Ethical Obligations of Public Agencies in Providing Justification of Expenditures to the Public

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Introduction

Does a public agency have ethical obligations in providing justification of its expenditures to the public? In order to formulate an opinion on this issue, we need to understand the following questions: What is ethics? What is ethics in public administration? What is a public organization / agency and its purpose? Do public organizations have a code, or codes, of ethics? What are expenditures? And finally, what accountability mechanism(s) can be used to ensure or assist in compliance with organizational codes of ethics?

Ethics

Ethics is defined as "the branch of philosophy that defines what is good for the individual and for society and establishes the nature of obligations, or duties, that people owe themselves and one another" (West's Encyclopedia of American Law, 1998, para. 1). At a first glance, ethics may be seen as 'doing the right thing' or 'obeying the rules'. However, ethics is the investigation into 'what is good', i.e., what is believed to be good and proper behavior, hence establishing appropriate conduct / right action for any given circumstances (Gow, 2005; Saner & von Baeyer, 2005; Shafritz, 1998).

Ethics in Public Administration

Public administration ethics has developed throughout the decades and is still evolving. Terry L. Cooper's comprehensive development of the concept will be used in this paper as a

building block to understand the framework of ethics in public administration. Public administration ethics is defined as "a process of independently critiquing decision standards, based on core social values which can be discovered, within reasonable organizational boundaries which can be defined, subject to personal and professional accountability" (Denhardt, 1988, p. 26).

Thus, the framework of ethics in public administration can be broken down into four inter-independent levels: 1) policy process, 2) organizational infrastructure, 3) professional, and 4)personal. Administrative decisions can be left to the discretion of individuals who are guided by their personal ethics (i.e., a code of conduct determined by race, religion, etc.) and subject to the norms of their profession. To ensure administrative decisions are in line with policy ethics and organizational norms, a system of accountability is implemented to ensure 'appropriate conduct' (Denhardt, 1988; Pops, 1988; Shafritz, 1998).

Public Policy Process and Public Organizations / Agencies

The public policy process is challenging and difficult, from policy identification to policy evaluation, and policy problem modification, etc. Policy makers identify public needs and establish specific programs, objectives and financial resources to meet these needs according to their ideologies, which, in turn, are subject to intellectual, social and political constraints. The government via public policy / statute creates a public organization / agency to meet a particular identified need within specific population group (Denhardt, 1988; Flores & Kraft, 1988; Kattelus & Wilson, 2004; Kerwin, 2003; McKinney, 1986; Pops, 1988).

Therefore, a public organization is an 'entity' formed or funded by the state (completely or partially) for the interest of the public. Goals and services' objectives and values stem from

the organization's mission statement and vary from organization to organization and depend upon the need for which they were created. The underlying value of a public organization is to provide 'social benefit' in terms of goods and / or services to satisfy a given need in the population. In other words, the responsibility lies with the organization and /or agency to care for the public's interest and therefore the public organization is accountable for the goods / services offered under the provisions of the 'social responsibility' policies of the government (Kattelus & Wilson, 2004; Kerwin, 2003; McKinney,1986).

Code(s) of Ethics of Public Organizations / Agency

The overall purpose of code(s) of ethics in a public organizations and agencies is to value, protect and serve the public interest. This means that the individual and organization conduct all decisions in favor of the interest of the public. "Thus, the Constitution is the source to which administrators can look for a list of regime values, which should reflect and illuminate the public interest" (Denhardt, 1988, p. 20; Grundstein-Amado, 2001; Heintzman, 2005; Pops, 1988; Shafritz, 1998).

An individual who works within a public agency is "a fiduciary of the public trust and responsibly serving the public interest with honesty, fairness, and integrity while overseeing the operations of the government" (Shafritz, 1998, p. 55). Therefore individuals within public agencies have an ethical obligation to the public and should conduct all action in such a manner as to value public interest, and hence should justify any areas of discrepancy and use of public funds.

This principle goes hand in hand with the following purpose and function of codes of ethics for public agencies and/ or organizations, i.e. the promotion or increase of public

confidence. This means that the individual / organization must act in the appropriate manner that will uphold and conserve the public trust. Administrative decisions should facilitate public scrutiny. Thus, public organizations and agencies should clearly communicate the objectives, programs, mission, uses, etc. of the agency. To conserve the public trust, individuals within public agencies should be able to explain and justify spending (Denhardt, 1988, p. 20; Grundstein-Amado, 2001; Heintzman, 2005; Pops, 1988; Shafritz, 1998).

Additionally, codes of ethics in public organizations and/or agencies should assist decision-making by providing guidelines and encouragement for high standards of behavior by nurturing an ethical climate within the organization. In order to achieve a strong ethical climate, organizations should have strong ethical leadership, i.e., individuals who are not only effective leaders and managers but also who possess ethical values such as integrity, honesty and uphold the public interest (Denhardt, 1988, p. 20; Grundstein-Amado, 2001; Heintzman, 2005; Pops, 1988; Shafritz, 1998).

Organizations should also have clear ethical standards and processes. Employees and managers hould be aware of these and comfortable to report variances. Standards should reflect issues ranging from sexual harassment to “ethical issues in conducting their day-to-day affairs”. “Micromanagement issues include conflicts of interest, employee rights, fair performance appraisals, sexual harassment, proprietary information, discrimination, and accepting or offering gifts. Macro-management issues include corporate social responsibility, product liability, environmental ethics, comparable worth, layoffs and downsizings, employee screening tests, employee rights to privacy in the workplace, and corporate accountability” (West's Encyclopedia of American Law, 1998, para. 5).

Organizations should educate employees and managers in relation to these standards and promote ethical values. For example, "human resources and other branches rely on the following mechanisms to encourage ethical conduct by employees: rules, directives and policies on recruitment and promotion, consideration of ethics when hiring, transparency of selection procedures, measures in the event of unethical conduct, obligation to justify decisions, risk assessment in vulnerable areas, the declaration of public and confidential interests for certain executives, integration of the statement of values in the work contract, posters and brochures, etc" (Office of Public Service Values and Ethics, 2002, 4.4 Promotion of Values section, para. 1)

Organizations should also implement a continuous process to verify the ethical standards used to guide their practices. For example, in the United States, the Office of Government Ethics periodically evaluates all federal agency ethic programs. The purpose of this organization is to promote public confidence in federal agencies (Denhardt, 1988, p. 20; Grundstein-Amado, 2001; Heintzman, 2005; Office of Public Service Values and Ethics, 2002; Pops, 1988; Shafritz, 1998). Achieving a strong ethical organizational culture can shape individual ethical decision-making and lead to increased public trust.

Strong ethical organizational culture is important to assist individuals in administrative and / or ethical decisions in the day-to-day operations of a public organization. Although, administrators have fiduciary duty they are subject to various competing variables such as personal values, relationships, pressures, obligations, interest groups, etc. that may cause conflict in regard to their obligations. A high ethical climate in an organization may provide guidance for individuals in situations involving conflict (Denhardt, 1988, p. 20; Grundstein-Amado, 2001; Heintzman, 2005; Pops, 1988; Shafritz, 1998).

Administrators' codes of conduct are also subject to their professional norms. For example, the American Society for Public Administration (ASPA) Code of Ethics "affirms to increase public awareness of ethical principles in public service by its example and the members of the society commit themselves to following principles:

1. Serve the Public Interest
2. Respect the Constitution and the Law
3. Demonstrate Personal Integrity
4. Promote Ethical Organizations
5. Strive for Professional Excellence" (Shafritz, 1998, p. 412)

In other words, administrators have the ethical obligations to respond to all public inquiries, prevent misuse or mismanagement of public funds and resources, and demonstrate and promote ethical behavior / standards within organizations' climate (Shafritz, 1998).

Therefore according to ASPA, administrators have "an ethical obligation to use funds efficiently because they have been entrusted with that responsibility, and because the stewardship of public resources is valued" (Denhardt, 1988, p. 139).

Further Guidelines, Standards and Accountability

Codes of ethics are based on the philosophy that the individual knows the code of conduct and will act according to it. However, sometimes just knowing is not a guarantee of compliance with a code. Hence, accountability measures are needed to ensure that administrators are acting in the appropriate manner, i.e., decision making is in accordance with the public interest (Denhardt, 1988; Pops, 1988; Shafritz, 1998).

As stated before, agencies and public organizations must adhere to the objectives that were established for them in the corresponding appropriations ordinances and / or statutes. Appropriation is defined as "an authorization for administrators to incur on behalf of the governmental unit liabilities for goods, service, and facilities to be used for the purposes specified in the appropriation ordinance, or statute, in the amounts not in excess of those specified for each purpose, during a specified time period" (Kattelus & Wilson, 2004, p. 64).

This means that a manager of a public agency is only allowed to incur certain expenditures, defined as "the amount of financial resources used to acquire an asset" (Kattelus & Wilson, 2004, p. 59). These expenditures are designated for specific purposes and are set within a time-frame, usually expressly stated under certain law. The administrator cannot incur expenses, i.e., the consumption or use of the goods / services over or above specified expenditures. Additionally, expenses may not be incurred for goods / services other than the stated purposes and they may not exceed the time period indicated. If the administrator does not follow the appropriation, then penalties are imposed (Kattelus & Wilson, 2004; Kerwin,2003; McKinney,1986).

In order to make sure that all liabilities incurred are according to the appropriation, controls must be implemented to assure appropriate authorization and review of all purchases and contracts in accordance with the appropriation. This means that all purchase orders need to be revised to see whether the liability has been specified in the appropriation and the funds are available for this liability. After reviewing the order, and determining if the liability is in accordance with the ordinance, then the purchase order can be authorized. It is important to note that the appropriation amounts of liability is an estimate of the goods and services that are going

to be purchased and only a very slight, but reasonable, variation can incur (Kattelus & Wilson, 2004; Kerwin,2003; McKinney,1986).

Administrators / managers must ensure that transactions are in accordance with the appropriations and need to record estimated appropriation, i.e., the authority to order, and the 'chain of events', or the issuance of the purchase order, goods / services received and the approval of payment. The monitor of transactions can be seen in the 'Appropriations, Expenditures, and Encumbrances Ledger'. This legal pressure assures that administrators are on-track and monitor the administration of all liabilities. It may also be necessary for administrators to provide documentation to justify expenditures (Kattelus & Wilson, 2004; Kerwin,2003; McKinney,1986).

In order to ensure that all liabilities incurred are according to the appropriation, controls should be implemented to assure appropriate authorization. Budget comparison is an excellent tool to demonstrate accountability. Budgets reflect the strategies and goals of the governmental unit / agency, while the actual performance demonstrates how the government is doing. The variance between the budget and actual performance explains if the agency is proceeding in the direction that is projected. Explanations should be disclosed for reason of non-obtainment. Recognizing the reasons behind the failures and success allows management to formulate new goals, or modify goals and objectives, and to establish a modified strategic or feasible plan (Johnson & Lee, 1998; Kattelus & Wilson, 2004; McKinney,1986).

Managers / administrators are therefore accountable for activities and answerable to both the legislators and the public. Accountability is essential under the Governmental Accounting Standards Board (GASB). "It is based on the belief that its citizens has a right to know, a right to receive open declared facts that may lead to public debate by the citizens and their elected

representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society" (Kattelus & Wilson, 2004, p. 6).

Financial reporting is therefore a mechanism that allows citizens to evaluate, assess and compare the actual and proposed financial performance and the overall efficiency and effectiveness of government operations. Additionally, external users utilize the reports to verify the government's compliance of rules and regulation. For example, GASB requires government units and agencies to answer to the community and account for financial and resource activities. This gives rise to the issue of whether there is sufficient revenue generation for current expenditures, and if there is a need for future collections from taxpayers. This underscores the need for the public to know more about public resources and their use (Kattelus & Wilson, 2004; McKinney,1986).

Conclusion

By addressing the aforementioned issues, ranging from public policy to individual ethical decision making, we can formulate the opinion that a public organization and / agency has an ethical obligation in providing justification of its expenditures to the public. In fact, they have been entrusted with that responsibility.

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