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Auditing Counties in Texas*

By George Armistead

We make the mistake, most of us who take an interest in public affairs, of harboring a vast concern about who is to be our United States senator, our congressman or our governor, and concerning ourselves little about the constable, the justice of the peace, the county commissioner and the county judge. We forget how much power and discretion rest in the hands of the officers of the petty court and how much they have to do with life, liberty and the pursuit of happiness. We overlook the importance of the taxing and administrative powers which we biennially place in the hands of commissioners' courts, upon the exercise of which our immediate public welfare depends more than upon all the rest of the administrative structure—local, state and national. This may be fairly said of the average citizen, and we whose occupation is the auditing of accounts are no exception to the rule. It can be said of us just as it can be said of others that our best talent holds itself aloof from the public business with a cheap and unbecoming snobbery, with much to say about "politics," and professing to believe that all government is tainted with political intrigue. The result is that the public service suffers and important public work is abandoned to the unaccredited and therefore usually unskilful craftsman.

The time has come—indeed it has long since arrived—when the reputable accountancy profession, if it is to do its public duty, must give more attention to public finance and must interest itself in the auditorial engagements which this highly important branch of the public service increasingly demands. The term "public finance," be it said, includes all the means, processes and procedure related to the creation by taxation or otherwise of all public funds and the expenditure thereof in the course of maintaining public institutions and conducting the public business.

Since it is impossible in one discussion to cover the entire field of public finance, these remarks will be confined to county finances, school funds and the auditing of school districts and counties, particularly the latter. These, as a matter of fact, have long stood most in need of intelligent and honest service on the

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part of the professional auditor called in from time to time to review their finances, and it is my opinion that on the average for the time and money expended they have received the poorest sort of service. The numerous reports of so-called audits to be found in the court houses of Texas are mute evidence that this statement is true.

All who are familiar with county finances will, I think, readily admit that county examinations in the great majority of instances are much more a work of auditing than accounting. In a certain sense our Texas county accounting practice, that is to say the books and forms, may be regarded as uniform; in another sense quite the reverse, but the variations can hardly be regarded as creating accounting difficulties. The laws of Texas have not up to this time prescribed forms further than in some instances to name the essentials of the record to be set down in a certain book for a certain purpose, so that while a small county may use for its treasurer's funds what the printing houses call a stock form, a large county may amplify its accounting system and use books specially designed. Not a few specially designed systems have been tried from time to time in both large and small counties, usually at the suggestion of a professional auditor, but these have tended to the increase of detail and, necessarily, an increase of work to which officers often have demurred because they are not required by law to perform it. The result has been usually that the older and simpler records were resumed. Perhaps in the larger counties there is justification and practical use for the double-entry equilibrium and the setting up of capital-asset accounts, invested capital and surplus or deficit accounts, and in counties which have the services of a staff auditor and an engineering department these may be said to serve a useful purpose. In any case the circumstance that a county's accounts stand in one form or in another has very little to do with the work of an auditor who understands his office and means to address himself to the essential facts.

It is too well known to deserve mention that Texas is without any state or centralized supervision of county and municipal finance. To be sure, there are certain legal requirements in the matter of having bond issues approved by the attorney-general and signed by the comptroller of public accounts, and also there is an annual report to the state required of all county and city treasurers concerning the status of outstanding bond issues and

their sinking funds, as well as an annual report upon school funds to the department of education. The usefulness of either of these is doubtful, the report on outstanding bond issues in particular. The officers who regard them seriously may send them in; those who do not so regard them may fear no penalties. County depositories may be scandalously delinquent with their school-fund reports; they may even fail or refuse to keep the school accounts as required by the department; sinking funds reported by treasurers may be scandalously deficient or excessive—no agency of government calls anyone to account, no one appears to have either the desire or the authority to do so. So if anyone feels that he may lean upon the state and expect the exercise of this function of supervision or reasonable care he may dispel the illusion, for with respect to their finances counties and municipalities are independent establishments de facto, and are, de jure, subject only to the general provisions of the constitution and the laws from time to time enacted thereunder relating to and limiting taxation, expenditure and the creation of the public debt.

In more than a few ways the pathway of public administration runs from cause to effect and from theory to practice. Hear the words of section 1 of article I of the constitution of Texas:

> "Texas is a free and independent state, subject only to the constitution of the United States; and the maintenance of our free institutions and the perpetuity of the union depend upon the preservation of the right of local self-government unimpaired to all the states."

There is the barrier which stands between local maladministration and blundering on the one hand and bureaucratic state supervision and control on the other. If the principle is good as between the members of the national family it is good for their children as well. Doubtless from the very beginning of our state government, and certainly from the adoption of the constitution of 1876 under which we now live, county finances have had the consideration of our legislatures, and the constitution itself and the legislation which followed it both bear witness to the efforts made to provide, in pursuance of local self-government, effective rules for administering county finances in the simplest possible form. Local self-government is one of two divergent ideas which plagued the deliberations of the founders of this republic. It finally prevailed, and despite our moods of pessimism prevails even unto this day. It was thought to have been extinguished in the shambles of a four-year civil war, but it

still lives. It thrives as robustly in the once federalistic north as in our beloved south.

Yet there are some things, speaking generally and entirely with regard to finance, of which local authority makes a mess. Local authority now levies too much tax and again not enough; local authority fails to provide for its funded debt; fails to report its obligations; commits in quite a human way a multitude of sins both of omission and commission, and is, to say truth, times without number outrageously imposed upon. So also is the larger governing unit, the state, a sufferer from such troubles, and if we are to believe current news bureau administration at the state capital fails of desired results in much the same fashion as in the county. The chief impulse toward centralized supervision arises from the fact that there are no effective means of compelling uniform procedure and a proper observance of the limits set by law upon local administration.

In the course of the past fifty years, and beginning with the granting of local taxing powers by the constitution, there has been written into the Texas statutes a mass of law relating to and regulating county and municipal finances and prescribing the duties and to a great extent the actual procedure which shall be followed by the various officers having to do with public funds. Added to and affecting these laws are many decisions of the courts, some of which have measurably altered the laws from their original import, while other decisions have completely set them aside. Not the least of these is the fee law, the applications of which have been subjects of controversy and litigation from time immemorial, and the text of which undergoes some change by each succeeding legislature. This mass of regulation is further increased by various rulings of the attorney-general, and these rulings usually serve as law until reversed by a court of competent jurisdiction. But all these laws, decisions and rulings are for useful and proper purposes and they fix the procedure in public finance as long as they are the laws; therefore the propriety of no transaction can be determined except by measuring it by these several forms of existing law. This being true, it ought to be self-evident that the examination of county finances is not a work lightly to be considered, and let it be said that no man who is without a knowledge of fiscal laws bearing upon county and municipal finances should undertake a public examination or be trusted with one in any circumstances.

This brings us to the point of this discourse. What are the duties of an auditor who is employed to examine and report upon the finances and the financial transactions of a Texas county? The same question may be considered equally applicable to a city or a school district. The commissioners' court or other governing body has contracted with an accountant to make an audit of its finances to cover a period of, say, two years. It may have done so as a matter of custom, or it may have done so because of the pressure of public opinion. We will say also that being an ethical practitioner the accountant has done no improper thing in order to obtain the engagement and that he goes into it unfettered. If the action of the court or the council has been moved by the usual considerations the accountant has been employed to perform a vague, indefinite thing known as making an audit—vague and indefinite in that the detail of the things he should do is not specified. He is accepted as an expert, his fitness is presumed, and these people acting in good faith expect him to know what to do. If they suspect wrong-doing, it is at the ratio of one to ten that they do not know where it is. And it may be, as it frequently is, that they desire simply to know where their finances stand and how they have reached that position. If the auditor is a trustworthy person he will be conscious of his responsibility. Now then, what is he going to do?

By way of avoiding unnecessary length, let us put aside without discussion those details of an examination which all examining auditors may reasonably be expected to observe. We will assume that the auditor will take care (a) that all recorded expenditures are properly supported by warrants drawn in accordance with approvals by the commissioners' court, properly entered on the regular minutes of the court or on the minutes of accounts allowed, and likewise supported by canceled cheques of the county treasurer drawn on the county depository as required by law; (b) that reconcilement of accounts will be made between the treasurer's books and those of the depository in proper form for every fund, and that the reconcilement will be written up in each instance on a page of the treasurer's book as a permanent record; (c) that an audit will be made to ascertain whether depository interest has been fully and correctly collected or not; (d) that the accounts of the sheriff, clerks of court, justices of the peace and all or any accounts relating to fines, forfeitures and convict bonds are checked and proven, and an account with each such officer cast up

and stated in the auditor's report, all with due regard to the maxima named in the laws governing fees of office. Having disposed of these, let us now consider the more important features of the audit.

TAXATION

Because the receipt of money should and generally does precede the spending of it, and because the bulk of the county's current funds arises from taxation, it will be well to consider that subject first. The first question is: What are the rates making up the sum of the tax levy of each year? and the next question is: Are these rates within the limits prescribed by law?

In the granting of the local taxing power, the constitution provides for the levy of taxes not to exceed specified limits, and for the creation of certain funds for certain purposes, and in accordance therewith the statutes confer the taxing power for county purposes on the commissioners' court and fix the classification of funds, three in number, within the following limits:

(1) The jury fund, not to exceed 10 cents per $100 valuation in any year;

(2) The road and bridge fund, not to exceed 15 cents per $100 valuation in any year, except that by referendum it may be raised to a total not exceeding 30 cents per $100 valuation in any year.

(3) The general fund, not to exceed 25 cents per $100 valuation in any year.

These three funds are permanent and are the ones by which the regular operations of county administration and the public service are maintained. All other funds are special and more or less transitory.

One other fund provided for in the constitution and statutes is the building and permanent improvement fund, which may not have a levy in excess of 25 cents per $100 valuation in any year, but this also is special and is restricted to the purposes of constructing permanent improvements.

A county may and usually does have a number of special funds, and the only ones of these having to do with local taxation are the interest and sinking funds, which are limited by law only to such a rate as may be necessary to produce sums sufficient to pay the accruing interest and serial maturities, if any, and for creating sinking funds that will liquidate the bonds at maturity.

With these limits before the accountant and with a knowledge of the sums required to meet the several purposes mentioned, is it

not his duty to determine whether or not the tax levies for each year under review were more or less than was necessary, and whether more or less than the limit prescribed by law? Is it not also obviously necessary in this relation to test the tax rolls against the rates so found to have been levied, to ascertain that they were actually applied? Needless to say, all this should be included in the audit report, and an audit which fails to take reckoning of these fundamental bases fails in its first step.

Now, let us see what may be disclosed by this very simple proceeding. (a) A commissioners' court was found to have issued funding warrants until its 15-cent limit for the road and bridge fund was exhausted twice over in providing a sinking fund for the warrants, and the court had abandoned the sinking fund, was paying interest and maturities on the warrants from the sinking fund of a bond issue, and was using the 15-cent road and bridge levy for current road and bridge purposes; (b) another commissioners' court was found to have levied 65 cents per $100 valuation on account of a bond issue when 40 cents would have been sufficient; and (c) to have levied during several years 5 cents and 10 cents per $100 valuation in the name of the building and permanent improvement fund when no improvements were contemplated or authorized, transferring the funds so derived to other funds and using them for other and current purposes; (d) another commissioners' court levied 10 cents per $100 valuation for building and permanent improvement fund during several years until the total accumulated balance stood at some ten thousand dollars, whereas the jury fund had stood unprovided for in the levies and with a continuing deficit, the deficit being taken care of by transfers from other funds. Meanwhile the taxpayers were paying an unlawful tax under a supposedly lawful levy. (e) On the other hand there is a case of a certain grand jury which, in requesting the district judge to obtain an audit of the county, complained bitterly of what was considered heavy and unwarranted increases in taxation. When the audit was made including an investigation and an exhibit of tax levies, it was seen that over the period under review the actual increase was not more than 20 per cent. and that three-fourths of this actual increase, so far as the county tax rate was concerned, had come about by the votes of the people themselves expressed in referendums held upon the specific question of increase. The development and then the setting

forth of these facts by the auditor served at once to clear the atmosphere of misunderstanding and distrust.

Mention has been made of the testing of rolls against the several rates of the annual levy. The purpose of this is to determine the accuracy of the rolls as rendered. Do the gentlemen who audit county books do anything of that sort? If not, why not? It is conceivable that in a county where all the items of the annual levy are county-wide, that is to say applying alike to every taxpayer in the county, this would be a simple matter, for it would involve merely the multiplying of the total valuation by the tax rates to determine the tax collectible. On the other hand, if the county has one or more special roads or drainage districts with the assessments therefor against a limited number of taxpayers, the test will of necessity be more difficult because of the segregations necessary from the mixed rolls. But the test ought to be made regardless of how much work may be involved. Within my own recent experience, a sum approximating more than fifteen thousand dollars was recovered to a county, and apparently in error had not been assessed upon the rolls at all. Of course, if this idea were followed far enough it would involve a comparison of rendition sheets with the rolls. It might be carried even to a review of the work of the commissioners' court sitting as a board of equalization, but these would be extreme measures and the benefits or tangible results would be doubtful. Such measures should in no case be undertaken unless something assures their necessity, or unless they are flatly required by the commissioners' court. All this, if I may say so, is real auditing.

BONDS AND TIME WARRANTS

At the present time nearly every county in Texas for one purpose or another has issued and sold its bonds. To finance the construction of court houses, jails, sewerage, bridges, emergency and other public works, most counties have brought forth issues of interest-bearing time warrants, and many also have funded their unpaid current debts by the issuance of a similar type of interest-bearing warrant. Nearly all these obligations vary from each other in some particular, especially as to the purposes for which they may be used and the conditions under which they may be issued. Whenever and however done, these obligations have taken their places as just so much of the public debt to be liquidated in the course of time with funds raised by taxation.

Now, how many kinds of bonds and what types of them are issuable as county or taxing district obligations under the laws of Texas? And under what positive legal requirements and restrictions are such issues possible? These questions are not asked in any spirit of pedantry nor are they designed to develop a treatise on Texas bonds, the assumption being that one would in any case know one of the various types and issues if he met it on the road. So for brevity these questions may be disposed of thus: Bonds may be issued for any of the following public purposes: to provide court houses and jails, and to construct roads, bridges and other necessary public improvements and facilities. Also special taxing districts created for drainage, highways, navigation and under certain conditions irrigation may issue their bonds. Bonds also may be issued to refund other issues of bonds or warrants approaching maturity or those which, having matured, are unpaid. Differing more or less in respect of the period covered, interest rates, dates of interest maturities, options of redemption, etc., the legal framework of all these obligations is substantially the same, and is governed by specific provisions of the statutes, There are two types of bond issue: (a) the term bond, i. e. the whole issue maturing at the end of a specified period of years, and (b) the serial issue which matures a certain number of bonds each year, or at the end of each two, three or five years.

The legal requirements are, briefly, that the bonds may be issued only after the holding of an election strictly in accordance with certain procedure, beginning with the presenting of a petition of taxpayers to the commissioners' court, the ordering of an election by the court, advertising it, canvassing the returns and declaring the result, all of which must be evidenced by a record in due form in the minutes of the commissioners' court. Thereafter the bonds may be sold when all this record and the other essential facts are certified to the attorney-general and he approves the issue and the bonds are registered by the comptroller of public accounts of the state and endorsed by him to that effect. The legal restrictions are that bonds so issued shall not exceed in amount certain prescribed limits. An auditor should certainly not fail to test the outstanding bonded debt against these limits as prescribed by law, particularly that which relates to taxable values upon which the issue depends for final extinguishment—not that the auditor could upset the validity of a bond issue, nor even that he should care to do so, in the event of its being out of bounds,

but that with the discovery of such a fact it would be high time for local authority to get the local body politic set right.

The auditor is as much bound to go over and report upon these matters as upon the receipt and disposition of the money itself. Times without number it is not done, and it would appear that auditors examining Texas counties either do not realize this duty, or else that they take the position that the bonds are sold, are in the hands of good-faith purchasers for value without notice, are valid unavoidable obligations, and that if they have gotten past the attorney-general on the one hand and the legal staff of the purchasers on the other they are incontestable and that that settles it. Even so, these facts do not justify a slighting of the record, for only an examination of the record can reveal all the moving considerations under which the issue was ordered—for example, that it was partly to be used in retiring an old issue, or as a county-wide issue to replace district issues. Was this done? If not, then what was done with the portion of the new issue so intended? And if sold for cash, what was done with the money? Further, the law provides that the approval of the attorney-general is prima facie evidence only of the validity of the bonds, and then only in the absence of fraud. Frauds in this relation do occur; it is not to be doubted. The attorney-general, in performing his part of the business of getting out a bond issue, is guided by certified statements of fact and certified copies of the record. Possibly he has been imposed upon—possibly the truth was not presented. All this bears upon the conduct of the personnel of county and city as well as school district governments, and the development of such facts as these is what invariably serves to exhibit the true inwardness of these ever recurring complications in local public finance.

Time warrants, to which reference has been made as a public obligation, differ from bonds principally in that (a) they are issuable without the authority of an election; (b) they are apparently intended to be resorted to for the funding at interest of unpaid current obligations, and (c) when so issued they are required to be paid, both principal and interest, from and within the taxes collected for the department for the debts of which they were issued. For example, the annual levy for an interest and sinking fund for funding warrants issued to liquidate floating general fund scrip must come out of and therefore reduce the available income from taxes accruing to the general fund. The same is true of road and

bridge funding warrants. By the same rule, the interest and sinking fund of warrants issued for the construction of a court house or jail must be provided for by a levy on the building and permanent improvement fund. The use of funding warrants has been developed so far that they have a market status with the buyers of bonds, are drawn in much the same form and appearance with coupons attached, and call for all the detail work for the auditor as in the case of bonds with the same duty to prove the reaction on the tax levies. There is, moreover, this possibility to be considered, that these warrants may be resorted to under conditions not within the purpose of the law which authorized them. Extravagant administration frequently rests under the cover of these public pledges against the future, and a clear showing which will exhibit the real truth ought therefore to be made by the auditor.

Now, as everybody knows, the prices at which bonds or warrants may be sold are variable and uncertain things, and regardless of the statutory requirement that no bonds shall be sold at lower than par plus accrued interest, these public obligations are, when all factors are considered, sold all over the state at not only material but frequently staggering discounts. The factors to which I refer are, first, the par value, second the accrued interest, and third the commission which the law allows the county to pay for the so-called service of selling the bonds. This commission is the fly in the ointment. Those who have had experience in this county practice know that the development of figures to show the net proceeds of a bond sale is usually not a matter of working out a result in sums taken from a clear and concise record. The net sums received are generally recorded in one place without particulars or the name of the purchaser, while the commission may be and usually is represented in a warrant entered on the expenditure side of the account, while the collateral record which should be in the minutes of the commissioners' court will not or only indifferently bear out the transaction as finally consummated. Files of correspondence which will leave the transactions clear are rarely to be found. Then there is the question of the accrued interest and the coupons covering it. Were they clipped and canceled or were they left attached to the bonds and collected? And finally, if accrued interest was collected, to what fund was it added—the bond fund or the interest and sinking fund?

Can it possibly be thought that an auditor has done his duty if he has failed to go into these transactions to the most minute particular and to exhibit his findings in a clear statement that any reasonably intelligent person may understand? Every bond issue is a matter of importance to the tax-paying public which is entitled to know the particulars and the net results whether they manifest an interest in the matter or not. Yet I must admit that many of the auditors' reports on counties contain such meagre information about the sale of bonds and the net price realized in the sale that they are little less than scandalous.

THE FUNDS

We have now considered the two principal sources of cash income, namely taxation and the issuance of bonds and warrants. If we consider along with these the minor income which arises from such sources as fines, forfeitures, depository interest, road taxes and the sums received from any special sources, we have the basis upon which stand the several simple accounts known as the funds. The current resources of a county at any given time will be its funds—the cash and lawful securities held therein—and such tangible personal property as may constitute its equipment. Its liabilities, on the other hand, will consist of its unpaid current debts including accrued interest and its outstanding bonds and time warrants. That is all there is to the financial structure of a county, however large or small, and whatever aids to public business may be found in the other several accounts of the ordinary finance ledger, or in the most elaborate accounting systems, they are subsidiary and in many instances are mere local makeshifts. The intention of the law seems to have been that the county clerk should be the county's bookkeeper and should keep in the finance ledger accurate accounts on the funds and also accounts with the various county officers, and this scheme is carried out poorly or well according to the aptitude for accounts of the incumbent clerk. In the great majority of cases there is no need for a complicated system, and in the matter of the several funds, nothing more is needed than a good clear record of receipts and disbursements. It is single-entry bookkeeping pure and simple, and any setting up of fixed-asset accounts, with surplus or deficit, is wasted effort. I recently saw a report of a county audit, a most ornate and pretentious document, made by a respectable firm of auditors for a little county which had neither a county

auditor nor any sort of a bookkeeper and no books other than those standard forms to which reference has been made. This report contained a wise-looking balance-sheet with large asset figures to represent highways and public improvements, and the balance-sheet showed a keenly drawn surplus—or maybe it was a deficit. And not only this, but there was a comparative balance-sheet displaying much effort to analyze the differences. All pure piffle. How in the world can any fixed-asset sums be fairly drawn out of the moil of average slipshod county administration, say for roads and bridges, that will represent a reality, and what does the honorable commissioners' court or any one else care about it? Further, to what purpose may this determination to keep books by double entry be pursued when everybody knows that property composing fixed assets such as macadamized roads is disappearing momentarily in the alternating dust and rain? This report looked wise and impressive and surely it represented a lot of work, but it was simply an overdoing of the accounting side of the engagement to the detriment of the more important work of pure auditing, for the report failed completely to mention a criminal misappropriation of $20,000 of sinking funds used in the construction of roads and bridges during the period under review.

So then, in handling a county audit the auditor should be content to accept the prevailing scheme of accounts and not indulge in speculative statements, unusual forms of reporting facts or efforts to give the accounts a commercial slant. A much better work can be done by following the law and doing a real job of auditing. When one has run the course of the county's finances as represented by its assets and liabilities as defined a little while ago and has gone through its funds, has verified its funded debt and cast up the condition of the sinking funds, he has made the audit and there then remains only the reporting of it in proper form.

It is not necessarily a complex operation to audit a county fund that has been accounted for with reasonable accuracy and intelligence. There are two sides to be audited, old as the hills, both of them—receipts and disbursements—and it should be borne in mind that either side may contain transactions that are irregular or illegal. And here we come again to the proposition laid down at the beginning, that the auditing can not be done unless the auditor knows the law. For example, the receipts to the jury fund should come from the levy of the jury-fund tax in the greater

part, a smaller portion being from poll taxes, occupation taxes, depository interest, sale of estrays and stenographers' fees, so that additions thereto from fines or road taxes would be obviously in error. Receipts in the road and bridge fund come from taxation, fines, forfeitures, automobile-registration fees, depository interest, personal road taxes and from other sources. I have known the proceeds of bond issues for road construction to be entered in current road and bridge accounts and therefrom spent by the commissioners' court intermixed with current funds. Upon being challenged for this unbusinesslike procedure, the county clerk or the county auditor would cite the provisions of the law applying to the issue of bonds, and the law reads to the effect that bonds may be issued "for construction, maintenance and operation" of roads. Note maintenance and operation. I digress here just enough to say that, in so far as the law authorizes the issuance of bonds for maintenance and operation, which it apparently does, it is an economic mistake. A county which can not maintain and operate its roads without cutting into a bond issue which represents in theory a public debt for a permanent improvement, ought to do without roads. Of course, good business practice would at all times require the proceeds of bonds sold as a county obligation to be placed in a construction fund or such other special fund as would ensure a clear record of how much money was received, how much was spent and for what spent, thereby providing an answer for any one concerned as to whether it was spent for the declared purpose of the bond issue or not. When bond proceeds are spent along with current road and bridge funds, it is not once in ten times that the auditor will be able to separate new construction from ordinary maintenance. Receipts to the general fund are subject to very similar conditions, but of course the proper allocation is positive and definite and is determined under the provisions of the law. Borrowing for both the general fund and the road and bridge fund in anticipation of taxes is not violative of the law nor uncommon. Every fund is entitled to its monthly share of depository interest, and should receive it as a practical business matter, notwithstanding that article 2442 of the *Revised Statutes* makes it possible for the commissioners' courts to dispose of it for county purposes just about as they please.

Transfers from one fund to another are inhibited by the decision of the supreme court in *Carroll* v. *Williams* (202 S. W.

507), regardless of who may continue thus to manipulate the funds under the old statutory authority.

These general allusions to the matter of receipts to the three most active funds are without attempt to cover the great mass of regulatory law but are for the purpose of emphasizing that receipts have to be audited, and not only with regard to the things just mentioned, but also to determine if the county has received all that may be due it. This may seem to be a glittering generality, but anyone who has audited accounts based on contracts between counties and the highway department must know that it is not.

Disbursements afford a greater latitude for error, for wrongdoing and also for extended analysis by the auditor. Certainly they cover a wider spread of regulations too numerous to consider in detail. These regulations fall generally into three classes, namely, (a) those from the statutes; (b) those from the decisions of the courts; and (c) those from the opinions of the attorney-general. With these in mind the work of auditing is not a superficial task. The analyses, for example, will show payments out of road and bridge funds to county commissioners for ex-officio services, and from the general fund other sums to them as per-diem compensation while sitting as a commissioners' court. Are these payments in accordance with law and do they fall within the legal limits of these officers' compensation? Again, the analyses will show certain sums paid the sheriff, the county judge and the county attorney out of the general fund. Were these in accordance with law and considered with relation to the accounts of fees collected how do they measure up to the limitations set by the fee law? Does the fee law apply to the county being audited and, if not, by what rule or provision of law does the auditor determine that condition? The records and the documents may show that the judge and the commissioners are buying material or supplies for the county from themselves or hiring their own teams to the county, or possibly selling county property to themselves. Does the auditor and does his lieutenant on the job know that this is against the law? And if so, what is he going to do about it?

Special funds, which may arise from any proper source outside the ones we have discussed but are committed to a special purpose and are to be set up separately, should be treated identically as has been indicated for the regular funds.

Now we have come to interest and sinking funds, generally so designated and kept in one account because the levy is made at one rate to provide for both the accruing interest and the amount required to meet maturities of principal or the requirements of the sinking fund. It is merely a truism to say that a sinking fund created under the obligations of a funded debt is a sacred thing, and it is not a new conception of civic duty or public honor to say that sinking funds of public obligations should be held at all times inviolate. The civil statutes set this out in no uncertain terms and the penal code fixes a heavy penalty for misappropriation of such funds. Yet it is a curious fact that with all this law and gospel before them, public governing boards, city, county and school, all over this country, go right ahead in defiance or in disregard or in ignorance of the law and spend, transfer or otherwise dissipate their sinking funds, or fail to maintain them to their proper progressive total on the one hand, or pile up an excess on the other. Along with all this is another astonishing condition, that auditors employed as experts to cast up the financial position of the county will go into or over or around such positively inexcusable conditions, close their audits, make their reports, show possibly a meagre statement of balances in sinking funds, and never once mention sums openly and flagrantly misappropriated, sums transferred to other funds contrary to law and spent for current expenses; insufficient levies; excess levies; nor even cast up a statement showing the condition of the sinking funds. When I say "condition of the sinking funds," I do not mean the mere balance therein—I do mean a cast-up, first, of the sum which should be in the fund compared with what is in the fund in cash and lawful securities. The difference is, of course, one or the other—an excess or a deficiency. Of what earthly use is a mere statement of sinking-fund balances without a calculation against which it may be compared, and what could a city or county board do with such a statement if it is to know where it stands with respect to the funded debt, or if it is to determine what to do in future levies? To develop such necessary facts is what an auditor is needed for, and the purpose for which he is generally employed. It is enough to startle any thoughtful man to view the indifferent manner in which this vital matter is being treated—judging by the reports we see—by the accredited auditing profession. It is either an indifference to professional duty or an abysmal ignorance of public finance on the part of people who ought to know.

Two years ago I made a regular annual audit of one of our largest Texas cities. As far back as I was able to find audit reports preceding me I found nothing in them exhibiting the condition of the sinking funds. The city controller assured me that no analysis of them had been made for at least twelve years. He appeared never to have made one himself. A casting-up of a proper statement by me revealed such facts as these:

(a) that twenty-six issues of bonds had excesses in their sinking funds, in various sums, which totaled $541,598;
(b) that nineteen issues of bonds had deficits in varying sums to a total of $410,701;
(c) that two waterworks mortgages had a deficit in their sinking funds of $259,723, and
(d) that the net deficit on the entire funded debt was $128,825.

The last-mentioned item was no consolation at all, since an excess in one fund may not be applied to a deficit in another. This investigation also revealed

(e) that seventeen serial issues carried a total of sinking-fund balances amounting to $411,169 when not one of them should have carried an accumulated penny.

These were serial bonds of a type which provided for annual liquidation of principal and interest requiring no sinking-fund accumulation. One of the issues had an accumulated balance of $93,947, enough to make the next two annual payments of principal and interest; it should have had nothing. Another had $82,673, another $62,746 and so on. Sheer ignorance of public finance was the only apparent explanation. The taxpayers' money was laid up in these funds earning depository interest at 2½ per cent. or investment interest at probably 5½ per cent., when for such purposes it should in no circumstances have been levied, collected or so disposed of. I do not say that the civic giants who were running the city had been hungering and thirsting for this knowledge. They looked at me as if I had with malice aforethought dug up and brought in a skeleton from the potter's field to plague them. Within my experience also is the so-called borrowing from the sinking fund for the purposes of the road and bridge fund, and again the straight transfer of sinking funds to other purposes. An auditor passing over such acts as these without noticing them is himself near to being guilty of criminal negligence.

Attention is directed to another thing about sinking funds—the ease with which an investment in securities may be overlooked. I am talking now of the ordinary single-entry county books. A warrant is drawn to buy securities for the purpose of putting the sinking-fund cash to work. Cash is paid out, of course, and it disappears from the treasurer's account. The treasurer takes in the securities and sometimes puts them into safe-keeping, properly marked to show the fund to which they belong, and thereafter reports them quarterly as in his possession along with the cash balances. The scheme of county accounts requires that this be done. It has just been said that sometimes the treasurer does this. Usually the securities are stuck away imperfectly marked, or not marked at all, and are not reported quarterly to the commissioners' court as is proper. And it sometimes happens that a treasurer, being a publican, is also a sinner and he makes away with those securities. For any ordinary sum not large enough to command the attention of the court or the common knowledge of the public, the only way such an embezzlement may come to light is by the thorough combing of the account by an auditor. So then, the auditor in going over the expenditures in sinking funds should note the investments made, as he proceeds, to see that they are represented by something in the hands of the treasurer; and not only this, but he should demand to know what securities, if any, were contained in the funds at the beginning of the period under review. The record ought to show what may have been again converted into cash, and in this manner only can the real wholeness of the accounts be determined.

(*To be concluded*)