A comparison of the earliest reports with those of today not only offers insight into Durham and the United States, but also provides perspective on the evolving nature of municipal accounting.

We can learn many lessons by examining old audit reports. The earliest audit reports for the City of Durham, North Carolina, that still exist are for fiscal year 1922. A comparison of the earliest reports with those of today not only offers insight into Durham and the United States, but also provides perspective on the evolving nature of municipal accounting.

**HISTORICAL CONTEXT**

To fully understand the Durham audit reports from 1922, it is first necessary to understand some of the issues and challenges back then. The Great War drew to a close in 1918 and prospects were good for peace in Europe. In the United States, the passage of the Eighteenth Amendment in 1919 ushered in the Prohibition era, which ran from 1920 to 1933. Women got the right to vote when the Nineteenth Amendment became law in 1920, after ratification by a sufficient number of states; North Carolina was not among them.

In the world of municipal accounting, urban reformers had begun to stress the lessons that could be learned from the private sector. There was a growing awareness of the need for more business-like methods in a city’s affairs. The history of municipal accounting reform in Durham mirrors the efforts of accountants across the United States as they created systems and organizations that were designed to place increasing weight on technical and non-partisan competence.

During the decades prior to 1922, the growth of government in Durham, like the growth of all institutions, had been a gradual transition from the simple to the complex. Forty years earlier, under the direction of the Board of Aldermen, departments did not yet exist, but there were four committees, addressing by-laws, streets, assessments of property, and the danger from a burning heap of sawdust in Mangum’s Lumber Yard. Some of these committees were temporary.

By 1883, there was a policy of standing committees that were the precursors of departments. But certain details, and even broader questions of administration, could not be attended to by the Board of Aldermen, who served without remuneration and had no technical qualifications. Growth in Durham generated complicated problems of governmental management, and these problems were often beyond the capabilities of part-time, amateur councilmen. Clearly, there was a need for departments staffed with professionals who had technical expertise.

The first two standing committees in Durham were for streets and finance, and the direction of financial policy was in the hands of the finance com-
mittee. It audited the accounts of the treasurer and the tax collector and made recommendations to the board. It was followed by a Board of Estimate and Apportionment, the duties of which were to estimate the revenue and to apportion expenditures. Not until 1899, when a city treasurer was elected, was the finance department really organized.

The demand for more efficient administration in Durham’s affairs resulted from a notorious lack of cooperation among city departments while executing a large program of street paving in 1918 and 1919. A Citizens’ Committee was organized, and a sub-committee of seven, in due time, drafted a new charter. Its cardinal feature was the centralization of administration in a city manager. Objections were raised immediately. Some claimed that the duties to be conferred on the manager were too great for one man to perform and that there should be three managers; others thought that the mayor should be manager.

Despite these objections, in 1921 Durham’s voters approved a new charter and a council-manager type of city government. The fact that Durham chose to use the city manager for full-time management versus using the mayor reflects well on the way that Durham chose at this early stage to view government as a business. R.W. Rigsby assumed the office of manager. After graduate study at Harvard, Rigsby had chosen municipal administration as a profession and he was at that time City Manager of Bristol, Virginia. Among other things, he advocated the new concepts of planning and zoning. He recognized the need to anticipate land-use patterns, rather than letting market forces alone determine which areas were to be developed.

Many of the issues facing Durham then were similar to the issues the city faces today. There were difficulties with traffic, street maintenance and paving, and extensions of sewer, water, and gas lines. Top issues for the new manager included governance over developers’ plans, and the need to assure that the developers’ plans meshed with the city’s new planning and zoning initiatives. Then as now, many of the issues were the direct result of the increasing population. Durham, which had a population of 5,485 in the 1890 census, had increased in size to 6,679 by 1900, 18,241 in 1910, and 21,719 by the time of the 1920 census.

THE 1922 AUDIT REPORTS

Some of the financial highlights from the earliest audit reports for the City of Durham that exist today (see Exhibit 1) are the total operating revenue for fiscal 1921-22 — $843,871.14 — and total operating expenses, current and capital outlays — $799,461.53. The excess of actual revenue over actual expenditures amounted to $44,409.61, and this amount was sufficient to cover all former deficits.

The balance sheet in 1922 was very similar to what we have today in terms of the categories of assets (cash, pre-paids) and liabilities (payables). The numbers, however, were much smaller then, with total bonds outstanding totaling $3.9 million then versus $240.5 million now. The size of the individual bond issues back then was small by today’s standards: One of the series of school bonds, issued September 1891 and due September 1921, was for $1,000.

On the income statement, taxes were the biggest source of operating revenues, as now, accounting for $508,809.04 (60.3 percent) of total revenue. The sources of revenue were similar — for example, revenue was generated by licenses, cemetery lot fees, fire department miscellaneous receipts, and tax penalties. However, there are very notable differences and some categories of revenues are long gone, including sale of stone, scale and weighing fees, city farm, and city stables manure sales.

Under operating expenditures and outlays, the departments that existed back then that are similar to today’s departments include: City Manager’s Office, City Attorney’s Office, Audit, Sewerage, Engineering, Sanitary, Street Maintenance, Fire, Police, Inspections, and General Administrative. The depart-

Exhibit 1: The City of Durham’s Earliest Existing Audit Reports
ments that no longer exist include Academy of Music, Rock Crusher, Blacksmith Shops, Farm, and Stables. Much like today, government pay was low, and a detail from the operating expenditures reveals that the mayor’s salary was $949.08. The reports also show that purchases were across a wide array of items including horse and mule replacement, harness oil, ice, and coal. One page of the report (see Exhibit 2) shows that many departments “over expended” versus what was appropriated.

Under the leadership of the new city manager, the ideas of efficiency and non-partisanship were bearing fruit, evidenced by the reports. The recent changes made possible a coordination of effort that resulted in efficiency. The first year, the city saved $15,000 through intelligent purchasing of materials and supplies; a rock crusher that had operated at a loss was made to show a profit of $8,000; the city collected $4,886.75 more than anticipated from licenses; and more than $1 million in property that had not been assessed was listed for taxation. Consequently, there was a reduction in the tax rate of eleven cents. The policy of economy continued for three years. In June 1924, there was a surplus in the city treasury, whereas there had been a deficit in 1921. At last public administration had become a business and was conducted as if it were an industrial concern.

In a similar vein, the companion report, which is the audit report for the Durham Water Works, showed a profit of $29,934.46 for the 12 months. Profit for the quarter ending March 31, 1922, was $18,611.18, $11,000 more than the preceding quarter. This increase was caused by a $10,000 increase in operating revenue over the preceding quarter — water rates had been increased — and expenses were about $1,000 less than the preceding quarter. Some of the biggest accounts receivable included Durham Hosiery Mill, $1,301.99; Trinity College (soon to become Duke University), $539.15; and the American Tobacco Company, $389.89.

The issues and challenges facing Water Utilities were quite different than now. Water works owned by a municipality were still a relatively new concept in 1922. At the time there was a lively debate about the City of Atlanta’s experiment in municipal operation of a public utility property. The jury was still out, and the situation in Atlanta would change several times — most recently in 1997, when the Atlanta privatized its waterworks system. Additionally, due to Prohibition, the Temperance League was advocating the construction of public water fountains with treated water to replace alcohol as the readily available “bacteria free” beverage of choice. In the years leading up to Prohibition in the United States, beer was a safer bet than untreated water. This issue is still a challenge in many third-world countries, but it is a distant memory in the United States.

WHAT WE CAN LEARN FROM DURHAM’S AUDIT REPORTS

What are some of the differences between the audit reports of 1922 and
those of today? The first differences can be spotted without going beyond the cover, which reads, “Audit Reports of the City of Durham May 31, 1921, to May 31, 1922, and Audit Reports of the Durham Water Works March 31, 1921, to March 31, 1922.” The first takeaway is that there were different fiscal years and the reporting periods for the audit reports were not aligned. Why? In the early decades of the 20th century, the finance function was more fragmented than it is today. Organizational arrangements for financial work had a finance director reporting to a board or legislative body. Because the Board of Aldermen operated independently from the Water and Sewer Board, there was no compelling reason to integrate the reports and to synchronize the reporting periods. During the 1920s, reformers had just begun to urge acceptance of a new set of doctrines to achieve integration and coordination in municipal government. Under the leadership of a strong executive, the number of independent administrative offices and agencies could be reduced. Now, all of Durham’s financial statements use the same fiscal year because the finance function is more centralized and there is less dispersal of authority.

In the modern day, we produce a comprehensive annual financial report (CAFR). CAFR requirements, which are promulgated by the Governmental Accounting Standards Board (GASB), did not exist in 1922. The Government Financial Officers Association (then the National Association of Comptrollers and Accounting Officers; the name became the Municipal Finance Officers Association in 1932, and eventually the GFOA, in 1984) did not form the National Committee on Municipal Accounting to create accounting standards until 1934. This effort is the basis of the format for the current standard. This document, known as Governmental Accounting, Auditing, and Financial Reporting, or the “Blue Book,” documents the CAFR accounting structure and provides standardization and example documents. It wasn’t until 1946 that the various levels of government began producing a CAFR to catalog an accurate picture.

There are similarities between the audit report of 1922 and the CAFR of today. Both documents include an auditor’s letter, a balance sheet, and an income statement. The income statements divide revenues and expenditures into readily definable major categories. However, the audit reports from 1922 are very different from the CAFR, and there are many more differences than similarities. Exhibit 3 presents some of the quantitative differences in terms of the reported results and other statistical and demographic data. For instance, they had fewer funds than we have today. In terms of the qualitative differences between the reports, what’s missing from the 1922 report are sections

<table>
<thead>
<tr>
<th>Exhibit 3: Durham By the Numbers — Then versus Now</th>
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<tbody>
<tr>
<td><strong>General Fund</strong></td>
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<tr>
<td>Total Revenues</td>
</tr>
<tr>
<td>- Taxes</td>
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<tr>
<td>- Licenses</td>
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<tr>
<td>Total Expenditures</td>
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<tr>
<td>Bonds Outstanding</td>
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<td>City Population</td>
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<td>Number of pages in audit reports</td>
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<td>Public Safety Spending</td>
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<td>Percent to Total</td>
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<td>Number of Departments</td>
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</tbody>
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* 1920 Census
such as the Management Discussion and Analysis, the statement of cash flows, a statistical section, and also any accompanying notes.

Consider the fact that many departments “over expended” versus budget in 1922. Today, if a municipality were to overspend versus budget, the issue would be included in the findings and the management responses. It would be identified as a deficiency in internal controls and would require modification to the purchase order system and the audit process. Back then, it hardly seemed to matter; perhaps management was exhorted to do a better job to make sure they did not overspend in the future, but overspending did not result in a formal mandate to change the way the city operated.

CONCLUSIONS

The purpose of the audit report in 1922 was to be an exercise in cash basis accounting. Although the report did include detail showing what the budget was, overall, it was basically a checkbook. The audit reports of 1922 do not reflect our more modern understanding of the purpose of a financial report. The Durham CAFR today is more than a checkbook; it is a modified accrual-based control document. In the intervening 90 years, we have evolved to the concepts of financial reporting and transparency. 1

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