The Activist Auditor: A New Player in State and Local Politics

Edward M. Wheat, University of Southern Mississippi

What is the role of the government auditor in today's public administration? Professor Wheat discusses the dramatic emergence of performance auditing and the activist auditor as central features of American government at all levels. After reviewing various factors that have led to the widespread adoption of performance auditing, Wheat provides examples of its more "activist" practitioners. Proactive and independent, they are typically willing to go beyond expressed mandates, to initiate audits, and to issue special reports on financial trends. Adherents to "generally accepted government auditing standards," activist auditors regard the public as their "ultimate client." Wheat concludes by noting the benefits gained by having the "new players" on the governmental scene.

"These problems should not be tolerated. Organizations authorized to sponsor gambling have a responsibility to manage their games in a business-like manner and establish sound financial controls. The state has a responsibility to ensure the integrity of the games and make certain that net profits are used only for lawful purposes. Neither the sponsoring organizations nor the state have fulfilled their responsibilities."

(Minnesota, 1990, p. x)

"The Youth Center has been poorly managed. Staff at all levels have not been held accountable for their actions, and some staff have been negligent in carrying out their duties. Youth Center management was aware of such problems, but did not always act or acted inconsistently or outside established channels. Department of Social and Rehabilitation Services' officials also were aware of such problems, but did not act to ensure that they were resolved and corrected. The lack of good management has lessened the overall level of security at the Center, endangering staff, students, and the public at large, and has resulted in an atmosphere in which staff morale is extremely low."

(Kansas, 1989, p. 9)

"In our opinion, the abuses by [the Executive Director] were in part the consequence of the Board of Commissioners' consistent neglect of basic financial and administrative controls. This pattern of neglect has extended over the past decade.... It is clearly in the interest of the citizens of Kansas City that the Housing Authority operate efficiently, effectively and in compliance with the law. Therefore, the City Council should exercise the means available to it to improve accountability and control over Authority activities. The City Council may also wish to consider proposing to the state legislature modifications to the oversight structure of the Authority."

(Kansas City, 1989)

"The rules, regulations, directives, instructions, and memorandums the Family Assistance Division uses [sic] as guidance for both eligibility workers and applicants or recipients are voluminous, contradictory, and ambiguous. It appears that inconsistent decisions are made depending upon which regulation is used in the decision process even though the decision may be in contradiction of other regulations which also apply to the situation."

(Tennessee, 1990, p. 8)
Are these critical and straightforward quotations taken from crusading newspaper editorials? Are they the statements of citizens’ organizations, public interest groups, or private think-tanks? Are they taken from academic analyses produced by professors interested in the theory of organization structure and process? No, they are the published conclusions and recommendations of performance audits undertaken by in-house government auditors of the city of Kansas City, Missouri, and the states of Kansas, Minnesota, and Tennessee. These are not isolated instances or unusually critical audit reports. They are, rather, examples of the characteristic product of an important new player in state and local politics, the activist auditor.

Two-thirds of the states as well as many cities, counties, and special districts now have in-house units that regularly produce audit reports that are quite different from traditional financial preaudits and postaudits. State and local elected officials and public managers increasingly confront and interact with government auditors in all phases of the policy and budget processes. Students of public administration, especially those interested in policy analysis, executive- legislative relationships, and administrative ethics, should also find these developments of great interest.

Although the documents from which the epigraphs were taken are given various titles—audit report, performance audit report, program evaluation—they are all good examples of what professional government auditors increasingly label performance audits. A performance audit may be defined as “an independent examination for the purpose of reporting on the extent to which a governmental agency is faithfully, efficiently, and effectively carrying out the programs for which it is responsible” (Greathouse and Funkhouser, 1987-1988, p. 57). A performance audit is conducted according to generally accepted auditing standards that are promulgated by the federal General Accounting Office (GAO). This audit is an independent third-party report of a nonsympathetic nature that potentially covers the entire area of operations of an entity.

The scope of a performance audit is much broader than that of a traditional financial audit and may provide information and analysis on any or all of the following: the appropriateness or inappropriateness of agency structure; the efficacy of planning, decision making, and personnel procedures; agency compliance with statutes, ordinances, administrative rules, and judicial orders and decisions; the accuracy of agency information; the quality of goods and/or services provided; the efficiency of operations; data comparing agency or program performance to the performance of similar agencies or programs in other jurisdictions; cost-benefit analysis of public programs and projects; recommended performance standards; suggested policy alternatives; and alternative strategies to accomplish goals (Brown and Pethel, 1988). To satisfy GAO standards, a performance audit must be published and made available to all interested parties, including the general public (General Accounting Office, 1988, pp. 1-2, 7-15).

Performance audits are clearly written in plain language, and use financial and numerical data only to illustrate the analysis and recommendations. A performance audit may be initiated by an executive or legislative official, depending on the provisions of the enabling act and the organizational placement of the auditor’s office, but almost all performance auditors have the discretion to initiate audits as well. Although the immediate formal superior of most performance auditors and their staffs is a legislative body, performance audit professionals tend to think of the public as their ultimate client because of the built-in professional insistence on audit independence and objectivity (Lee, 1985, p. 16).

A case in point: In 1989 the Program Evaluation Division of the Office of the Legislative Auditor of the State of Minnesota was directed by the legislature to undertake an evaluation of the “charitable gambling” industry (bingo, pull-tabs, etc.) in order to ascertain how the proceeds were being used by the sponsoring organizations and whether the state controls over gambling operations were adequate to prevent fraud and abuse. The report, issued in January 1990, presented findings of widespread abuse. All but one of the 180 randomly selected organizations (veterans, educational, religious, fraternal, civic, and charitable) visited by the auditors had unlawfully used some gambling proceeds in support of their own organizations (Minnesota, 1990 p. xii). The report also found that state oversight was inadequate and that several millions of dollars were missing from the bank accounts of the sponsoring organizations. The executive summary of the report, from which the first epigraph is taken, pulls no punches; both government and the sponsoring organizations are held responsible for the policy failure. The Minnesota performance audit report illustrates the independence, straightforward language, and normative stance of performance auditing at its best.

The Emergence of Performance Auditing

The discipline and function of performance auditing has emerged during the past 20 to 30 years as part of an overall shift in the American political and administrative culture to a postpositivist, quality-oriented stance. State and local governments entered an era of fiscal constraint and cutback management in the late 1970s. The citizenry no longer supports the idea of a general tax increase to fund new public programs. Federal aid makes up a progressively smaller portion of state and local budgets. The population of many central
cities has fallen or stabilized, and hence the cities’ tax bases have shrunk. The emphasis now is on careful planning of specific improvements and precise targeting of budgetary and personnel allocations (Shannon and Kee, 1989, pp. 11-12). Under these circumstances, traditional accounting audits have limited utility to policymakers and public managers. In the context of cutback management, it becomes increasingly important to assess the efficiency and effectiveness of public programs and service delivery, and this, of course, is the core purpose of performance auditing.

**Budgeting for results.** Both Chester Newland and Allen Schick have identified a significant shift toward “budgeting for results” in industrialized nations. Newland points out that the results orientation has been evident in the United States since the 1950s. “Performance budgeting, productivity measurement, PPB, the social indicators movement, MBO, and program evaluation are intimately related management approaches in an increasingly difficult search for government effectiveness” (1988, p. 63). Schick argues that this emphasis on budgetary performance is coupled with a change in management outlook, which recognizes the need for the decentralization of decision making within the management structure, but also appreciates the need for central office accountability. “The current emphasis is on making them manage by nailing down the performance levels to which they will be held” (1990, p. 32). Encouraging public management to accept performance measures as an ongoing part of administrative processes is an important need in contemporary public administration. Performance auditing facilitates this shift by provoking and assisting the development of internal performance measures in agencies. The measures will then be available for effective management and for use in a larger context of management accountability and effective budgeting.

**Political culture.** In addition to the chronic fiscal stress now afflicting state and local government, a political cultural dimension of single-issue, mass-media-oriented hyperpluralism has become prominent. As John Nalbandian has written with reference to the changing roles of city managers, “Narrow political interests mediated by conflict-oriented processes spearheaded by not-so-amateur elected leaders produce a context alien to the community-wide perspective...” (1989, p. 264). The complexity and narrowness of contemporary policy issues, the rise of image-conscious professional politicians, and the increasing social diversity of the membership of state legislatures and city councils, have left a policy void. City managers have had to change their role from one with an engineering and community-wide focus to a “policy active and brokering role” (p. 273). In this fragmented political context, auditors at both the local and state levels are strategically located to provide a less interest-oriented and more system-wide perspective on policy performance.

Perhaps the most significant change for public administrators at the state and local level is the inescapable ideological shift in the politics and government of the United States during the past two decades. Ralph Hummel (1989) describes this as a shift from “top-down positive government progressivism” to “bottom-up market oriented populism.” Hummel argues that present administrative practices are inappropriately based on the old New-Deal progressive ideology of positive government and that the contemporary political ideological shift requires a “new administrative doctrine,” based on a mix of ideas ranging from traditional administration to decentralization, privatization, direct funding, vouchering, networking with the private sector, coproduction, and community action (see also, Denhardt, 1984; Harmon, 1980). Orion White and Cynthia J. McSwain (1990) have noted in a similar vein that a new image of public administration is required that recognizes, among other significant changes, that public managers are now deeply involved in the day-to-day administration of contracts with a variety of public and private agencies.

Performance auditors are uniquely situated vis-a-vis these shifts in ideology, doctrine, and practice. Performance auditing looks to the faithful, efficient, and effective performance of public programs. It focuses on both efficiency (top-down) and effectiveness (bottom-up). As both Lester Salamon (1981) and Donald Kettl (1988) have documented, the process of contracting-out government services is becoming increasingly central to government practice at all levels, and this is an area where the performance auditor can help to assure the legitimacy and accountability of both the process and the results of government by proxy.

**Complex legal environment.** Another reason for the emergence of performance auditing is the increasing complexity of the legal environment of public administration in the federal system. Most important public programs at the state and local level are now undertaken through an intricate mix of national, state, and local funding, and program managers operate within a dense thicket of law and regulation that would have seemed unthinkable 20 years ago. The 1976 amendments to the State and Local Fiscal Assistance Act were very important in this regard. The amendments included stiff audit requirements for any entity with $25,000 or more in annual revenue-sharing entitlements. Such entities were required to undergo an independent audit. The result was a great improvement in auditing skills at both the state and local level (Gary, 1988, p. 170). The Single Audit Act of 1984 recognizes and promotes the increased competence of state and local auditors by requiring federal agencies to accept audits of federal programs completed by state and local governmental units (Brown, 1988, p. 10).

In the 1970s and 1980s, individual citizens, public employees, public employee unions, and public interest groups became more litigious, partly in response to new judicial rulings that have radically changed the legal liability of elected and administrative officials at all levels of government (Rosenbloom with Goldman, 1989, pp. 22-28). The increasing saliency of performance auditing, with its built-in sensitivity to faithful official compliance with the rules, ordinances, and/or statutes under which public business is conducted, is one response to the new complexity of the legal environment of public administration.
Accounting Office since the 1960s have also contributed to the emergence of performance auditing at the state and local levels of government. Under the leadership of Comptrollers General Elmer Staats (1966-1981) and Charles A. Bowsher (1981-present), the GAO has quickly evolved from a traditional focus on the detailed auditing of individual vouchers and a reluctance to make normative judgments beyond the legality or illegality of transactions to an organization deeply involved in program evaluation and performance auditing. In 1969, three years after Staats took office, the GAO issued its first program evaluation, a “program results audit” of the effectiveness of federal poverty programs (Havens, 1990, p. 35). In 1972, the GAO published Standards for Audit of Government Organizations, Programs, Activities & Functions (revised 1981 and 1988), called the Yellow Book by audit professionals, which quickly became the standard for performance auditors at all levels of government (Malan, 1984, pp. 5-6). The GAO was actively involved in policy assessment and debate during the Vietnam war and during the energy crisis of the 1970s. In the 1980s, the GAO evinced an “increasingly outspoken concern about the financial condition of the federal government and the fiscal policy it has been pursuing as well as in the role that the Congress sought to assign GAO under the Gramm-Rudman-Hollings deficit reduction mechanism” (Havens, 1990, p. 37).

**Organizational changes at GAO.** Changes in the leadership, staffing, and organizational ethos of the U.S. General Accounting Office since the 1960s have also contributed to the emergence of performance auditing at the state and local levels of government. Under the leadership of Comptrollers General Elmer Staats (1966-1981) and Charles A. Bowsher (1981-present), the GAO has quickly evolved from a traditional focus on the detailed auditing of individual vouchers and a reluctance to make normative judgments beyond the legality or illegality of transactions to an organization deeply involved in program evaluation and performance auditing. In 1969, three years after Staats took office, the GAO issued its first program evaluation, a “program results audit” of the effectiveness of federal poverty programs (Havens, 1990, p. 35). In 1972, the GAO published Standards for Audit of Government Organizations, Programs, Activities & Functions (revised 1981 and 1988), called the Yellow Book by audit professionals, which quickly became the standard for performance auditors at all levels of government (Malan, 1984, pp. 5-6). The GAO was actively involved in policy assessment and debate during the Vietnam war and during the energy crisis of the 1970s. In the 1980s, the GAO evinced an “increasingly outspoken concern about the financial condition of the federal government and the fiscal policy it has been pursuing as well as in the role that the Congress sought to assign GAO under the Gramm-Rudman-Hollings deficit reduction mechanism” (Havens, 1990, p. 37).

**Changes in staffing policies at GAO.** Concomitant with the changes at GAO in leadership and institutional focus came important changes in staffing policies. Under the leadership of Elmer Staats and Charles Bowsher, the GAO began recruiting widely, and by the end of the 1980s accountants were no longer the standard GAO recruit. GAO program evaluations are performed by personnel with degrees and expertise ranging from business administration and public administration, to engineering, statistics, and all the social science disciplines. “In addition, the staff includes people with advanced academic training and line experience in virtually every substantive field touched by government, from defense to health care, energy, and tax law” (Havens, 1990, p. 39). The environment in which performance auditing takes place is similar to that of a high-tech firm in the private sector: volatile, diverse, unpredictable, adversarial, and high pressure. Personnel with a diversity of degrees are sought, and no single credential seems especially strong or weak in relationship to performance audit work (Funkhouser, 1986). These initiatives by the GAO soon began to “trickle down” from the national to the state and local levels of government. The adoption of performance audit techniques was aided by intergovernmental audit training programs taught by GAO employees, interaction in intergovernmental professional organizations, and the migration of federal employees to state and local audit offices (Silva, 1990, p. 7).

Because of these fiscal, ideological, legal, institutional, and political developments in the public administrative context, it is clear that performance auditing is not a transitory fad. In 1990, 36 states had an active, formal performance audit or evaluation function (Table 1). In June 1989, the National Association of Local Government Auditors (NALGA) was formed. It now has over 250 members. As shown in Table 1, information compiled for the Local Government Auditor’s Newsletter in 1990 indicates that 33 of 193 U.S. cities with 100,000 or more population or at least $100 million in general revenue now have a city auditor who is doing performance audits as part of normal audit operations. Some other substate government entities, such as counties and special districts, also have a performance audit function.

**The Activist Auditor**

Not all auditors are performance auditors; and not all performance auditors qualify as activist auditors. Activist performance auditors have the following characteristics: They (1) are proactive and holistic, in the sense of independently identifying the major social and policy problems in their jurisdiction; (2) go beyond the mandate of an audit initiated by an outside authority if such is called for; (3) self-initiate important audits; (4) issue special reports such as budget surveys and/or reports on financial trends within their jurisdiction; (5) adhere to generally accepted government auditing standards; and (6) see the public (and its representatives) as their ultimate client, rather than the auditee, or management, as in traditional financial auditing.

A case in point is the Internal Audit Division of the Office of the City Auditor of Portland, Oregon. The Portland auditor is independently elected on a nonpartisan ticket. The Internal Audit Division, which has responsibility for performance auditing, consults with members of the city council, department and bureau heads, and other interested parties in order to identify audit targets. These externally generated suggestions are combined with an internally generated list of audit targets, “which have potential for cost savings or increased revenue” (Tracy, 1988, p. 7). The Portland auditor issued a self-initiated Review of Financial Trends for the City of Portland in 1989 and again in 1990.

A process for choosing audit targets similar to that used in Portland is used by, or at least is available to, most performance auditors, and the self-initiation of audit targets does not depend upon the fact that the Portland auditor is independently elected. The City Auditor of Kansas City, Missouri, is appointed by the city council and serves at the will of the council, but the City Charter provides as one of the duties of the auditor that he or she “carry on a continuous investigation
of the work of all departments of the City, and report the methods and results of these operations" (Kansas City, 1925, pp. 247-248). Most state and local performance auditors work under the mandate of similar charter or statutory provisions, such as state sunset laws (Jensen, 1979).

A recent investigation into alleged misuse of funds by the Executive Director of the Housing Authority of Kansas City was transmuted during the performance audit process into a wide-ranging critique of the management and administrative practices of the Board of Commissioners of the Housing Authority. The audit report confirmed the misdeeds of the executive director but went substantially beyond the narrow findings of fraud. The report found that the board of commissioners had failed "to establish basic financial controls and exercise due diligence in overseeing the authority's affairs" (Kansas City, 1989, p. i). More specifically, the report found that the board of commissioners violated the Missouri sunshine law by holding closed meetings at least seven times, violated the Missouri housing authorities law by not holding public hearings and by not filing annual reports, and violated various sections of the federal Internal Revenue Code by failing to report excess undocumented travel expense payments (p. iv).

Table 1

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<th>States</th>
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Source: Information supplied by the National Association of State Auditors, Comptrollers and Treasurers and the National Association of Local Government Auditors. The author wishes to thank Mark Funkhouser, City Auditor, City of Kansas City, Missouri, for assistance in compiling this table.

Savings and potential savings attributed to performance auditing

- Failure to act on a 1980 performance audit of the Tennessee prison system cost the state at least $6,000,000, when rioting occurred several years later.
- A 1971 New York Legislative Commission on Expenditure Review performance audit resulted in the reduction of requested funds for manpower training from $40 million to $17 million.
- A 1986 performance audit of the Tennessee Department of Transportation found that pursuing a "worst first" highway maintenance strategy would conservatively cost the state an extra $500 million over twenty-five years and led to the alteration of the maintenance strategy.
In order to generate these findings, the performance audit staff went far beyond the initial request by the mayor. In the final report on the housing authority, the breadth of the investigation is explained in the scope and methodology section of the audit as follows:

The city auditor's references in this statement to "potential for irregularities not yet discovered," and to the requirements of "government auditing standards" are important. The auditor took a proactive stance at the very initiation of the audit and justified that stance as required by generally accepted government auditing standards.

The mandates of the GAO Yellow Book. The conceptual base for activist performance auditing is found in the mandates of the GAO Yellow Book. In addition to the expected principles of auditor independence and responsibility and stipulated standards for field work, methodology, evidence, and quality control, the Yellow Book contains standards for performance audit work that clearly point in the direction of proactive auditing. Read in its entirety, chapter seven of the Yellow Book, "Reporting Standards for Performance Audits," requires that the auditor pursue and fully disclose all significant matters brought to light by the audit investigation. Specifically,

The report should include a full discussion of the audit findings, and where applicable, the auditor's conclusions;.... The report should include the cause of problem areas noted in the audit, and recommendations for actions to correct the problem areas and to improve operations, when called for by the audit objectives;.... The report should include all significant instances of non-compliance and abuse and all indications of illegal acts that could result in criminal prosecution that were found during or in connection with the audit;....[and] The report should include a listing of any significant issues needing further study and consideration (General Accounting Office, 1988, pp. 7-4, 7-5, 7-7).

It should also be noted that the Yellow Book requires the auditor logically and systematically to plan the audit so as to facilitate the uncovering of problematic program results and questionable management practices. "Auditors should design the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives" (General Accounting Office, pp. 6-3, 6-11). Thus, under GAO standards, a professionally designed and executed performance audit is almost by necessity an activist performance audit.

Obstacles to activist auditing. This is not to say that activist auditing is easy. There are many obstacles to activist auditing, and many of the political and cultural changes that have contributed to the emergence of activist performance auditing may also serve in some circumstances to militate against its successful practice. Elected officials and public managers are not eager to share power and control over policy with other political actors, and their time frames are often much shorter than those of audit professionals (Walton and Brown, 1990, pp. 6-7). It can take as much as eighteen months to complete a full-scale performance audit. The results of performance audits are seldom, if ever, received with universal acclaim; there are always persons and groups in and out of government whose political agendas are threatened by scrupulous examination of policy processes and outcomes. Auditors have lost their positions as part of the political fallout from controversial performance audits, and the placement and independence of the auditor within the structure of government will always be problematic.

Many technical problems also exist in the practice of performance auditing. Legislative intent may be very difficult to ascertain, policies may have multiple goals, the data available to the auditor may be suspect for a number of reasons, and little or no agreement may exist on the performance measures to be utilized in assessing public programs (Downs and Larkey, 1986). The audit profession itself does not present a united front. Controversy and debate has been ongoing over the revisions of the Yellow Book standards since 1972 (Greathouse and Funkhouser, 1987-1988), though the disagreements often appear to be over matters of detail rather than central principles. Of course effective activist auditing depends partially on the training, personality, and political courage of individual auditors.

Conclusion

If one were to do a comparison, perhaps using newspaper content analysis, of the principal policy issues and policy actors at the state and local level in the 1970s and the 1980s, one would be sure to find several new issues and at least one major new player emerging in the 1980s. City and state auditors now regularly comment on public issues in the press and are centrally involved at many stages of the policymaking process. This of course reflects the new political prominence in the 1980s of the Comptroller General of the United States. At all levels of American government, the audit function is now central to the process of governing.
The Activist Auditor: A New Player in State and Local Politics

It is important that elected officials, public managers, students of public administration, and the citizenry be aware of this new player in state and local politics. Legislators have much to gain from developing a good working relationship with performance auditors in their governments. Elected executives can likewise use all the help they can get in negotiating the highly charged political and administrative environment of the contemporary era. Elected officials can draw upon performance auditors for intellectual countervailing power against the technical experts in both their own and each other's staffs and those employed by interest groups.

Public agency managers and directors should see their performance audit colleagues as important partners in the movement to restore efficiency and accountability to public administration in the era of cutback and crisis management. As Karen Walton and Richard Brown have cogently argued, both elected officials and public managers will benefit in the long run from the presence of an effective performance auditor, and legislators should act to provide the auditor with a strong legislative mandate and enough independence to shelter the auditor from undue political pressure (1990, p. 8). At a minimum, a performance auditor should be appointed for a fixed term of office, and the term should probably be at least three years. Some of the benefits to agency managers, legislators, and the public are as follows:

- **Financial savings.** A 1986 performance audit by the Tennessee Department of State Audit projected an extra $500 million expense over 25 years as the result of a "worst first" highway maintenance strategy. The result was a significant alteration in the state road maintenance program (Bragg, 1986, p.5).

- **Facilitation of legislative oversight.** Performance audits produce information regarding all facets of agency operations, including agency rules, management processes, and organization structure.

- **Development of performance measures.** The presence of a performance auditor encourages agency managers to require better recordkeeping and develop meaningful measures of agency and program performance.

- **Enhancement of policy debate.** Performance audit reports often raise the scope of conflict around an issue and frequently identify new or submerged issues.

Public administration scholars, especially those interested in administrative ethics, should find the performance audit function particularly interesting. The activist performance auditor is not just a new player in state and local politics, he or she is a player with some interesting differences. One of the most arresting characteristics of the performance auditor is their professional bias toward disclosure. As E. E. Schattschneider (1960) and others have documented, the normal bias of governmental players is secrecy and a closed-system approach, especially in policymaking. A corollary to this bias toward openness is that performance auditors tend to view the public as their ultimate client. City and state auditors thus play a crucial role in the mediation of the tension between meritocracy and democracy so characteristic of contemporary politics. Performance auditors refocus attention on what Marshall Dimock has recently called "the central purposes of the field of public administration: service to citizens and facilitation of effective citizens" (1990, p. 21).

James P. Wesberry, a past president of the Institute of Internal Auditors, recently suggested that changes in American culture have undermined the concept of accountability and have "eliminated shame for the act of dishonesty. We have substituted explanations which transfer the blame to others—or to no one." The result, according to Wesberry, is that the present generation of auditors "will have to audit the unashamed—those who have no fear of doing wrong, who have no regret for taking more than they deserve, who feel regret only if they have the 'bad luck' to be found out" (1989, pp. 25-26). In such an amoral political and administrative culture, perhaps we should welcome the emergence of new players in the great game of state and local politics who possess a bias toward disclosure and carry about a little book of publicly acknowledged and professionally agreed upon principles and standards to which they feel obligated to adhere.

Edward M. Wheat is associate professor of political science at the University of Southern Mississippi. His research interests include administrative law and organization theory. He has published articles in *Administrative Law Review, Law Library Journal, Law and Policy Quarterly*, and other journals.

**References**


