ACCOUNTING METHODS HIT

New System of 'Positive Controls' Urged At Schools

The city auditor yesterday questioned practices by the Department of Education in the handling of cash receipts and recommended a new system of "positive controls."

Mayor McKeldin immediately called on Dr. George B. Brain, superintendent of schools, to name representatives to work with the Department of Audits and agree on more stringent procedures before the reopening of classes in September.

Howard C. Beck, Jr., the auditor, made it clear in his report to the Mayor that only the lack of proper accounting, not the honesty of school officials, was being questioned.

An investigation by the auditor's office disclosed that, of 85,000 blank cash-receipt forms issued to the city's schools for various purposes, nearly 1,300 were possibly used without any proper accounting for the funds received.

Although various explanations for the missing receipts were made, such as school vandalism and the resignation of a teacher without final accounting for the forms in possession, Mr. Beck wrote the school superintendent:

"You realize in these circumstances the tendency of an auditor is to believe that receipts have been issued and that the funds are unaccounted for.

"This office is anxious to help correct this condition because, in the absence of inventory control over these forms, no one can certify that there has been an accounting for all receipts."

Mr. Beck's correspondence with Dr. Brain was included in the report to the Mayor.

In his letter to the school superintendent, Mayor McKeldin said he felt "certain that you will agree" with the auditor's recommendation that better controls should be maintained over the type of vouchers that are missing.

Therefore," the Mayor wrote the superintendent, "I respectfully request that you appoint a representative or group of representatives from the Department of Education to work with the Department of Audits to implement the type of receipt controls recommended to insure complete and constant supervision over all fund transactions within your department."

Copy Sent To Frank

The Mayor sent a copy of his request to Eli Frank, Jr., president of the School Board.

The investigation by the Department of Audits was under the direction of George W. Zenitz, senior assistant auditor.

"Interviews with some school principals concerned disclosed instances of disinterest in regard to fiscal matters," Mr. Zenitz reported to Mr. Beck.

"On several occasions," he said, "I was told, 'We are educators, not business administrators.'"
Company Watchdogs
Inside Auditors Widen Role as ‘Eyes and Ears’ For Top Management
They Probe Waste, Conflicts Of Interest and Antitrust Violations; Salaries Climb

BY GEORGE MELLOAN
Staff Reporter of The Wall Street Journal

The company auditor, whose job once was confined to poring over financial ledgers, is now becoming a combination private detective, credit sleuth, cost-cutter and all-round trouble shooter.

Auditors who work for corporations still check books for errors or signs of chicanery. But they also are moving into new areas of responsibility that bear little relation to their traditional tasks. They are reviewing pricing policies for possible antitrust violations, investigating outside activities of company officers to spot conflicts of interest, checking credit of suppliers, customers and potential merger partners and roaming plants and offices in search of inefficiency.

Thus an auditor from Pacific Telephone & Telegraph Co. visited a San Francisco couple to inquire about the quality of service when a phone was installed recently. And at the Louisville works of International Harvester Co. two auditors in white shirts and ties poke into piles of rusty scrap and surplus parts, looking for waste.

Harvester’s Savings
There’s evidence that the new look in auditing pays off. Harvester auditor John D. Bergerson, for example, spotted the fact that two different size bolts were used on one of the company’s disc harrows. He asked if the smaller bolt could be used exclusively. Engineers decided it could, saving Harvester $19,000 a year. Another sharp-eyed Harvester auditor touring a plant suggested that, in view of the capabilities of new steel rolling mills, steel sheets could be ordered by Harvester to closer thickness tolerances. Such orders, insure, that the company now gets the maximum number of sheets per ton, save over $300,000 a year at one plant and could save up to $1 million a year if all Harvester divisions adopt the practice, an official says.

This broadening role of the auditor as the eyes and ears of top management is a relatively new one. It begins largely because many U.S. companies have grown so complex and far-flung that the people who run them can never be wholly certain that they know about important things that are happening at lower levels. These managers often find it highly useful to have a reasonably objective and independent branch to look into situations that other subordinates might be reluctant to report, or the significance of which they might not understand.

Auditors can expand their role because office automation is freeing them from much of their traditional routine paperwork. Edward A. Johnson, assistant general auditor for Minnesota Mining & Manufacturing Co., notes that a computer can scan through credit accounts in a few hours in search of any that are dangerously overdue. Before automation the job required several hundred man-hours of auditing department time.

“Operational Auditing”
Lockheed Aircraft Corp. has expanded its auditing staff to 112 persons from 65 in 1964, says Frederic E. Minnix, resident internal auditor at the Lockheed-California division. But only about 20% of the man-hours of the department today are spent on financial auditing, he says. The rest are devoted to broader “operational” auditing, involving such things as surveying the efficiency of aircraft assembly lines.

A survey of auditing practices by the National Industrial Conference Board (NICB), a non-profit business research institution, confirms this trend. Over 60% of the 117 companies checked had made a significant move toward broadening auditors’ duties in the last five years.

As auditors tackle new jobs, many concerns are drawing recruits for their auditing departments from fields other than accountants. John M. Schulz, general auditor at Atlantic Refining Co., started his career as a chemical engineer and had never had any formal training in accounting.

“A few years ago most people were drawn from accounting but today we just look for brains,” says Robert L. Richmond, general auditor at B. F. Goodrich Co. At Shell Oil Co., promising men are given two or three years in internal auditing as a means to train them for top management posts. Since auditors see all phases of a corporation, some executives think it is an ideal training ground.

Demand and Pay Are Up
Demand for company auditors who can fill more “sophisticated” jobs is growing and salaries are rising, says Robert C. Zabor, vice president of Heidrick & Struggles, a New York executive recruiting and management counseling firm. Managers of internal auditing now can command salaries ranging from $20,000 to $30,000 a year, he notes. Four or five years ago the range was much lower, he says. “There’s a general upgrading of the field,” says Mr. Zabor. “The man who goes into it is required not only to be a good auditor but a potential executive.”

Archie McGhee, managing director of the Institute of Internal Auditors, formerly a professional association, says one large company now hires new auditors at $10,000 a year or more, compared with about $8,000 a few years ago. The institute also reports a higher turnover in auditing jobs: 14% of jobs changed hands last year, according to a survey, compared with a “normal” level of 11%. Mr. McGhee says higher turnover often reflects higher salaries that induce auditors to change jobs.

Broader assignments for auditors often reflect the concern of management over dangers of fraud and overstated credit. The well-publicized oil scandals,” in which perhaps $150 million in edible oils proved to be fictitious, spurred the audit of one petroleum pipeline company to study his own firm’s technology.
considerable fret. At the annual convention of the Institute of Internal Auditors in Houston this summer, Clyde Skene, executive vice president of Long-Temeco-Vought, Inc., urged auditors to unbend a bit in dealing with other company workers so that management won't be faced with protests from sales managers and engineering department heads about second-guessing from the auditors. "Put on a sports shirt and go out and play golf with the sales manager—it won't hurt you," Mr. Skene advised.

An auditor for Vickers division of Sperry-Rand Corp., Robert M. Miller, suggests that auditors avoid disagreeing with a manager "when he (the manager) is feeling depressed, irascible or ill." Mr. Miller, in an article in an auditing journal, adds, "Train yourself to be sensitive to storm signals of facial expression, posture, tone and voice" and don't press a manager "for an unmistakable statement that he has reversed himself."

Most auditors contend they try to sell themselves to the people whose activities they're inspecting. For one thing, says one auditor, a friendly, relaxed approach often allows the auditor to pick up grumbles or information that might be important to his investigation. But another remarks, "You can't be out trying to make yourself popular. In the final analysis we have to be on management's side and we have to deal with some very hard questions."

Happy Birthday Charm

with Light-up Candle

W. Bell & Co.

SMOKERS' CHRISTMAS GIFTS

"Play Golf With Sales Manager"

As their authority broadens, auditors find new demands being made upon them to develop outgoing personalities, as well as to show

Continued From First Page

niques of checking what is in its storage tanks.

At another large concern, the president recen-
tly called in auditors and asked them to
give credit checking procedures a close scrutiny. The move was prompted by word that a finance subsidiary of Whirlpool Corp. had been forced to set up a $21,376,000 reserve to cover uncollectable receivables, which re-
sulted partly, according to Whirlpool, from in-
adequate checking of credit. "Fortunately, we
found our control systems were working well,"
says the auditor.

A large Midwest concern not long ago took
a loss of some $1 million when a customer
that owed it that sum went broke. According
to the concern's auditor, the report of a public
accounting firm erroneously showed that the
customer was in sound condition with net as-
sets of nearly $30 million just before it col-
lapsed. The Midwest company now has its own
auditors check over the books of its big credit
customers, making it clear to the customers
that this is one of the conditions of obtaining
credit.

About one-third of the companies surveyed
by the NICB now have their own auditors in-
vestigate other companies they deal with. These
include organizations being considered
for acquisition, concessionaires, licensees,
subcontractors, sole suppliers of vital material,
dealers and advertising agencies.

About half of the 151 companies in the
NICB survey that engage in operational audit-
ing have their auditors check whether their
respective companies are complying with Fed-
eral, state and local laws and rules of regula-
tory bodies. This ranges from determining if a
refinery is complying with local fire ordinances
to checking whether branch offices are violat-
ing the Robinson-Patman Act by making price
concessions to some customers and not others,
says a major oil company auditor. "Collusion
for collusion that might run the company afoul
of antitrust laws is one of the toughest jobs,
he says. "What you are really dealing with
there is collusion among salesmen and that
can be very difficult to detect." he says.

Smoking Out Conflicts of Interest

According to the NICB study, conflicts of
interest, in which some company executives
"may have outside business interests that
adversely affect the fulfillment of their obliga-
tions to their principal employers," are an-
other concern which managers are turning
over to their auditors. "As the auditors go
so far as to obtain retail credit reports and
Dun & Bradstreet reports on individuals who
appear to be living beyond their company sal-
aries," the report says.

A general auditor at a big chemicals pro-
ducer recently made his first report to the
board of directors on possible conflicts of in-
terest in his company. Though neither the
auditor nor the directors had reason to sus-
cpt any wrongdoing, the new policy was be-
gun as a precautionary step.

In a few companies the general auditor
reports to the board at all times. Such is the
arrangement at New York Life Insurance Co.,
a mutual insurance firm with assets of some
$7 billion. New York Life's general auditor has
authority to make audits and examinations of
company affairs on his own initiative and re-
port directly to the board. The company says
it believes it is necessary for the auditor to
report to a level beyond that of the executives
whose activities are audited.

W. Bell & Co.
ACCOUNTING MADE
HAGERSTOWN AIM

Auditor, Board More For
Modern Bookkeeping

[By a Sun Staff Correspondent]

Hagerstown, Nov. 17 — The Washington county auditor today recommended complete modernization and mechanization of county bookkeeping, with the ultimate suggestion that a computer center be established to serve all departments of both city and county governments.

The Board of County Commissioners adopted a resolution authorizing Earl J. Smith, the auditor, to bring his recommendations to final form for board approval.

Mr. Smith is to make arrangements with interested companies to determine costs of needed equipment, prepare financing proposals and establish a firm agreement with the Board of Education to coordinate the proposed new machines with its present data-processing operation.

Roads, General Fund

Mr. Smith told the board that, while all bookkeeping of the county Roads Department is accomplished on accounting machines, only records of county general fund expenditures are so maintained.

The revenues for the general fund are now maintained manually in the county treasurer's office, which does not even have a cash register, he said.

"At present, I am forced to employ one of the members of our staff to complete the posting of the cash receipts journals," Mr. Smith asserted, "and post the general ledger manually. Obviously, this situation should not be perpetuated any longer than necessary."

For Machine Accounting

He strongly urged the commissioners to hire a person technically proficient in machine accounting to handle the operations — and who would be free of departmental ties to coordinate the county's accounting into a workable program.

Mr. Smith said that the county should adapt existing equipment in the County Accounting Department to process both income and expenditures, and by so doing, require Hugh K. Truxell, treasurer, to install cash-control equipment in his office such as is used in banks.

B.A.E.
LISS REQUESTS MORE AUDITORS

Says Public Service Agency Staff Is Inadequate

The chairman of the Public Service Commission said yesterday that the public interest is suffering because the regulatory agency is inadequately staffed for a proper review of public utility books.

Solomon Liss, the chairman, said the commission at present can make only cursory checks for rate-making purposes.

"In the absence of a glaring error, we have to accept figures given to us by the lies," he said.

Has Four, Needs Eight

Mr. Liss, who has been chairman since September, said the commission needs eight instead of the present four auditors to make adequate checks of public utility computations of their rate base, which is the value of properties used for service.

The commission approves rates to allow a fair return on the base.

There are areas of judgment about what to include in determining the rate base, Mr. Liss said.

"A company obviously will give itself the benefit of any doubt," he said.

"These areas of judgment can slip by when there are not enough auditors and the public suffers. In the long run, the public would save several times the salary of the additional men."

Mr. Liss said his conversations with officials of the Baltimore Gas and Electric Company and the Chesapeake and Potomac Telephone Company indicated that they were "very much in favor" of the expanded staff.

"They feel that the public would more likely accept their estimate of the rate base" with a closer scrutiny by the commission of their books, Mr. Liss said.

In addition, the companies feel that it would be better to question what is to be included in the base all along the line and not just at the time when a request is made for a rate increase, he said.

Mr. Liss, a Baltimore lawyer, said the commission is responsible for regulating companies with $8,000,000,000 in assets.
City Inventory Change Urged

By Michael Naver

City Comptroller Hyman A. Pressman today indorsed an auditor's recommendations for tightening control over city inventories.

He passed the suggestions along to Charles L. Benton, director of finance, in the wake of Mr. Benton's discovery of a $100,000 discrepancy between book inventory and physical property.

Rules Proposed

The tighter rules were proposed by Francis J. Kiesel, senior assistant city auditor.

They include:

1. Standard record-keeping forms should be instituted for all departments for use by city data processing equipment.

2. A code number should be assigned to every piece of city property to permit its location in an emergency.

3. Monthly lists of equipment on hand should be made, and differences should be reported to department heads.

4. A physical count of supplies should be made once a year.

5. A city auditor should review the counting and should "insist on strict compliance with departmental instructions."

6. Obsolete material should be clearly marked and disposed of.

Not Used For Years

An inspection by Mr. Benton last week of several city warehouses revealed that some departments still keep equipment on hand that has not been used for years.

Mr. Benton suggested that this material could be disposed of. He also proposed that the number of stocking locations used by the city should be reduced from the 70 now used to about 20.
AUDIT ASKED IN HOWARD
Commissioners Questioning Year's School Outlay

The Howard county commissioners, gearing for battle with the county school board's record budget for next year, have demanded a detailed accounting of how this year's school funds have been spent.

Charles E. Miller, chairman of the commissioners, said yesterday he had specifically asked the school superintendent and the five members of the Board of Education to account for any surplus funds from this year's budget and any sums "expended for any purpose other than those for which they were appropriated."

"We Are Still Waiting"

He said the demand was sent to the school officials more than a week ago. "We are still waiting for a reply," he added. He did not elaborate on his reasons for making the demand.

John E. Yingling, school superintendent, said the Board of Education would reply to the demand Wednesday night when it meets to pass officially on the new $6,571,-329 budget.

Mr. Yingling declined to predict what the board's reply would be, but he said this was the first time in his seventeen years as superintendent that a board of commissioners has demanded a close audit of a previous year's school budget.

Howard county's annual school budget controversy has been intensified this year by a strong injection of local politics.

The Republican commissioners, anxious to press for economy in an election year, are also fully aware that the Board of Education is identified with the county Democratic organization.

In their letter to the school board, dated April 5, the commissioners invited the school officials to a special meeting to discuss the new budget and detailed the following demands:

1. An accounting of any balance from the budget that was approved last year.
2. An estimate of funds expected from the State to help pay for teachers' salaries, textbooks and other materials and supplies.
3. An estimate of the total amount the county must raise through local taxation. (The commissioners themselves have estimated that taxes will rise 54 cents--figure sharply disputed by Board of Education members.)
4. A detailed accounting of salaries in all job classifications in the school system.
5. A detailed accounting of funds used for purposes not earmarked in the budget and an explanation.
6. A complete accounting of money expected from Federal sources during the coming fiscal year.
Auditors' Auditors

The board approved hiring of Peat, Marwick, Mitchell and Company for no more than $19,500 to audit the Department of the Comptroller, including the city auditor's office.

The new audit, which also includes review of the books of other city departments, is required by the new City Charter.
PAUL TAKES BECK'S POST

Assistant Since 1960 Succeeds 40-Year City Auditor

Daniel Paul, a career employee of the Department of Audits, will become city auditor tomorrow.

Mr. Paul, who has worked in the department since 1949 and became chief assistant city auditor in 1959, will succeed Howard C. Beck, who was a storm center of many controversies during his 40 years as auditor.

Mr. Paul has been acting auditor since shortly after Mr. Beck retired in January.

His appointment, announced yesterday by Hyman A. Pressman, city comptroller, follows a Civil Service promotional examination.

As auditor, the 42-year-old Mr. Paul will be in charge of one of the most sensitive and often controversial departments in the city.

Whenever a scandal or controversy involving city money arises, an investigation by the auditor's office, often under the direct supervision of the auditors, is an almost inevitable result.

Under Mr. Pressman, who has styled himself as a "watchdog" over tax monies, the position is doubly sensitive.

"It is difficult for anyone to try to fill the shoes of Howard Beck," Mr. Pressman said in announcing the appointment. "But I believe Mr. Paul shows promise of following in Mr. Beck's footsteps in an admirable manner."
A New Watchdog

New City Auditor To Bite

By Peter Marudas

The city's Department of Audits is generally described as the "municipal watchdog," and its new chief auditor plans to make the department's bite even more efficient.

Daniel Paul is a quiet and soft-spoken bureaucrat who becomes noticeably enthusiastic when discussing city ledgers.

Fills Beck's Position

These qualities go a long way in explaining why Comptroller Hyman A. Pressman recently tapped Mr. Paul to fill the auditor's empty chair left vacant by the retirement of Howard Beck, Jr.

Interviewed in his second-floor City Hall office, Mr. Paul firmly clutched a green copy of the new City Charter. Fingering through it quickly, he turned up the section outlining the auditor's duties.

"You see," he exclaimed, "not only do we conduct regular audits but we can initiate special audits and investigations when necessary."

Elaborating on this philosophy, Mr. Paul talked enthusiastically about the audit department's "scope," which he vigorously maintained "goes beyond just verification of figures and would include any recommendations for economy, for changes in office procedures or for any other steps necessary to protect the taxpayer."

Shuns Politics In Job

The 42-year-old auditor said he will continue to operate the office in the same spirit exemplified by his predecessor which is, "no political interference."

He is already pressing for increased automation of auditing and other municipal operations, a task he believes crucial for the city's future. For the past several years, Mr. Paul on his own has enrolled in numerous computer courses through which he hopes to master the intricacies of modern mathematical machines.

Like the father of a new-born son, he described the success of a recently installed automation device utilized for processing outpatient accounts at City Hospitals.

"Earlier this year, using an automated audit system, I personally prepared over 2,500 out-patient verification notices in only five hours whereas it used to take eight employees a full day's overtime work to prepare about 500 forms," he explained. Mr. Paul said that automation of municipal audit functions is "still a vast, unexplored field."

A 1949 graduate of the Baltimore College of Commerce, Mr. Paul received his Certified Public Accountant certificate in 1951, two years after he entered city service.

A World War II veteran, he served in the Navy as an apprentice seaman and then was promoted to a Second Class Petty Officer.

DANIEL PAUL

Auditors x 4pc.
DMV Chief Hits Goldstein In Audit Row

By Jonathan Coltin

Motor Vehicle Commissioner John R. Jewell has told State Comptroller Louis L. Goldstein to assign his own auditors to the books of trial magistrates if he is dissatisfied with DMV audits.

In addition, responding to a lengthy audit critical of the DMV, Mr. Jewell:

1. Accused the comptroller’s office of trying to hire away one of the DMV’s top auditors while at the same time ceding the agency for not doing enough audits.

2. Asserted the same office tried to lure away two computer programmers which would have been “inimical to the State’s interests.”

3. Hit at “najevre” of the State Auditor’s office for believing a law officer can compel a judge to forward immediately after processing the disposition of every traffic ticket to the DMV, so that fines and costs could be properly allocated.

4. Complained the comptroller’s assertion that the DMV evaded the law on processing outstanding checks was based on action demanded by the comptroller’s office.

Mr. Goldstein’s office has charge of auditing State agencies. In a June 22 report, State Auditor Lee J. Parr said the DMV was lax in checking up on trial magistrates’ disposition of tickets.

Mr. Jewell responded that Mr. Goldstein “seriously consider exercising the authority vested in all judges. Order his own auditors to check the judges.

Untenable Position

Bernard F. Nessel, deputy state comptroller, admitted his agency tried in vain to poach a top auditor from the DMV. He said there is a lack of competent auditors and this was the reason for the apparent contradiction between criticizing the DMV for failing to do enough audits and trying to lure DMV auditors.

As a criticism that police officers are not successful in having judges move disposition of cases to the DMV with rapidity, Mr. Jewell declared:

“Never having had to argue with an adamant judge, perhaps the state auditors fail to appreciate the untenable position in which a law enforcement officer is placed when he attempts to overrule a judge.”

The motor vehicle director also carried criticism of his agency’s handling of 13 years’ outstanding checks worth $4,000.

Transfer of the money of the Motor Vehicle Revenue fund was accomplished without legal authority, the audit report said.

Mr. Jewell replied that State auditors and the State Treasurer’s office knew of and condoned the transferral. He called the more recent criticism of such action at “contradiction.”
A Drop in the Bucket

ACTING MAYOR D'ALESANDRO should take prompt action to improve the city's record-keeping system because it is unable to qualify for $770,933 in federal highway funds.

This money and more will be lost if swift corrective measures are not employed.

An improved records system is necessary to efficient and effective government and would insure that Baltimore would receive federal highway funds in the future.

The problem arose when city officials, ordered to substantiate miscellaneous incidental road projects costs, found many costs difficult to verify because they were old.

The $770,933 is but a drop in the bucket when viewed beside $279 million the the East-West Expressway is expected to cost.

A more efficient record-keeping system must be developed and instituted before construction on this project begins.

A monthly billing system, suggested by state roads officials, The News American learned, would eliminate this costly problem.