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ABSTRACT

The quality of postsecondary education institutions should be enhanced by more effective procedures for evaluating and reporting to the public on the achievement of the stated goals and objectives of each institution. This paper considers the use of an educational audit as a means of meeting this need. An educational audit is defined as an evaluation of educational institutions, including an assessment of programs, goals, and financial accountability. The authors point out that the relationship and educational auditing and accreditation will require the development of appropriate standards. They draw an analogy between auditing principles used by accounting firms to confirm the financial integrity of businesses or corporations and the procedures higher education institutions use to evaluate their effectiveness. For example, if data are relevant, verifiable, free from bias, and quantifiable, the standards for accounting information and the auditing of a higher education institution would be satisfied. The authors believe it is necessary for colleges and universities to be as rigorous as possible in their institutional auditing so that the integrity of the educational enterprise will not be thrown into question and become subject to outside sanctions or controls.

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**Educational Auditing and  
Voluntary Institutional Accrediting**

**Fred F. Harclerod  
and Frank G. Dickey**

ERIC/Higher Education  
Research Report No. 1  
1975

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## Foreword

The quality of postsecondary education institutions would be enhanced by more effective procedures for evaluating and reporting to the public on the achievement of the stated goals and objectives of each institution. This paper considers the use of an educational audit as a means of meeting this need. An educational audit is defined as an evaluation of educational institutions, including an assessment of programs and goals and financial accountability. The authors point out that the relationship between educational auditing and accreditation will require the development of appropriate standards. They draw an analogy between auditing principles used by accounting firms to confirm the financial integrity of businesses or corporations and the procedures higher education institutions use to evaluate their effectiveness. For example, if data are relevant, verifiable, free from bias, and quantifiable, the standards for accounting information and the auditing of a higher education institution would be satisfied. The authors believe it is necessary for colleges and universities to be as rigorous as possible in their institutional "auditing" so that the integrity of the educational enterprise will not be thrown into question and become subject to outside sanctions or controls. Fred Harclerod is director, Center for the Study of Higher Education at the University of Arizona, and Frank G. Dickey is chancellor of the University of North Carolina at Charlotte.

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## Preface

A need exists for an organized method of reporting to the constituents of postsecondary education in the United States on the effectiveness and educational quality of each postsecondary educational institution. Voluntary accreditation by nonprofit public associations has become nationwide during the post-World War II period. Evaluation of outcomes and organized methods of reporting institutional evaluations are needed. Educational evaluative audits are one potentially useful method of providing for this need.

The experience of the accounting profession in improving corporate accountability reporting in the past sixty years provides some important precedents that may be helpful. Professional accounting began to develop reporting systems in the early decades of the twentieth century; however, they were not completely satisfactory. After the stock market crash in 1929 the federal government established the Securities and Exchange Commission in 1934 with the powers necessary to provide more adequate accountability reporting systems. The language of this action is quite comparable to the Education Amendments of 1972, Section 1206, which were passed following the 1968-72 "crash" in public confidence regarding higher education. Fortunately since 1934 the accounting and management professions have provided generally accepted principles and procedures that have served as the basis for accountability reporting. Also, outside agencies have been established to evaluate corporate organizations and certify the outcomes of these organizations' yearly efforts through organized public reporting systems.

Voluntary accreditation has developed in somewhat comparable ways to certify publicly our postsecondary educational institutions. Currently, there is great concern about federal supervision of institutional accreditation using governmentally determined standards. A system of nonprofit voluntary agencies operating in the public interest is critically important at this time. These agencies must continue to develop "generally accepted educational standards" and methods of publicly reporting them to constituents, both individuals as well as other agencies. A number of options exist for evaluating institutions on the basis of "generally accepted educational standards." These options vary from the use of existing accrediting commissions and their appointed visiting committees to the use of certi-

fied outside examining agencies, which would be analogous to the use business organizations make of large accounting firms that certify the outcomes of their enterprise. Currently, some of these accounting firms perform evaluative studies in administrative areas of state systems or of individual institutions, and boards of some state systems are accepting evaluations from such firms. Clearly, these options must be considered. In the next few years action must be taken on a national and regional basis to provide optimum reporting systems. These systems must meet the social demands for accountability and provide for reporting by the institutions in such a way as to be conducive to good morale and continued program development within these institutions.

A major difference between business auditing and institutional educational auditing is the greater breadth of activities to be audited. In institutional evaluation a financial audit is only one necessary part of the totality. The additional educational programs to be analyzed present quantification difficulties far greater than in business and corporate financial auditing. Nevertheless, regular evaluation of departmental and institutional achievement of general and specific objectives is essential. This must include measures of "output" based on optimum use of available resources. Such a program of institutional evaluation auditing should provide governors, legislators, and coordinating boards, which establish laws, regulations, and financial support, with the data needed to restore confidence in our post-secondary institutions.

In the process the institutional evaluative audits will have to measure inputs *and* outputs, both short-term and long-term, and for current and recurrent students. Follow-up studies will be essential to indicate what the intrinsic and practical values of postsecondary education are. David Brinkley stated at the December 1972 meeting of the Southern Association of Colleges and Schools that "there is nothing worse than federal control of the standards used to evaluate higher education." A comprehensive program of institutional evaluative auditing and reporting can obviate this possibility.

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## Accreditation: Problems and Possible Solutions

Historically this country was developed and has thrived in the past on the philosophy of *laissez-faire*. The forests were felled, the land cultivated, the mineral resources explored, and business and industrial enterprises created through individual initiative seldom restricted until near the end of the past century by governmental regulations and legal controls. It was only after abuses of the public welfare became so flagrant that the United States Congress officially recognized the situation and adopted legislation providing for some governmental regulations. The first independent Federal agency created for this purpose was the Interstate Commerce Commission (1887), followed many years later by the Federal Trade Commission (1914), the Federal Power Commission (1920), the Federal Maritime Commission (1933), the Federal Communications Commission (1934), and the Securities and Exchange Commission (1934) (Selden 1961, p. 1).

Although we may disagree with and argue vehemently over some decisions of these and other governmental agencies, not even the more conservative spokesmen in our society have proposed that this country could afford, at a time of increasing complexity, to rely solely on self-regulation. The scandals in cotton and olive oil, the price fixing in the electric industry, the income tax frauds of judges, the bribery of judges, the convictions of the presidents of the Teamster's Union and the United Mine Workers, and the immoral implications of recent convictions of members of the Congress and of the Executive Office attest to the weakness of mankind and the continuing need for some collective control and supervision. The abolition of those agencies of the state and federal governments that assist in the governance of our society is unthinkable, despite the fact that there is widespread yearning for the simple and readily comprehensible days of the past, untrammled by governmental controls.

The system of higher education in this country expanded along with its economic and industrial development. Numerous colleges and universities were established and freely chartered by the various states to offer education in any town or hamlet that could raise sufficient funds or provide a site to induce a church body or other groups to found a college. Many of these institutions offered work at the high school level for at least some of their instruction. As in business and finance, higher education after the Civil War was permitted and even encouraged to expand, with few external controls or restrictions. In fact, the Tenth Amendment to the Constitution has consistently been interpreted as preventing the federal gov-

ernment from exercising control over education in a manner commonly practiced in other nations with ministries of education.

In the United States education has truly been a local or state responsibility, and higher education has met the needs of our society in the sense that each institution has been permitted generally to decide for itself how large it will grow, the quality of students it will admit, what requirements it will establish for graduation, and which programs of study it will offer. This freedom of operation has permitted colleges and universities to meet, although sometimes quite belatedly, the needs of our society at local, regional and national levels. But this freedom has also permitted institutions to offer programs of instruction for which many were ill-prepared either in personnel, in financial resources, or in physical facilities. By the end of the nineteenth century, there was a pronounced unevenness in academic quality. Many colleges still offered little more than an advanced secondary school course of study, and the majority of the professional schools were operated with an eye directed more to the profits of the owners than to the education of the students. And in the twentieth century the demand for college degrees has led to degree mills with the subsequent need for state controls for consumer protection.

In the case of business, when abuses became too excessive for society to condone, the federal government enlarged its scope of activities to counteract these practices. When higher education required standardization, however, the public was not competent to initiate the task, and the federal government—despite an attempt of the United States Bureau of Education to issue a public classification of colleges during President Taft's administration—was limited primarily to issuing reports. Since the various states with which legal responsibility for education actually rests were, and still are, most uneven in the execution of their responsibilities, the major hope for the general improvement of higher education rested exclusively with the institutions themselves and with the various professional bodies whose ranks were increasingly being replenished by the graduates of the colleges and professional schools.

To meet the social needs for improved higher education and the individual needs of the better colleges and universities for protection from the competition of unqualified—even dishonest—institutions, associations of the colleges and agencies of the professions initiated the process of accreditation. Also, in many states the leading public university set the school and transfer standards. However, the voluntary, nongovernmental, extra-legal organizations have grown in number

and influence while accreditation of other institutions in a state by the state university has diminished. As in the case of the regulatory commissions of the federal government, these accrediting agencies have been subject to criticisms, some of them highly justified. These criticisms have encouraged some individuals to condemn all external regulations and to claim, as in the case of business, that the nineteenth century concept of the completely free marketplace should again prevail. Similarly, in the case of accreditation, there are claims uttered frequently enough to warrant rebuttal, namely, that higher education is now sufficiently mature to no longer require external control and that accreditation should be abolished because, among other factors, it frequently inhibits the institutions from adequately meeting the demands of society. In fact, accreditation must represent and protect the individuals in the society.

Another of the problems of voluntary accreditation has been the lack of relationship between the chartering process for new institutions, which is vested in the states, and the nongovernmental accrediting activities of the various accreditation bodies. It is possible, and frequently happens, that an institution will be chartered by a state with lax laws relative to institutional quality. Such an institution does not apply for accreditation from one of the nationally recognized accrediting bodies and the quality of the program is never checked by any individual or group. Therefore, it is possible for diploma mills to exist because the chartering process is not an exacting one. Fortunately, because of the efforts of the Education Commission of the States, model legislation has been developed and presented to the states for their consideration. If those states that do not now have strong laws governing the chartering and inspection of institutions will adopt this or similar legislation, most of the loopholes enabling suspect postsecondary schools to exist will be closed (Education Commission of the States, Report No. 39, 1973).

Whenever controls are established for the purpose of improving minimum standards, regrettably but inevitably there is some restriction on those who are fully capable of employing appropriate judgment and who would conduct excellent programs regardless of the demands of regulating agencies. However, this latter fact does not imply that society would benefit if, for example, educational institutions were subject to no external supervision and both the excellent as well as the weak and the dishonest institutions were permitted to operate unmonitored. The consumers in the marketplace in our complex society cannot protect themselves from those organized to perpetrate frauds or to distribute inferior goods.

Gresham's law of economics dating from the sixteenth century states that coins of good value are driven out of circulation by coins having equal monetary value but less intrinsic value. A similar principle can be applied to education: *as a society places greater value on the attainment of academic degrees, the degrees from colleges and universities whose academic programs are superficial and inferior will undermine the value of similar degrees from institutions whose educational offerings are excellent.* A state or nation can no more afford to permit the operation of unqualified colleges and universities than it can permit the circulation of counterfeit money. As a world leader, the United States cannot afford to allow either its coinage or academic degrees to be debased.

It is in this context that the colleges and universities, to whom society has assigned much of the responsibility for their own self-governance, must fulfill their obligations. One way is by improving accreditation—the institutions' primary method of collective regulation.

Six regional associations of colleges, universities, and schools located in different sections of the country conduct general accreditation of institutions through commissions dealing with higher institutions, occupational institutions, secondary schools and, in one case, elementary schools. These are:

- Middle States Association of Colleges and Secondary Schools
- New England Association of Schools and Colleges
- North Central Association of Colleges and Secondary Schools
- Northwest Association of Secondary and Higher Schools
- Southern Association of Colleges and Schools
- Western Association of Schools and Colleges

In addition, there are 40 national professional agencies recognized by the National Commission on Accrediting for their accreditation of specialized programs of study. These groups are:

- Architecture—National Architectural Accrediting Board
- Art—National Association of Schools of Art
- Business—American Assembly of Collegiate Schools of Business
- Chemistry—American Chemical Society
- Community Health Education—American Public Health Association
- Correspondence Education—The Accrediting Commission of the National Home Study Council
- Dental Assisting—American Dental Association
- Dental Hygiene—American Dental Association
- Dental Technology—American Dental Association
- Dentistry—American Dental Association
- Engineering—Engineers' Council for Professional Development

Engineering Technician (two-year programs)—Engineers' Council for Professional Development  
 Engineering Technology (four-year programs)—Engineers' Council for Professional Development  
 Forestry—Society of American Foresters  
 Home Economics—American Home Economics Association  
 Hospital Administration—Accrediting Commission on Graduate Education for Hospital Administration  
 Industrial Technology—National Association for Industrial Technology  
 Journalism—American Council on Education for Journalism  
 Landscape Architecture—American Society of Landscape Architects  
 Law—American Bar Association, Association of American Law Schools  
 Librarianship—American Library Association  
 Medical Record Administration—American Medical Association, in collaboration with the American Medical Record Association  
 Medical Technology—American Medical Association, in collaboration with the Board of Schools of Medical Technology  
 Medicine—Liaison Committee on Medical Education (Council on Medical Education of the American Medical Association and the Executive Council of the Association of American Medical Colleges)  
 Music—National Association of Schools of Music  
 Nursing—National League for Nursing  
 Nursing (technical nurse programs)—National League for Nursing  
 Occupational Therapy—American Medical Association, in collaboration with the American Occupational Therapy Association  
 Optometry—American Optometric Association  
 Osteopathy—American Osteopathic Association  
 Pharmacy—American Council on Pharmaceutical Education  
 Physical Therapy—American Medical Association, in collaboration with the American Physical Therapy Association  
 Podiatry—American Podiatry Association  
 Psychology—American Psychological Association  
 Public Health—Council on Public Health Association  
 Social Work—Council on Social Work Education  
 Speech Pathology and Audiology—American Speech and Hearing Association  
 Teacher Education—National Council for Accreditation of Teacher Education  
 Theology—American Association of Theological Schools in the United States and Canada  
 Veterinary Medicine—American Veterinary Medical Association  
 ("List of Recognized Accrediting Agencies," National Commission on Accrediting, 1973-74)

In addition to the regional and specialized accrediting agencies recognized by the National Commission on Accrediting, the United States Commissioner of Education recognizes the following agencies:

Accrediting Bureau of Medical Laboratory Schools  
 Accrediting Association of Bible Colleges  
 National Accreditation Council for Agencies Serving the Blind and Visually Handicapped  
 Accrediting Commission for Business Schools  
 Association for Clinical Pastoral Education, Inc.  
 Cosmetology Accrediting Commission  
 American Board of Funeral Service Education

American Association of Nurse Anesthetists  
National Association for Practical Nurse Education and Services, Inc.  
National Association of Trade and Technical Schools.

All of these accrediting agencies face dynamic changes to which they are devoting considerable attention. To analyze comparatively some of the issues confronting these accrediting agencies it may be of benefit to consider a few of the developments in a sample of those fields.

*Architecture* is in a quandary concerning the extent of its appropriate jurisdiction over the emerging profession of urban planning, which is becoming increasingly important for the future of human welfare. Developments in the planning for future community centers are forcing architects to look at professional cooperation in a new dimension. Not only must the architects coordinate their plans with civil and sanitary engineers, landscape architects, lawyers, and public health officials, but they must recognize the contributions of anthropologists, economists, political scientists, psychologists, and management specialists.

Consonant with the increasing specialization of society, the *dental* and *medical* professions have not only become highly specialized but are relying to a much larger extent on auxiliary personnel trained in such specialized fields as cytotechnology, dental hygiene, dental laboratory or medical technology, respiratory therapy, occupational or physical therapy, and X-ray technology. These developments involve not merely the education and training of the auxiliary specialists, but also the education of the dentist or physician in the use of auxiliary personnel, as well as the accreditation in one manner or another of all the different programs of study. The administrative organizations with their interlocking relationships required to operate these activities create a picture of confusion multiplied.

*Teacher education* is another area in which problems continue to persist. For example, the question continually occurs as to whether such a field as "school psychology" belongs in the area of teacher education, since it prepares personnel to work in the schools, or whether it should fall within the purview of psychology. Other problems in the teacher education field center on the large number of specialties in elementary and secondary teaching, as well as the proliferating specialities in the area of administration.

*Nursing* represents a profession and a field of study that is beset by many turbulent forces. It is influenced by all the changes developing in health care and also by varying definitions of the proper educa-

tion required for admission to the profession. Its educational programs range from postsecondary noncollegiate to baccalaureate, master's, and even those leading to doctoral degrees. As a consequence, it has been difficult for educators in the nursing profession to pass on a common body of knowledge which is basic to each member of the profession.

Recent court decisions point toward the "public responsibility" of public trust that the accrediting associations hold today. No longer can it be said that they are creatures of the institutions themselves, even though they are supported by the colleges and universities. Court decisions indicate the quasi-public nature of accrediting actions and show rather clearly that both the public and governmental agencies are dependent upon the accreditation process. Consequently, accrediting organizations cannot act in a completely independent manner, but rather must give careful attention to the welfare of society, students, institutions, and the professional groups they represent.

The Postsecondary Education Amendments of 1972—with the inclusion of Section 1202, which authorizes the establishment of state coordinating agencies for the entire postsecondary education sector—indicate the importance attached by the Congress to developing more effective relationships between the various parts of a complex network of institutions and programs.

Even the most conservative elements in our society admit that American higher education is being asked to react to more pressures than ever before in our history. The problems of cost, numbers, increased amounts of new knowledge, greater demands for service, and emphasis upon quality controls are creating unusual pressures upon the higher education community. The question is recurrently being raised as to how many masters can and should accreditation serve. Inasmuch as the accrediting mechanisms serve as the major factor in quality control for our institutions of higher education, and for various professional and specialized programs within these colleges and universities, it is most appropriate to look carefully at the demands being made upon accrediting at the present time.

Accreditation may be viewed as serving society and the public welfare, individual students, professionals, the institutions themselves, and in more recent years, as already indicated, federal and state governments. From time to time the question arises as to which of these groups the accrediting bodies owe their primary allegiance.

Obviously, the answer to the question of primary obligation is not

one that can be categorically answered; however, the fact that the institutions voluntarily enter into accrediting arrangements gives some substance to the premise that the institutions have first claim on the efforts of accrediting organizations. On the other hand, every segment of society is concerned with and is affected by the quality of higher education and its component programs. The individual states license members of professional groups, often using specialized accreditation as a basis for eligibility to sit for the licensing examination. However, migration across state lines often requires and leads to regional and interregional agreements on some generally accepted standards and procedures.

Finally, accreditation must be considered within the context of the expanding social and economic problems of our age. As a result, there are some very significant continuing issues to be considered by groups involved in accrediting activities. These include:

1. *The general, persistent question of whether accreditation impedes innovation and change in educational programs or whether it stimulates new ideas and practices.* The entire question of currency and relevancy of standards or criteria needs serious consideration by each accrediting organization, with particular attention being given to the "outputs" of the programs of education.

2. *Increased use by the Congress of accreditation as a means to establish eligibility for federal funds.* It should be determined whether it is appropriate for Congress to delegate this responsibility to "private, voluntary" agencies and whether accreditation is effectively serving this purpose. The question also arises as to the proper role of the U.S. Office of Education and state departments of education in the accreditation function and their relationship to nongovernmental organizations. For example, is there a need for any other review of accrediting agencies for purposes of recognition beyond that afforded by the U.S. Commissioner of Education? The recent and thorough study by Harold Orlans, which recommends means for providing alternate routes for institutional eligibility for federal funding, provides insight and some approaches to these complicated problems (Orlans 1974).

3. *The growing pressures for the state-agency approach to accreditation.* The problems of duplication and public confusion that would be created by this trend warrant consideration; however, the expressed needs of the student and public for more attention to the protection of the "consumer" in education may well bring about much stronger state-agency controls.

4. *The growing importance of vocational-technical education and the need for an adequate accrediting program in this field.* Current efforts at developing a meaningful accreditation program for occupational education (both in the nonprofit and proprietary institutions) are hampered by jurisdictional and philosophical arguments among the various accrediting organizations.

5. *The need to study the connection between licensure-certification, registration, and accreditation.* Accredited institutions that award degrees accept an increasing amount of credit based on experience. This credit at times may result from useful professional experience. But even if this is true, degrees and accreditation based partially on credit for experience need further study when the graduates holding such degrees enter professional fields that require state licensure and registration. In addition, the use of testing for certification and registry, another critically important method for determining individual abilities, needs further exploration.

6. *Means of gaining wider involvement of educators in the accrediting process and decisionmaking. Also, the question of lay participants in accrediting activities, with broader faculty and student involvement.* While the "closed corporation" charge is often hurled at accrediting agencies with some justification, educational administrators show a great deal of apathy about administration and management of the accrediting associations. In the area of faculty involvement, the American Association of University Professors at its last annual meeting decided to study a "faculty run" system of accreditation. The number of requests for student involvement in accrediting activities is increasing almost daily.

7. *The growing demand for accountability brought about by huge expenditures in education.* Can accreditation procedures be redesigned to provide this accountability to state and federal governments and private donors or will other systems of assessment and evaluation be devised? Possible relationships between accreditation and national assessment should be explored.

8. *The question of fees charged by accrediting organizations for services rendered to the institutions.* There is a wide diversity in practice among the organizations, and institutions of higher education are raising more and more questions about such matters.

As we look to the future, every effort must be made to shape our policies to meet the changing conditions that confront us. A cursory reference to the history of education leads to the conclusion that accrediting procedures have usually been developed not in anticipation

of needs but after they have grown to full maturity. This situation is not unique to accreditation. It is found in all types of social activities and is a phenomenon not likely to be eliminated; however, it would be far better to provide the means for easier and more rapid changes in policies and procedures of accrediting as the need for change develops. Changes are facilitated when there is widespread confidence, and confidence is based to a large extent upon knowledge and communication.

Perhaps no more catastrophic thing could happen to American postsecondary education than for the federal bureaucracy to become further involved in the accrediting area. If the institutions and people of this nation value the freedom of education, then it should be remembered that there is no quicker route to the loss of such freedom than to have the federal government devise and enforce the standards governing educational programs and the quality of such programs and institutions. It is essential that nongovernmental accreditation be protected and preserved through the improvement and strengthening of this process.

This introductory summary of the field of accreditation and indication of existing problems leads to a consideration of institutional auditing and reporting as carried out in fields such as business, as well as a consideration of the various governmental agencies that perform a supervisory and controlling function.

## **Institutional Auditing and Reporting in the Field of Business**

Current problems in voluntary educational accrediting are comparable in some ways to the continuing efforts to define generally accepted accounting and auditing standards in the field of business and to continually improve the manner in which the results of the audits are reported. Although there are some important differences between auditing in business and accrediting in secondary and postsecondary education, some of the relationships and practices are so similar, in both history and practice, that a comparison of the two is of considerable value, especially during this time of outside questioning and analysis of voluntary accreditation.

Voluntary accrediting and evaluative auditing have a long history both in the field of education and in corporate business. For example, the North Central Association of Colleges and Secondary Schools first published a set of 12 criteria for accrediting colleges and universities in the Proceedings of the Association in 1912 and the first list of accredited colleges and universities was published in 1913 (Geiger 1970, pp. 187-88). Similarly, in 1917 the American Institute of Accountants published its list of established criteria for auditing. The Federal Trade Commission requested changes and updating. This document was revised in 1929 and emphasized the responsibility of auditors to serve in the public interest as well as for the benefit of the corporation that employed them (American Institute of Accountants 1951, p. 5). In the years that followed the 1929 stock market crash, there were serious questions about the conduct and disclosure of business operations. Finally, the Securities and Exchange Commission was established by the Securities Exchange Act of 1934. As a key part of this Act the Securities and Exchange Commission was given the power to determine ". . . the items or details to be shown in the balance sheet and the earnings statement, and the methods to be followed in the preparation of reports" (Securities Exchange Act of 1934, sect. 13(b)). In addition, the Act states that the Commission "may prescribe" these items or details. David Solomons pointed out in 1972 that ". . . this wording . . . has made it possible for the Commission to delegate the formulation of accounting standards to a private body to the extent that it has" (Solomons 1972, p. 2).

Following the intent of this law, the Securities and Exchange Com-

mission suggested that a statement of compliance with generally accepted auditing standards should be included in reports from independent public accountants for companies that filed these reports (8-K) with the Commission. Carefully defined auditing standards (as differentiated from auditing procedures) were developed over a period of years and published in October 1947 under the title *Tentative Statement of Auditing Standards—Their Generally Accepted Significance and Scope* (American Institute of Accountants 1951, p. 6). This tentative statement was summarized in 1948 by the American Institute of Certified Public Accountants and both the procedures and standards have been revised continuously since that time. Approved methods of short-form reporting have been developed along with many statements on specific problems of auditing standards and procedures.

Clearly, in the 30 years since its establishment, the Securities and Exchange Commission—a public agency that is national in scope—has encouraged a nonprofit, voluntary, and essentially private organization of professional peers to establish criteria for the auditing and evaluation of corporate financial statements. Reporting systems in the public interest have been established based on these carefully devised standards set down by voluntary private associations acting in the public interest. Close cooperation and understanding between the government agency and the private organization(s) have resulted in consistently improving the evaluative and reporting systems of crucial business institutions in our society.

In the area of higher education, the federal government and particularly the United States Office of Education has adopted a similar procedure. Through its Bureau of Postsecondary Education in the United States Office of Education, the Department of Health, Education, and Welfare issues its list of nationally recognized accrediting agencies and associations. The very first statement in this listing emphasizes the role of voluntary accreditation:

One of the distinctive features of American education is that the development and maintenance of educational standards are the responsibilities of nongovernmental, voluntary accrediting associations. The Office of Education is cognizant of the invaluable contribution which the voluntary accrediting associations have made to the development of educational quality in the Nation. It is the policy of the Office of Education generally to support and encourage the various recognized voluntary accrediting associations in their role as the primary agents in the development and maintenance of educational standards in the United States (U.S. Department of Health, Education, and Welfare 1971, Foreword).

However, as federal funds budgeted for higher education increase, there has been growing concern about the voluntary accreditation system currently in use in higher education. In the debates about the Education Amendments of 1972, data from institutions and accreditation procedures were discussed vigorously. The conference report on a portion of this topic included the following discussion about "cost of education data":

The Senate amendment required the Commissioner to prescribe national uniform standards for determining average per pupil costs of institutions for providing postsecondary education. He would then require as a condition for receipt of assistance under the Higher Education Act that the institution supply cost of education data determined in accordance with the national uniform standards. The House amendment had no comparable provision. The conference substitute adopts, in lieu of the Senate provision, a provision authorizing the Commissioner to require as a condition of eligibility for institutional aid at the earliest possible date or student aid prior to June 30, 1973 that the institution supply such cost of education data as may be in its possession (Education Amendments of 1972, p. 200).

The law that finally passed relating to cost of education data reads as follows:

Sec. 1206. The Commissioner may require as a condition of eligibility of any institution of higher education—

1. for institutional aid, at the earliest practical date, or
2. for student aid, after June 30, 1973.

that such institution supply such cost-of-education data as may be in the possession of such institution (Education Amendments of 1972, p. 94).

It is critical to note that the language of Section 1206 uses the phrase "may require" in much the same way that the Securities Exchange Act states "may prescribe." This is particularly important because controls by the Securities Exchange and the reporting of business corporations that are engaged in interstate commerce is clearly the prerogative of the federal government. Education, of course, is not reserved to the federal government and, as was noted in Chapter I, has been interpreted many times to be a state function. The federal involvement is limited to those aspects that are funded as a result of federal taxation and budgeting. Thus, it is important to emphasize that in business, which is clearly a national responsibility, a major regulatory agency of the federal government has chosen to work through a voluntary nonprofit association in establishing some of the rules, and particularly the principles and methods of reporting, developed by a voluntary nonprofit agency. The 60-year history of generally accepted accounting principles and auditing standards, de-

veloped cooperatively with both the Federal Trade Commission and later with the Securities and Exchange Commission, provides excellent precedents that can be applied to the field of postsecondary education accreditation.

The characteristics of the "tasks" to be performed in corporate auditing and educational institutional accrediting are somewhat comparable. An appropriate attitude is basic to both. It is important that the judgments be formed and expressed on the basis of the evidence that is "reasonably available." The auditor must take an impartial position in conducting the investigation and in preparing and expressing judgments in the reports that result from this investigation.

Respected authorities on the philosophy of auditing have commented that auditors are similar to other social scientists and must make judgments on problems of fact and problems of value. Problems of fact are more easily handled than value judgments, whether in analyzing a business corporation or an educational institution. Auditors have

such problems of value as (1) consideration of the desirable extent of disclosure in a given case, (2) determination of whether an annual item of gain should affect net income for the year or be carried to retained earnings, and (3) the desirability of combining or showing separately in the financial statement items which have both similarities and differences. In addition, auditing has problems of value at the professional as well as the practitioner level. Not only does each audit raise such problems for the individual practitioner, but the profession as a whole must deal with such value problems as the extent of its responsibility for (1) the detection of irregularities, (2) the point at which disclosure becomes detrimental rather than beneficial, and (3) the requirements of independence in the performance of managerial services (Mautz and Shataf 1961, p. 22).

The auditing process for a business corporation, especially since it is not an *exact science*, must be concerned finally with the protection of those who read the financial statements or reports and whose decisions are made on the basis of these reports. In this regard, eight basic postulates relating to financial auditing have been developed:

1. Financial statements and financial data are verifiable.
2. There is no necessary conflict of interest between the auditor and the management of the enterprise under audit.
3. The financial statements and other information submitted for verification are free from collusive and other unusual irregularities.
4. The existence of a satisfactory system of internal control eliminates the probability of irregularities.

5. Consistent application of generally accepted principles of accounting results in the fair presentation of financial position and the results of operations.
6. In the absence of clear evidence to the contrary, what has held true in the past for the enterprise under examination will hold true in the future.
7. When examining financial data for the purpose of expressing an independent opinion thereon, the auditor acts exclusively in the capacity of an auditor.
8. The professional status of the independent auditor imposes commensurate professional obligations (Mautz and Sharaf 1961, p. 42).

With some slight modification and changes in terminology, these same postulates might very well be applied to the process of institutional auditing and accrediting. The verifiability of data, determination of adequate sampling, and probability theory would be characteristic of both business and educational institutions.

As certifying agents, auditors continually face the problem of responsibility for their judgments and their reports. Where judgments and sampling are so critical, it has been extremely important that rules of professional conduct be developed along with the generally accepted auditing standards and careful codification of statements on auditing procedure.

Standards for accounting information are basically developed in four different areas: (1) relevance, (2) verifiability, (3) freedom from bias, and (4) quantifiability. These standards are useful in evaluating potential accounting information and for including or excluding material in reports. In determining relevance the information should be useful in, or have the potential for, exerting influence on appropriate and needed actions. Therefore, it must be in a form and presented at a time that will be of use. To be verifiable the information should allow "qualified individuals working independently of one another to develop essentially similar measures or conclusions from an examination of the same evidence, data, or records" (American Accounting Association 1968, p. 10). Because accounting information may serve parties with opposing interests, there should be no question about its verifiability. Bias in accounting information can occur if inappropriate techniques are used or if the data is of a personal nature. Bias that serves one party would be detrimental to the interests of other persons and, as a consequence, biased types of information are particularly inappropriate for external use. Finally, since much financial information is expressed in monetary terms, a great deal of auditing information is quantifiable. Any accounting data outside of quantified amounts require special care and place a special obligation on the auditor involved.

Guidelines for making auditing information available include:

1. Appropriateness to expected use.
2. Disclosure of significant relationships.
3. Inclusion of environmental information.
4. Uniformity of practices within and among entities.
5. Consistency of practices through time (American Accounting Association 1968, p. 14).

The reports need to be developed to meet the needs of potential users. Special informational needs of particular groups should be separate from general reporting and clearly stated as such. Significant relationships should be clearly shown so users can understand the report and "evaluate the underlying activity generating the data" (American Accounting Association 1968, p. 15). Environmental information is critical since it describes the conditions surrounding the collection of data as well as the preparation of the report. All of the circumstances and the methods involved need to be delineated carefully so that external users will clearly understand the complete environment in which the data were collected and reported. Uniformity is vital and is dependent upon a consistent system of terminology, classification of data, and consistent and exact measurement of those items that can be measured precisely. Finally, since trend data is often of value in auditing reports, it is important that various points in time and various time segments be reflected in the report or series of reports. Since change is necessary in any society, complete uniformity of reporting over a long period of time may introduce bias. But, "... a sense of reason and good judgment should prevail to provide answers to problems caused by a degree of conflict among the several standards and guidelines" (American Accounting Association 1968, p. 18).

Over the four decades since the Securities and Exchange Commission was first established, the American Institute of Accountants has developed (1) auditing standards as the underlying principles that control the nature and extent of the evidence to be obtained, and (2) auditing procedures that spell out the details of the auditors' work. This includes the methods by which the auditor has obtained and referred to such specific evidence as cost records, invoices for purchases, published quoted prices, subsequent selling prices, gross-profit tests, and other similar details. Some of the various commissions mentioned earlier have worked diligently at codifying statements of auditing procedure and delineating in considerable detail the form, meaning, and significance of the auditors' reports.

The differentiation between the short-form and the long-form report may be of particular interest and value to persons interested in educational audits. Of course, the required 8-K report of the Securities and Exchange Commission is a key report for all large corporations and the approved report form has become very significant. If the federal government should require a particular form of reporting before institutions are allowed to receive federal funds that are earmarked for postsecondary institutions, the form of the report could become exceedingly critical. The short-form reports of business auditing include eight key elements:

1. The Date
2. The Salutation
3. An identification of the statements examined
4. A statement of the scope of the examination
5. The opinion introduction
6. A reference to fair presentation in conformity with generally accepted accounting principles
7. A reference to consistency
8. The signature (*The Auditor's Report . . . 1967, p. 2*).

Since time is of considerable importance in financial statements, the date of completion of the report and the opening statement by the auditor are extremely important. The report is normally addressed to stockholders of a company, the Board of Directors, or both, and "the short-form report is used almost universally in connection with the auditor's examination of financial statements intended for publication" (*The Auditor's Report . . . 1967, p. 21*). As will be shown later, a number of postsecondary institutions are developing reports with similar salutations.

In contrast, long-form reports go beyond the basic financial statements and

. . . ordinarily include details of items in the statements, statistical data, explanatory comments, and other informative material, some of which may be of a nonaccounting nature. These reports also may contain a more detailed description of the scope of the auditor's examination than is contained in the short-form report. As in the case of all auditor's reports, an auditor's opinion covering a long-form report must contain a clear-cut indication of the character of his examination and the degree of responsibility he is taking for the data contained in the report (*The Auditor's Report . . . 1967, p. 21*).

Both the short-term and the long-term reports are statements that

. . . constitute management's representation as to its stewardship of the business enterprise. The auditor, in issuing a report on financial statements, provides a professional opinion as to whether the representations of management, as contained in those statements, *present fairly to all users of*

*those statements the company's financial position and the results of its operations (The Auditor's Report . . . 1967, p. 22).*

Some of the problems and conflicts that have caused difficulties for auditing firms could also occur in postsecondary education if educational auditing develops, and thus some of the current problems in business auditing may be of some interest. Many of them develop because auditing is not an exact science, judgment is necessary, and values may be critical in a given situation. Some instances follow.

1. Business corporations and companies hire and pay the auditors. If there is a serious disagreement, there may be a change in auditing firms. In November 1971 the Securities and Exchange Commission established the so-called "auditor-change rule" requiring that the conflict between the corporation and the auditors be detailed in the public, 8-K reports filed monthly with the Securities and Exchange Commission. In some cases the change in auditors has indicated that a company was having serious problems and occasionally has led to a special investigation by the Securities and Exchange Commission. In educational auditing it may be desirable to review carefully the manner in which an auditing firm or team is chosen.

2. Relationships between an auditing firm and the corporation or business it may audit could become delicate. The *Wall Street Journal* raised this question regarding Arthur Young & Company (March 21, 1974, p. 6). Arthur Young & Company, which is one of the accounting profession's dominant "Big Eight" firms, borrowed large sums from one of its client banks. In justification it was stated that the loan had been discussed with the Securities and Exchange Commission, which did not object. However, two of the "Big Eight" firms, Peat, Marwick, Mitchell & Company and Haskins & Sells, indicated that they have a company policy that prohibits borrowing from clients. Obviously, members of accrediting teams or educational auditing teams would have to be chosen carefully to avoid any possible conflict of interest with the postsecondary institution being audited.

3. When the auditing firms themselves are questioned regarding their procedures, it has become desirable to have a "peer review" to determine the quality control procedures used in conducting a corporate audit. In some cases the Securities and Exchange Commission has required such reviews to further verify and provide "quality controls" of particular firms and specific audits.

These three specific instances illustrate problems that have arisen in the development of accounting principles and procedures from a voluntary agency that are applied by profitmaking auditing firms.

The interplay between the federal agency, the voluntary, nonprofit, public interest group and these firms has been and will continue to be of critical importance.

A continuing body setting the accounting standards has been in operation for four decades. However, the structure has been changed a number of times and recently another major change took place. The Accounting Principles Board, which operated from 1959 through 1973, has just been replaced by a new Financial Accounting Standards Board. The previous board was made up of 18 nonpaid parttime members, most of whom were active partners in accounting firms, and included one from each of the eight major national accounting firms. Although many changes and practices had been developed by the Accounting Principles Board, it became necessary to make major changes and these have just gone into effect in the last 2 years. The new fulltime Financial Accounting Standards Board is smaller. Its members will be "adequately remunerated." Membership on the new FASB will include not only accountants but also concerned professionals from related groups. Since setting financial standards in this fashion is a joint private-public venture, a nonprofit foundation has been established with a board of trustees and a large advisory council. These groups will exert control over the Financial Accounting Standards Board and provide wide input into its efforts. Thus, the private body which has the duty to set standards will have widespread support and no serious conflicts of interests. Its work should be done effectively and rapidly, since it is small and highly competent.

There are a number of critical differences that would exist between a system of institutional educational audits and auditing of the type described for the business community.

1. The financial audit of a postsecondary institution would be only a part of the total education audit. A complete educational auditing program would include annual evaluation of departmental and institutional achievement of carefully prepared objectives, both general and specific, with due recognition of available resources. This must incorporate the best "output" based upon "reasonable available" data indicating: (1) the success of students who attended the institution; (2) when appropriate, contributions to our own developing knowledge base; and (3) the effects of community and public services by the institution.\*

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\*See Dickey and Miller (1972) for a discussion of current trends in accrediting procedures.

2. Regional accrediting systems that have grown to nationwide operation since World War II provide a mechanism for establishing institutional educational auditing committees. Normally, there has been informal contact between the regional accrediting commission and the postsecondary institution regarding the acceptability of accrediting team members—but the final choice has been by the regional accrediting commission rather than the institution.

3. Where a business can change auditing firms, a greater potential for conflict of interests exists, even though auditing ethics require communication from outgoing to incoming auditors.

4. Accrediting agencies are not policing bodies but are charged with making overall judgments regarding the quality of the postsecondary institution and its programs to see that it meets the majority of the accrediting commission standards.

5. Regional accrediting commission reports normally have not been published and there is no public reporting system beyond a mere statement of accreditation in the institution's catalog. This does not seem to fit the current demand for accountability and consumer protection. In this regard the short-form and long-form systems of the auditing profession may have some application in institutional educational auditing.

6. Auditing in the business sense has become a separate, fulltime profession. At the present time educational auditors, working as a part of accrediting teams from regional or national accrediting associations, are parttime specialists. Sometimes they donate their time as a public service or are paid only nominal sums. As the demand for accountability and more complete institutional educational reporting grows, fulltime educational auditors may develop.

There are a number of lessons to be learned from the development of the auditing profession since 1934. There is a need for fulltime persons setting the standards rather than parttime persons devoting sporadic efforts to it. There is a need for a specific research staff to be working on institutional educational auditing principles and procedures. Through the process that has developed between the federal regulatory agency (first, the Federal Trade Commission and then the Securities and Exchange Commission) and the accounting and auditing profession, the critically important matter of the establishment of standards and procedures has been left primarily to the profession. Finally, the obvious need for continuity seen in the business and corporate auditing field must be available in the educational field. Current problems with the wide variety of postsecondary educa-

tion institutions and the proliferation of accrediting associations emphasize this point. The criteria that have been developed over the past 60 years in institutional educational auditing are a good base on which to build.

## Current Criteria Used in Institutional Accreditation

The Federation of Regional Accrediting Commissions of Higher Education, the coordinating agency for the regional accrediting commission at the postsecondary level, provides the following reasons for institutional accreditation:

- (1) fostering excellence in postsecondary education through the development of criteria and guidelines for assessing educational effectiveness;
- (2) encouraging institutional improvement of educational endeavors through continuous self-study and evaluation;
- (3) assuring the educational community, the general public, and other agencies or organizations that an institution has clearly defined and appropriate educational objectives, has established conditions under which their achievement can reasonably be expected, appears in fact to be accomplishing them substantially, and is so organized, staffed, and supported that it can be expected to continue to do so;
- (4) providing counsel and assistance to established and developing institutions;
- (5) protecting institutions against encroachments that might jeopardize their educational effectiveness or academic freedom.

The statement of the Federation also holds that "accreditation is attained through a process of evaluation and periodic review of total institutions conducted by regional commissions in accord with national policies and procedures approved by the Federation of Regional Accrediting Commissions of Higher Education" (FRACHE, "Purposes of Institutional Accreditation," October 11, 1972).

In terms of the above purposes, each of the regional accrediting commissions has developed standards for initial accreditation and for periodic reevaluation of postsecondary educational institutions. These standards, while couched in different terms for each of the commissions, follow a fairly definite pattern and include criteria to assist in determining the effectiveness of the institution in such areas as:

1. *Purposes of the institution.* Each institution is asked to define clearly its purpose, and to incorporate into this statement a pronouncement of its role in the educational world. The institution's integrity is measured not only in terms of its stated purposes, but also in terms of its conscientious endeavor to fulfill these purposes.

2. *Organization and administration.* Standards dealing with this general area indicate that a similar pattern of organization for all

member institutions is neither expected nor required; however, the administrative processes should be well defined and understood by the entire college community. The standards also cover the governing board and its relationships to the institution and its faculty, staff, and students. Most of the statements of standards indicate that in order to promote a proper balance between the diversified activities of comprehensive institutions, the administrative structure of the institution must be designed in a manner as to enable each division to develop and perform fully its unique responsibilities as defined by the stated purpose of the institution.

3. *Educational program.* The most consistent element of the standards relating to the educational program is that of ascertaining that the purposes of the institution are carried out through the program of education. This relationship between purposes and program must be demonstrated in policies of admission, content of curricula, requirements for graduation, instructional methods and procedures, and quality of work required of the students.

The process by which the curriculum is established is also a concern of the various postsecondary accrediting commissions and it is clearly indicated that the process should recognize the various roles of the governing board, the administration, the faculty, and the students. Some of the commissions are more specific than others. For example, some criteria require that at least one-fourth of the total credits for a degree must be devoted to general education, with one component of courses designed to develop skill in oral and written communication. Other commissions do not have such specific requirements, although the implication is always present that a balanced program is to be sought.

Standards also indicate that an effective institution depends largely upon the general environment of the institution. Such an environment should be conducive to study and learning. One commission states, for example, that "an institution of higher education should endeavor to create a climate of intellectual curiosity and achievement among its students." The general criteria include the point that the faculty and administration should be able to provide evidence of concern for the general setting in which learning is expected to take place.

Programs and courses should be supported by adequate library holdings, instructional materials, and physical facilities. Efficient use of such resources is an indication of concern for effective instruction. It is not sufficient to show that library, laboratory, and other facilities

exist; it should also be possible to demonstrate that they are used effectively in the instructional process.

4. *Financial resources.* The standards of all of the regional accrediting commissions hold that the financial resources of the college or university determine, in part, the quality of its educational program. It is pointed out in some of the standards that, conversely, the quality of the educational program affects the ability of an institution to increase its financial resources. The organization of the business structure and the control of financial resources should always reflect the fact that financial resources are tools of the educational enterprise, never the reverse. Matters of budget control; the relation of an institution to external budgetary control; the accounting, reporting, and auditing procedures are also included in the standards of the various accrediting commissions.

5. *Faculty.* All standards include reference to the recruitment, selection, academic preparation, and organization of the faculty, with special reference in many instances to evidence of professional growth, tenure and academic freedom, teaching loads, promotion policies, criteria for evaluation, salary, and other recognitions. Several of the commissions include in their standards statements indicating that a certain percentage of the faculty should possess educational preparation equivalent to 2 years of advanced study, and some indicate that at least 30 percent of the faculty (for senior colleges) should possess the earned doctor's degree.

6. *Library.* The library is held to be a vital instrument of instruction, not only in general education, but also in the cultural development of students and faculty. Standards of the regional accrediting commissions hold that the library should be administered as part of the academic program. Especial attention is given to the library holdings in those fields in which graduate study is provided.

7. *Student personnel.* Within this area of concern the standards include reference to the administration of student personnel programs, to the academic and personal records, to orientation, to counseling, to health service, to athletics, alumni work, etc. While it is recognized in the standards that the specialists in student personnel work have a unique responsibility, it is generally pointed out that all institutional members have and should express a continuing concern for the total welfare of each student, including his physical and mental health, development of capacities and talents, establishment of relationships with other persons, and motivation for progress in intellectual understanding.

8. *Physical plant.* Standards of all of the regional accrediting commissions include reference to the physical facilities, including buildings, equipment, and campus. The standards indicate that the physical plant should be designed and maintained to serve the needs of the institution in relation to its stated purposes. Most of the standards include a statement that a master plan for campus development should be maintained.

9. *Other standards* relate to off-campus study, independent study, and various nontraditional programs. Most of the regional accrediting commissions also give special emphasis to standards dealing with graduate programs, pointing out that distinctions between undergraduate and graduate work should be observed. Some of the accrediting commissions include research as a part of the graduate standards, while others separate the standards relating to research. Various approaches are employed in stating the standards for master's degrees, specialist's degrees, and doctor's degrees; however, in all cases conditions are set forth for degree requirements and in most cases, periods of residence are included.\*

In the *Study of Regional Accreditation of Institutions of Higher Education*, prepared for the Federation of Regional Accrediting Commissions of Higher Education by Claude E. Puffer and staff, the following additional questions were suggested as desirable elements in any institutional accrediting visit:

- (1) What educational and structural (administration, governance, etc.) innovations have been adopted since the most recent reevaluation? Describe and indicate the degree of success.
- (2) What special assistance has been provided by the institution in the education of the disadvantaged? Describe and indicate the degree of success.
- (3) What do your analytical studies show concerning the effectiveness of your educational programs? What direct evidence do you have of institutional contributions to or responsibility for improvements in your students? What tests or other measuring devices are used and how effective and appropriate are they? (1970, p. 216)

Dr. Puffer indicates in his study that one of the major problems

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\*Materials used in the above summaries include the standards of postsecondary commissions of:

Middle States Association of Colleges and Secondary Schools  
New England Association of Schools and Colleges  
North Central Association of Colleges and Secondary Schools  
Northwest Association of Secondary and Higher Schools  
Southern Association of Colleges and Schools  
Western Association of Schools and Colleges

confronting institutional accreditation is that of a shift in purpose brought about by external forces. In the early days, the work of the regional commissions was directed primarily to assisting member institutions to improve. As a matter of fact, each of the agencies still places this particular purpose high on its list of functions. While providing a list of approved or accredited institutions for the general public has always been a part of the function of each agency, this was viewed as a secondary function. But as the judgment of regional agencies became a basis for determining whether institutions received federal funds (and at an earlier date, whether they would receive foundation grants), the public responsibility of the accrediting agency has become greater.

Recent court cases emphasize even more the nature of public accountability. Pressures may be building to the point where the in-house function—improving individual institutions—though important, will become a secondary function. While accrediting agencies may continue to emphasize as the primary purpose of their existence assisting member institutions to improve, as far as the general public is concerned, the primary purpose of accreditation appears to be that of certifying the level of quality of an institution or program. If this is the case, the accrediting agency takes on more of the characteristics of a public regulatory commission with a responsibility for protecting the public. It becomes less oriented toward the membership and more toward the public as a whole.

If the public accountability function increases in significance, the orientation of the agencies will almost inevitably shift. The manner in which criteria are established and the way in which the criteria are applied in evaluating institutions may increasingly come under public scrutiny (Puffer 1970, p. 261).

## **A Plan for Evaluative Auditing in Postsecondary Education**

The second report of the Newman Task Force made a determined call for "full disclosure" regarding program characteristics and evaluations in the postsecondary educational institutions of the United States (*Second Newman Report . . . 1973*). A recent report entitled *Public Accreditation and Public Eligibility* by Harold Orlans and others has indicated that at the present time

Accrediting agencies disclose little more than their formal standards and the names of accredited institutions—not the names of those which were denied accreditation, discredited, put on probation, found in non-compliance with designated standards, or which have never applied for accreditation. The Office of Education discloses little more than its criteria for recognition and the names of recognized agencies—not those denied recognition or recognized for reduced terms or the criteria with which they have not complied (Orlans 1974, Volume II).

At the present time the movements toward greater federal control of the entire process of accreditation of postsecondary educational institutions have developed primarily because of increasing funds being channeled from the federal budget into postsecondary education. James D. Koerner has quoted in a public article an internal statement from the Federation of Regional Accrediting Commissions of Higher Education that graphically illustrates this problem.

For the past two and one-half years, the six regional accrediting associations have operated as service agencies for the U.S. Office of Education in helping to determine the eligibility for participation in federal aid programs for newly founded institutions. The decisions involved in these cases have been made explicitly for this purpose and have been shared only with the USOE through correspondence related to each institution considered. In effect, it may be construed that the regional accrediting associations have broken with their tradition of complete autonomy and have become party to an implied contract with the USOE.

This relationship with the USOE appears to have seriously altered the philosophical and operational independence of the regional associations from government entanglements (Koerner 1970, p. 51).

As has been clearly demonstrated in Chapter 2, there is a strong case for voluntary professional organizations to determine the educational principles and standards to be applied, the procedures to be followed, and the reporting systems to be used. There is even greater

cause for following such a system in postsecondary education, since this function is specifically excluded from the Constitution of the United States and has been determined many times to be the responsibility of the individual states.

The current emphasis on consumer protection and funding of postsecondary education on a "merit-policy basis" through the student-consumer contributes a great deal to the demands for improved accrediting procedures and a move toward fully reported institutional evaluative audits. A number of examples can be cited, both state and federal. In 1974 protective legislation for students was introduced in H7046 in Rhode Island (Education Commission of the States 1974, p. 1). All correspondence, vocational, and professional schools operating for profit would be required to provide prospective students with their record of job placements for the previous 2 years. In the 93rd Congress of the United States, H.R. 11927 was introduced by Congressman Bell and Congressman Pettis and described as the "Postsecondary Education Consumer Protection Act of 1973." The bill states that "the Nation has suffered substantial losses of human, financial, and educational resources because of the unethical actions of some administrators, recruiters, and other persons associated with eligible postsecondary educational institutions" (H.R. 11927, p. 2). The bill defines postsecondary educational institutions to include

. . . an academic, vocational, technical, home study, business, professional, or other school, college, or university, or other organization or person, offering instruction or educational services primarily to persons who have completed or terminated their secondary education or who are beyond the age of compulsory school attendance in their respective States. And the term 'education' includes, but is not limited to, any class, course, or program of training, instruction, or study (H.R. 11927, pp. 3-4).

The Secretary of Health, Education, and Welfare would establish an advisory committee on accreditation and institutional eligibility that would be required to conduct a study of all approved accrediting associations. Further, the bill would require each institution to have ". . . a statement in plain, clear, and understandable language regarding the objectives of its program of education or training" (H.R. 11927, p. 5). It also would require each institution to provide students and other interested persons with a catalog or brochure that contains information describing at least twenty-two specific items:

. . . the programs offered, program objectives, definition of educational credentials awarded, length of program, schedule of tuition, fees, and all other charges and expenses necessary for completion of the course of study,

cancellation and refund policies, and such other material facts concerning the institution and the program or course of instruction as are reasonably likely to affect the decision of the student to enroll therein, and that such information is provided to prospective students prior to enrollment. That the institution provides students and other interested persons with a disclosure statement of its financial status, business relations, and other relevant information regarding the fairness, legality, and solvency of its financial situation, and that such a statement is provided to prospective students prior to enrollment. That the education, moral character, ethical practices, and experience qualifications of directors, administrators, supervisors, and instructors are such as may reasonably insure that the students will receive fair administrative treatment and education consistent with the objectives of the course or program of study. That the institution has adequate space, equipment, instructional materials, and personnel, where appropriate, to provide education of good quality. That the quality and content of each course or program of instruction, training, or study are such as may reasonably and adequately achieve the stated objective for which the course or program is offered. That upon satisfactory completion of training, the student is given appropriate educational credentials by said institution, indicating that said course or courses of instruction or study have been satisfactorily completed by said student. That accurate auditable financial records accounting for receipt and refund of guaranteed student loan proceeds, and records to show attendance, progress, or grades are maintained on the premises; and that satisfactory standards are enforced relating to admission, attendance, progress, and performance. That the institution is maintained and operated in compliance with all pertinent ordinances and laws, including rules and regulations adopted pursuant thereto, relative to the safety and health of all persons upon the premises. That the institution is financially sound and capable of fulfilling its commitments to students. That neither the institution nor its agents engage in advertising, sales, collection, credit, or other practices of any type which are false, deceptive, misleading, or unfair. That the institution has a fair and equitable cancellation and refund policy; that all unearned tuition from guaranteed student loan proceeds is returned to the student's account with the lender (or other holder of the note); that such refunds be on a timely basis (within thirty days of the student's last day of attendance); and that failure to comply with these requirements shall be cause to remove the approved or accredited status (and the institutional eligibility) of such institution (H.R. 11927, pp. 5-8).

This bill is quoted at length because of the importance of such a change insofar as current accreditation processes are concerned. The *Federal Register* would be required to publish a final list of approved institutions, including the specific departments and courses and business institutions that have least approval or accreditation or whose applications were not accepted. Finally, the bill provides that

It is the sense of the Congress that the several States should enact laws for the approval or accreditation of postsecondary educational institutions and authorization to grant degrees. Such laws should establish standards for approving entities that will insure proper business procedures within the industry and could utilize model legislation plans and the wealth of recent study in drafting statutes for this purpose (H.R. 11927, p. 11).

Enumeration of the many items that are specified in this proposed bill for inclusion in the catalogs of approved postsecondary educational institutions coincides very explicitly with most of the current standards required by voluntary regional accrediting associations.

Some postsecondary educational institutions have already made steps in this direction. For example, East Carolina University in 1970 published a very significant report entitled, "Report to the Stockholders." In 1973-1974 Northern Michigan University published the *President's Report to Shareholders in Northern Michigan University* and defined the shareholders as "taxpayers, students, parents, faculty and staff" (p. 1). President Jamrich stated that this report ". . . is an accounting of some of our major efforts and events of the past two years . . ." (*President's Report to Shareholders. . . 1973*, p. 1).

Another illustration comes from Brigham Young University that during 1973-1974 developed an *Agenda for College Audits* which was carried out with meticulous detail and included special reports for each of the separate colleges, schools, and departments for the past 2 to 4 years (Special materials from the academic vice president of Brigham Young University). A final illustration is from the state of Washington where the Legislative Budget Committee instructed the Legislative Auditor to conduct a performance audit of the Washington State Community College System, with particular attention to the Cost Model problem and Projection Methodology. The memo from the Legislative Budget Committee, dated November 19, 1973, provided this description of the nature of a performance audit:

A 'management' or a 'performance' audit is essentially a systematic and objective appraisal of the quality of management, directed toward determining whether an agency (postsecondary educational state institution) has discharged and is discharging its responsibilities to faithfully, efficiently and effectively administer its designated state programs. The final project of the audit is an evaluation and report to the Legislature concerning the discharge of responsibilities. Faithfulness refers to whether the programs have been administered in accordance with promises made to the Legislature and the expression of legislative will (legislative intent). Effectiveness refers to whether planned program objectives are being achieved and efficiency refers to whether program accomplishments are being achieved through utilizing the least costly combination of resources and with a minimum of waste (Hazard, November 1973).

These background data suggest that institutional evaluative auditing in postsecondary educational institutions is upon us. It could be carried out in at least three ways:

1. By adapting the methods of evaluation and the reporting systems used by regional accrediting associations;

2. By state agencies operating in a fashion similar to the illustration from the State of Washington quoted above:

3. By federal agencies following the pattern which is implicit in H.R. 11927.

It appears to the authors that a system of institutional evaluative auditing developed by the regional accrediting commissions is the preferred system of the three suggested. In pursuing this alternative, it is essential that some serious modifications be developed in a number of aspects of the voluntary accreditation system.

1. A short-form and a long-form report similar to that described for use in business auditing appears to be necessary. The short-form report should be developed for inclusion in all catalogs and major brochures published by postsecondary educational institutions for their various constituencies.

2. The regional accrediting commissions need to be expanded so that their research staff and the research staff of the Federation of Regional Accrediting Commissions of Higher Education can be working continually on the revision and adaptation of accrediting standards and procedures used in the institutional educational auditing process.

3. The regional commissions should develop teams of expert educational auditors. If the experience of business auditing holds for education, it will become necessary to develop fulltime professionals who can perform this service on a regular basis and with appropriate compensation. Unless the regional accrediting associations do this, some existing profitmaking auditing firms (such as the Big 8 accounting firms at the present time) may move into the institutional auditing and accrediting process.

4. Programs of institutional self-study, based on regular analysis of institutional efforts to achieve their stated objectives, should be carried on continuously. Within each institution skilled educators need to monitor and implement this process on a continuing basis. They should be just as skilled in auditing and evaluative standards and procedures as the persons sent out on institutional evaluative auditing teams by the regional accrediting commissions.

If these four steps are accepted and put into practice by postsecondary educational institutions, the likelihood of federalized control of accreditation—and the resulting bureaucratization and politicization of the postsecondary educational institutions—may be avoided to the ultimate benefit of students, institutions, and society as a whole.

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