved in this area. A far more difficult question was whether or not we should attempt to assist with the internal accounting problems of non-profit community action organizations. Requests for our involvement in this activity came from the local OEO office, from some of the foundations we had contacted, and from various organizations in the community. We regretfully decided that we would not be able to handle our primary goal adequately if we were diverted by the massive needs of the community action programs. We feel, however, that our profession must serve such agencies more adequately.

We decided on the following criteria for accepting clients and cases:

1. The client must be an existing 501(C)3 organization, or a community group performing in a 501(C)3 manner.
2. The case must involve a public interest matter or issue.
3. We do not perform traditional bookkeeping or tax services for the clients' own internal affairs.
4. The case must be limited in scope to one in which we can effectively perform, either in terms of labor hours or technical competence.
5. The nature of the request must reflect the understanding that we function in a non-advocacy manner.

6. The client organization must either be unable to afford to pay for our services or must have been unable to retain an outside accounting firm because of the controversial nature of the matter.

No case is accepted without the approval of the Executive Committee. Each case is assigned to one of the Board members, who becomes responsible for carrying it out to completion, under the supervision of the executive director. Whenever necessary, additional volunteer accountants, who may or may not be members of the Board of Directors, are assigned to work on the case as "staff." Many of the cases have required specialized knowledge not readily available among our Directors. In such cases we have searched in the local community for volunteer accountants having such knowledge.

Whenever necessary, the entire Board of Directors, or a part of it, will "brainstorm" the approach to a case and/or its conclusion. Final reports are reviewed and approved by the director and members of the Executive Committee before being submitted to the client.

A Case Study

A closer look at one of the cases mentioned above will serve to illustrate the manner in which we are functioning. During June 1972 a telephone call was received from a Washington, D.C., OEO-funded law group, the National Health and Environmental Law Program. They were filing suit in federal court in New Orleans against three hospitals which had received federal Hill-Burton funds, in return for which the hospitals stipulated that they would provide "a reasonable volume of free services to persons unable to pay." (This was the first in a series of suits being filed in districts around the country in an attempt to enforce this requirement of the Hill-Burton Act.) The National Health and Environmental Law Program wanted our assistance in reviewing the financial reports of the defendant hospitals, all of whom claimed that it was not financially feasible for them to provide such services. It is to be noted that the Act uses the term "financial feasibility" without definition.

After our initial conversation with the lawyers handling the suit, a member of our Board of Directors was given responsibility for the project. One other member of the Board and a non-member volunteer agreed to work with him on it. All three were chosen because of their

extensive experience in the field of hospital accounting. They held conferences with the lawyers, and brainstorming sessions with other members of the Board. Then the reports of the hospitals were reviewed and analyzed. Before the trial date, they prepared a combined report on their findings regarding "financial feasibility" and on the proposed adjustments to the operating figures.

Our Board member then went to New Orleans for the trial. The report which had been prepared was submitted to the Federal District Court judge, who utilized it extensively in his questioning of the defendants during the hearing, and in the agreement order which he drew up at its conclusion. As a result of these proceedings, the hospitals agreed to provide free or below-cost service on an interim basis, pending final regulations to be issued by HEW.

In August we received the following letter from the National Health and Environmental Law Program lawyers, evaluating our work and its usefulness to them:

Although I and my colleagues were adept in developing legal strategies, it became apparent as we approached the actual trial that we needed the assistance of accountants familiar with and able to analyze hospital financial statements. One of the major positions emerging in these cases is that of "financial inability to render free service" and we needed to be able to counter this position. The work of your group enabled us to argue quite convincingly in our negotiations with the three New Orleans hospitals making the "financial feasibility" argument and resulted in a workable compromise in the settlement agreement. Further, your work should be the basis of the further development of the strategy for community groups in meeting this contention as it is presented by hospitals before State agencies in the next fifteen months, and should educate both legal service lawyers and State agency personnel.

Other Recent Projects

Other cases, in addition to the above and those mentioned in the opening paragraph, include assisting the San Francisco Lawyers' Committee on Urban Affairs in a case involving relocation and/or reentry of a group of minority businessmen in a San Francisco redevelopment project. We have completed a case for California

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private industry to such in-depth reports will not be severe. But governmental and non-profit agencies have long been shielded from much exposure of their activities. They have been able to conduct their affairs with little information leaking back on their effectiveness. Is it possible that in the future a report may be issued to the effect that the XYZ PUBLIC AGENCY spent 78% of its revenue on items other than the basic purpose for which it was formed — and that it left 325 people in worse position than they were six months ago whereas the well-being of only 212 persons was considered to be improved? Will the new social measurement reports on a school indicate that only 16% of the students were elevated to an acceptable level in music — 24% to an acceptable level in finance, etc?

Only very few examples can be found to illustrate the format which such a report might take. In one instance this editor noticed that an arbitrary dollar amount was assigned to specific pollution items (such as 1¢ per mile on automobile emissions). It would seem that arbitrary costs will have to be used by pioneers in the preparation of social measurement reports — at least until such time as standards can be developed. The task of developing standards in this area may seem an impossible task. Yet, the assignment has been attacked. The American Institute of Certified Public Accountants appointed a committee on Social Measurement which is trying to develop tentative principles and standards for a corporate social report. To date only the profit-oriented firms have been considered. Hopefully the non-profit and govern-

mental organizations will not be neglected when methods of measuring and reporting are initiated. "Accountability" is a social concept that should be applied uniformly to all entities.

Summary

Accountants are now facing a demand to consider the needs of society today and to find a way of reporting whether industry, government, and non-profit entities are fulfilling those needs. We are being asked to come up with a report to disclose whether an entity is meeting its responsibility to the rest of society even though no definition has yet been made as to what that responsibility may be. Yet the demands stated at the present are likely to be only a sampling of far more stringent requirements in the next year or two.

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Rural Legal Assistance which involved an analysis of the costs and operations of two Farm Labor Centers in Tulare County, California, in connection with the Housing Authority's proposed rent increase. For the San Francisco Citizens' Golf Association, we analyzed and compared costs and income of certain publicly and privately-operated San Francisco Bay Area courses in connection with a proposal to lease one of the city-owned facilities.

The Youth Law Center has retained us to study the costs and financing related to the care of dependent children in San Francisco in connection with a plan to develop comprehensive facilities to handle these children. San Francisco Lawyers' Committee on Urban Affairs has asked us to assess the feasibility of including low and moderate-cost housing in a large new development on the San Francisco peninsula. The San Francisco Ecology Center has engaged us to investigate and review the financial elements of a proposed \$390,000,000 expansion program at the San Francisco International Airport. We have also received inquiries from the Mexican-American Legal Defense and Education Fund, American Civil Liberties Union, San Francisco Equal Employment Opportunities Project, Environmental Defense Fund, the Council on Municipal Performance, and others.

Since April 15, 1972, the date we opened our office, we have become involved as consultants and interpreters to more than twenty local community organizations, and we also have been called upon from Washington, D.C., New York City, Brockton, Mass., and Madison, Wisconsin to consult on a variety of public interest problems.

Early in June of 1972 we testified before the Accounting Objectives Study Group and urged that the profession recognize its responsibility to act as consultants and interpreters of financial reports and data to consumer, community, and citizens' groups.

During September 1972 we appeared at the Graduate Study Conference of the California Society of CPA's, where we urged expanded participation of the profession in matters of broad social concern.

In both of these appearances the response of the participants was extremely enthusiastic. As a result, we have been sending copies of our quarterly reports to various parts of the country.

Conclusion

We hope to encourage groups of accountants in other parts of the country to establish "public interest accounting firms" such as Accountants for the Public Interest. Participation by practitioners in

such organizations can help solve pressing social problems, improve the image of the profession, provide a stimulating and exciting work experience and the knowledge that we have found a vehicle for functioning as professionals in working toward the solution of some of the problems presently confronting our communities. By demonstrating that accounting can offer the opportunity to participate in the process of social change, we can encourage bright young people to enter our profession.

Accountants for the Public Interest will attempt to provide answers for clients and problems: clients who could not get professional services until now and problems that could not have been handled professionally before. The need for our type of service is both massive and, as witnessed by our brief history, highly effective in aiding other public interest organizations to affect reasonable and justifiable change through objective investigation, analysis, and research. Our growing involvement in local problems of public interest during the past year has clearly demonstrated the need for others in our profession to follow suit.

We offer our assistance in helping to form and organize similar groups elsewhere. We are therefore arranging a national conference on public interest accounting in San Francisco November 1-2, 1973.