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## Auditing Counties in Texas \*

(Concluded)

BY GEORGE ARMISTEAD

Besides the sums paid out for bonds and other lawful securities purchased as investments, with accrued interest thereon, if any, and occasionally treasurer's commission, the only other disbursements should be for maturing interest on the bond issue. If the issue is a serial one, then payments of principal may also be in evidence. Herein lies the most tedious and particular task related to either bonds or warrants. It is doubtful if there is any other single feature of an entire county examination requiring such particular care or so fraught with possibilities. Speaking generally, bonds are bonds, and county bonds are not different from those of a private corporation in the manner of liquidating principal and interest, but the auditor in a county examination is practically sure to find none of those well kept voucher files and the carefully preserved canceled coupons and bonds generally found with commercial accounts. In the first place, county treasurers are often in a state of befuddlement over the condition of their interest payments. Many of them do not know at any given time whether they have remitted too much or too little to the liquidating bank. Conceivably, if the interest remittance was not enough the county would hear of it, and by the same rule would be advised of an excess. The latter proposition is by no means to be assumed. The eastern bank is quite willing to carry an excess balance, and will continue to carry it as long as the county will let it stay there. And a short remittance is not always promptly brought to the attention of the county, as bonds and coupons are sometimes not presented for payment until long after their maturities. If such unbusinesslike methods are pursued, when the long past due bonds and coupons are presented for payment a troublesome and sometimes costly investigation is necessary in order to determine their propriety. A proven beginning point should be the first quest of the auditor, a beginning point which will reveal the coupons outstanding and in agreement with funds held therefor by the liquidating bank. This quest may take him back to Heaven knows where, possibly

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to the date of the bond issue, but assuming that he finds it reasonably near, there should be added to the coupons so enumerated those maturing within the period under review. After this, the canceled coupons in the hands of the treasurer plus those recorded in the commissioners' minutes to have been destroyed after payment, if any, plus those outstanding and represented exactly by funds confirmed by the liquidating bank to be in their hands should effect a balance. The same general rule will apply to principal maturities as well as to interest. A reconciliation should be worked out for every issue with the liquidating bank, its balance being obtained by direct mail inquiry. Now while this is the general outline of a method of verification and proof, it is no hard-and-fast rule, and is not warranted against the perplexities which come up out of obscure records, missing vouchers and official blundering. In such contingencies the auditor must have the experience and the genius to reach fair and safe conclusions, basing them upon whatever reasoning will answer the simple question: "Is the obligation (principal or interest) outstanding, or has it been paid and canceled in due course?"

Mentioning this matter of canceling things brings up the practice which is sometimes employed to take up, with sinking-fund cash, bonds of the county not yet matured, the bonds so taken up being of the issue to which the sinking fund belongs. This may be a redemption under an option in the bond and may have been with the intention to retire and cancel, or the commissioners' court may have looked upon it as an investment of the sinking fund. However that may have been, it is of the utmost importance that every bond bought for retirement and cancellation be in fact canceled and in due course according to law destroyed by the commissioners' court and so recorded. It should not be necessary to cite what has happened time and again—the purchase of the bonds for retirement before maturity, their supposed cancellation, the actual resale by dishonest officers, the losing of continuity in the record, the payment of interest on the resold bond out of its former interest and sinking fund from the funds of which it had been retired, and its eventual appearance in the hands of a lawful holder for value as an obligation to be paid. This simply demonstrates the absolute necessity of proving every coupon taken up against a live bond or warrant, as the case may be.

## *Auditing Counties in Texas*

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### OFFICIAL BONDS

I once asked a man who had made a dozen or more county and school audits in Texas and was locally regarded as an authority, if he ever did anything about officers' official fidelity bonds. He inhaled copiously from a cigarette and blew it out fifty-fifty through his nose and mouth, the while he replied: "That is not auditing." Possibly not by the standards of some, but it is when one wants to do the square thing. It is obvious that an auditor can not pass intelligently upon the financial strength of sureties, particularly if he be a stranger to the locality where the work is being done, and even if he could, approval is a function belonging to the commissioners' court or to the city council as the case may be. Yet the auditor can and should ascertain whether bonds for all officers actually exist, are on file and of record as approved by the court, and he ought to present a detail of them in his report citing any not in the sums required by law. It frequently happens that bonds are being relied on where the sureties have died or departed or moved away from the jurisdiction of the state courts after the execution of the bond.

### THE PERMANENT SCHOOL FUND

The common school funds of a county are not under the supervision or control of the commissioners' court and this discourse has passed them by for lack of time. Their audit is usually made concurrently with county affairs and the cost is usually paid by the county. These funds also are subject to a mass of regulations of a special character, and the principal difference between them and the county funds is that they are measurably under the control of the state department of education, and that the local depository bank performs the functions of a treasurer.

Not so the permanent school fund, which is a county matter, is under the control of the commissioners' court, and whose lawful and proper custodian is the county treasurer. Its income is the only part that goes to the schools to be spent for current school purposes. There seems to be some diversity of opinion among auditors regarding the proper treatment of the permanent school fund. Many of them, according to their reports, do not appear to regard the fund as of enough importance to be mentioned, much less investigated and reported upon. Some make mention of the cash and securities owned by the fund, but do not go into the matter of income, nor the lands owned by it, how much or where

situated. It would appear that a good many consider it a school matter while auditing the county and a county matter while auditing the schools.

The Texas public schools, as is probably well known, were endowed many years ago by the state and the endowment was made in the only thing of which the state had enough to endow anything—in land. The commissioners' courts were granted authority to hold, lease or sell their counties' land, but when converted into cash it must not only be invested in certain specified securities but must remain inviolate forever—nothing beyond the income was to be spent.

Can anyone imagine an audit of an endowed college being satisfactory to its trustees if it did not show the form in which the endowment was held, the income therefrom, and in what manner it was being used? Surely an auditor would not overlook a matter of so great importance and one which requires so little labor compared with its significance. But the endowment to the public schools is often unmentioned in county audits or is only partly treated.

Let it be said, then, that it is an auditor's duty in making an examination of a county to ascertain and report the condition of the permanent school fund, that is, the manner in which it is invested, the land endowment remaining, if any, vendor's lien notes for land sold, cash and securities, and to state whether or not the investments are all of a nature sanctioned by law. It is his duty to determine that the indicated income from the fund during the period was correct and that it was turned over to the available school funds, and to see that the principal has been in no degree reduced. If ever an auditor examining counties owes a debt to the public it is that of thoroughly auditing the permanent school fund.

#### MAKING THE REPORT

It is no new theory of business that an auditor should view his tasks as far as possible through the eyes of his client, or at least with his client's problems before him, and that having finished he should in the light of the exact truth relate his findings in a report written in the clearest possible terms. In every examination of public finances and accounts the taxpaying public is the real client regardless of the nearer position of the commissioners' court or the city council which has employed the auditor, and

this client, the public, is not a person having the time to ponder beclouded facts or figures nor one skilled in the language of technicality. Neither is the court nor the city council nor the school board. For these reasons then, if for no other, in all public work and especially in the examination of counties and municipalities, the purpose of presenting a thorough examination in the simplest and most effective form should be kept constantly in mind by the auditor.

If ever there was need that an audit report should be a human sort of document it is in the case of a county. This administrative unit is generally in the hands of plain men who need plain facts plainly stated. Second only to the art of doing the work is that of setting down the result in a clear and comprehensive way. It would be quite a vagary to say that an audit could be made involving many details without having to resort to tabulations—the setting up of facts in figures—for since audits deal with figures it is in figures that they must be largely set forth. Yet I have seen reports representing without doubt a vast amount of skilful work, so wrapped up and delivered in a marshalling of figures, so barren of intimate elaboration or comment, so cold and lifeless, that I confess they made me think of a book of annuity tables.

I once found a report on a county lying in the office of a client, a bright fellow who conducted a mercantile business. It was a one-hundred-and-fifty-page document, with only two pages of double-spaced comments in the front, and I asked him why the thing was in his hands. He replied that the county judge had asked him to look the thing over and tell him, if he could, what it was all about.

It has not been long since I saw the report of an audit of a fair-sized Texas county covering a period of six or eight years which was contained in not more than a dozen pages, and in which the greater part of the offices and accounts to be examined were disposed of with the terse remark “nothing to report.” Imagine, if it is possible, the transactions of a tax collector’s office over that period of time which had been so free from error that there would be nothing for an auditor to report.

All this is preliminary to my plea for greater clearness and a greater amount of painstaking care to present facts so that they can be understood. Not a little has been said in this article about the structure of county accounts: that they consist simply of

funds on the one hand and certain obligations on the other; that this makes it possible to follow simple processes, etc., and now I say, especially as to reports, that the simple way is the right way, and that it is a poor thing to report any part of the developed facts in extended and involved tabulations, boiled down and barren of the detail which every interested person wishes to know.

My thought is that the report should follow the straight line of a coherent story, let us call it a body of comments, into which all necessary statements, schedules and tabulations are inserted in their turn as the report proceeds, and so on through to the end. For example, the auditor might begin with comments setting out the scope of the work, the state of the account books and records and any special conditions under which the work was performed; passing thence to taxation, with a statement inserted in the comments showing the make-up of the various tax levies for each of the years of the period being reviewed, with remarks upon any exceptions to the several items and a showing of the per cent. of increase or decrease from year to year and the per cent. of increase or decrease over the entire period. I should then set into the body of the comments the resources and liabilities at the beginning of the period and follow immediately with a similar statement for the end of the period. This is much to be preferred to a comparative statement in parallel columns. These would be statements of the balances in the funds and the sums of the county's obligations, funded or others. Let it be understood that these little statements of resources and liabilities would represent no effort to set up a balance-sheet. The auditor should then proceed to state his analysis of each of the funds, taking them up in the order shown, with each fiscal year separate, and with the closing balance of one year taken up as the beginning balance of the next. The form of statement to exhibit this analysis is as old as accounting itself: first receipts, showing so much from taxes, so much from this, that and the other, and the total. Then disbursements, showing so much for this, so much for that and the total. Receipts plus the beginning balance, with disbursements applied, will yield a difference revealing the balance at the close of the period. The analyses embodied in these statements should show such a classification as will clearly and substantially reveal the sources from which the money came and the things for which it was spent. Following the statements thus exhibit-

ing the figures, there should be such comments as the auditor may have to make touching improper or unlawful transactions, with any additional schedules or elaborations that may be necessary properly to exhibit them. Here is the place for the statement of exceptions, not somewhere else in the report, calling for a turning of pages back and forth. This simple plan obviates all the rigmarole of numbered schedules and lettered exhibits and brings the report, step by step, comments, figures and all coherently on down to the end.

Any complicated matter of whatever character developed in the course of the examination should be written into the report with the utmost care, and not only this, but the whole body of comments should likewise be written with care and with an eye to making the report not only intelligible, but useful to all concerned. More than all this it should be prepared with a view to meeting the onset of any legal attacks that may be the outgrowth of the auditor's work, either by or against his client, and above all with an open readiness for any man who may feel himself aggrieved or damaged by reason of anything that may be brought to light.

#### WRONG-DOING

I have refrained from preaching about that very human trait which is as old as civilized government itself, the putting of sinful hands into the public purse. I have done so because public servants are no worse than private servants. Most of those who serve us in public office are honest men and women. God help us if they were not. Wrong-doing, however, is no new thing—it was here yesterday, is here today, and will probably be with us tomorrow. In the earlier days of our profession, we are told, wrong-doing in high places and low was believed to be the chief reason for the accountant's existence. Let me tell you it is but little less so at this hour. We are fond of saying that the world has changed and that the calling of an auditor does not imply the existence of evil and that the uses and the activities of the profession are made manifest throughout the whole living body of human affairs, whereat I say, "Amen"—not to deny that sin is still with us and men still do wrong. Each man may settle it to his own satisfaction, but let him ask himself if he is, as a professional examiner, becoming enervated in conventional engage-



ments so that he no longer has the capacity to overtake a thief nor the discernment to recognize that dread distemper known as graft. An auditor may forgive himself some aberrations; he can haply afford to cast away some rare gifts—but not these.

IN CONCLUSION

I think it may be justly said that I have engaged in not a little complaining and that this has not been alone directed at the unaccredited practitioner but at our own accredited class as well. I have felt that it is necessary to speak plainly within the house of the brethren, and the only acknowledgment I have to make is that I am sensitive for the honor and the dignity of the profession. Let us inwardly take stock of ourselves and resolve that this important class of professional service shall, so far as we have contact with it, be performed in a manner befitting the high calling to which we pin our hopes and aspirations. Let there be light, and let all who will come and share it. A petty occupation having little to look to may well afford to keep its handicraft and its processes obscure and hidden in the spirit of selfishness and fear, but a great calling loses half its dignity and strength when it can not, in a clear and methodical way, give some account to all who may be concerned of the main reasons for its existence and the capacity for useful service by which its future appears to be so well assured.