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The Role of the Auditor General in the Legislative Branch

and

Other Remarks

A Presentation

by the

Citizens Research Council of Michigan

to

Members of the 1965-1966 Michigan Legislature

Citizens Research Council of Michigan

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INTRODUCTION

The Citizens Research Council here publishes the main address and the remarks made at a dinner meeting held on February 2, 1965, in Lansing.

The purpose of the meeting was to introduce the Research Council to the members of the 1965-1966 Michigan Legislature. For that reason, the major emphasis of the remarks relates to problems of interest to the legislature and to the services provided by the Research Council for its members and committees.

The main address was by Mr. Karney A. Brasfield of Washington, D.C., and discussed the role of the auditor general in the legislative branch. This new constitutional office offers the legislature a mechanism with tremendous potential for improving its oversight of its policy decisions and the effectiveness of their execution by the departments and agencies of the state. For that reason, Mr. Brasfield's comments are considered to be especially timely and pertinent

Contained herein are the addresses of the presiding officer, Mr. Robert B. Semple, president of Wyandotte Chemicals Corporation; Mr. Robert E. Pickup, Executive Director of the Research Council; and Mr. Brasfield's speech.

Introduction of the Speaker by Mr. Semple

There is one “tool” made available to the legislature by the new constitution which is certainly of equal if not greater importance in its potentialities than any other one constitutional provision relating to the legislative branch. I refer, of course, to the new office of the auditor general, or as some call it, the legislative auditor, to distinguish it from the elective office we formerly had.

I doubt very much that we could have secured anyone better qualified to discuss the potential and the pitfalls of this new office, than our speaker tonight. Mr. Karney A. Brasfield has served in three government posts at the federal level, all dealing intimately with fiscal and audit matters. He has been comptroller of the Farm Credit Administration. He has been comptroller of the Commodity Credit Corporation; and he has served as the Assistant to the Comptroller General of the United States. He has been, for thirty years, a certified public accountant, and is presently a partner in charge of the Washington office of one of the country’s largest C.P.A. firms, Touche, Ross, Bailey and Smart. In addition, he is chairman of the Committee on Relations with the Federal Government for the American Institute of Certified Public Accountants.

It is with these impressive qualifications that he is here to speak to us tonight on the subject of Michigan’s new office of auditor general. I present to you, ladies and gentlemen, Mr. Karney A. Brasfield.

THE ROLE OF THE AUDITOR GENERAL IN THE LEGISLATIVE BRANCH

After many years of research and public discussion the legislative branch has the opportunity to avail itself of a new tool – an audit function carried out through an auditor general appointed by and responsible to the legislature.

The constitutional provisions are simple but adequate. The effectiveness of the function will depend on (1) the creativeness and the competence of the appointed auditor and his staff and (2) the development of a constructive environment for the work of the auditor general’s efforts. It makes no difference which one of these factors we list first or second – both are vital to success of the effort.

The auditor general is to be appointed by a majority vote of the members of the legislature and is to serve for a term of eight years. The auditor general is to be a certified public accountant licensed to practice in the state. His is to conduct audits of financial matters and performance – both functions to be conducted on an after-the-fact or post audit basis. The auditor general is required to report annually to

the legislature and the governor and at such other times as required by the legislature or by the auditor general in his discretion. So much for the factual background – to repeat the constitutional provisions are simple but adequate.

Basic Criteria

Let us start with two interrelated but basic criteria of success – *independence* and *objectiveness*. Independence starts out being reasonably simple – the constitution clearly intends and provides that the auditor general be independent of the executive branch whose activities he is to audit. This is as it should be. However, the auditor general must also be permitted to work in an environment of professional independence by his own client/employer – the members of the legislature. Otherwise the work of the auditor general cannot meet the second test – *objectiveness*. However, it is not intended to suggest that the auditor general assert an attitude of independence to the point of becoming a fourth branch of government. His office is a part of the legislative branch and must function as such.

The second test – namely objectiveness – is perhaps more difficult to either achieve or measure than independence. However, it is something to constantly strive for. Unless the reports of the auditor general are objective, they will create a defensive attitude on the part of the executive branch personnel, facts will become confused with opinions, and a general breakdown in effectiveness will follow.

It would be naïve to assume that those being audited will always be objective about any appraisals or evaluations of their own efforts or even about the programs they serve as advocates. But this is no reason for the auditor general to lose his objectiveness or for his clients/employer (the legislature) to urge or expect him to be less than objective.

As in most situations involving human relations, the problem is simple – it is the solution that is difficult. But the point involved is fairly obvious. If the auditor general permits partisan viewpoints to influence his own efforts – whether unduly friendly to or unduly critical of the executive branch or of a program – he immediately sacrifices the support among members of the body he serves and could find himself in the position of serving the minority.

Audit of Financial Transactions and Accounts

The constitution specifically provides for two kinds of audits. One is the audit of financial transactions and accounts. The second is the performance audit. Let us first discuss the responsibilities for the audit of financial transactions and accounts.

As previously indicated, the constitution places the audit function of the auditor general on a post, or after-the-fact basis. Thus, the auditor general is in a sense a substitute for adequate operating tools in the executive branch – including adequate fiscal audit before the fact and the review of its own activities initiated by

management. The latter is generally termed internal audit. For this very reason the auditor general should begin by appraising the effectiveness with which the executive branch has discharged its responsibility for the activity he proposes to audit, and he should avoid duplication of effort. The auditor general will of necessity need to review and test procedures in the financial area to satisfy himself that they are adequate and that such procedures are being effectively carried out. He certainly should conduct his audit efforts so as to disclose any departures from legislative intent as well as the letter of the statute.

However, as in the practice of public accounting his primary concern will of necessity be the internal control exercised by the operating agencies from day to day as he cannot hope to, nor should he, duplicate the review of thousands of individual transactions. In our present and future age of computers this is even more true today than in the past; that is, the auditor must satisfy himself concerning the adequacy of the controls under which the computer is operated. Fortunately the auditor general has a rich background of modern audit techniques that have been developed and tested in both the private and public sectors to draw upon in this regard.

Timeliness is a most important factor in this process of auditing financial transactions, and a current flow of interim reports as the audit of respective operations is concluded is essential. Constructive recommendations submitted to the executive branch for current consideration will measure the success of this phase of the auditor general's efforts. Where corrective action is not forthcoming, a report to the legislature will afford that body an opportunity to bring its influence to bear on the problem. In certain instances recommendations for legislative action may also be appropriate.

Performance Audit

It is with respect to the performance audit function of the auditor general that matters of specific interest to the legislature are most likely to develop. This function embraces appraisals and evaluations of programs and performance involving a high degree of judgment and is an area where opinions may differ. Such differences may relate to the content of programs as well as to the effectiveness with which they are carried out.

The auditor general should be encouraged to take a broad view of his responsibilities to the legislature in the conduct of this phase of his work. It is a means by which obsolete or wasteful programs can be brought up for legislative review. It is a means by which ineffective performance by the executive branch can be highlighted. It is in this area that objectiveness in gathering and appraising facts requires a high order of skill.

Although a representative of the legislative branch, the auditor general must, because of the nature of his functions, have extensive dealings with the operating and staff agencies making up the executive branch.

If the auditor general is to gain the confidence of the executive branch, he must be willing to discuss his findings dispassionately and assure himself of the correctness of his facts. He must use skill as well as fairness in presenting them. He will not always achieve agreement in controversial areas but he must gain respect for the fairness of his presentation if he is to be effective. He should be encouraged to do so by members of the legislature and the committees – otherwise much of the usefulness of the effort will be blunted by controversy over the facts rather than constructive efforts to find solutions to the problems. This is not to suggest that the auditor general be less than forthright or that he in any sense “pull his punches.” It is merely to emphasize that the cause of good government is the loser when bias, emotion or the desire to aggrandize one’s own function at the expense of others displace calm reason and objectiveness.

Reports of the Auditor General

The vital area of decision is the question, who does the auditor general report to in the legislature and what group is responsible for ascertaining that his recommendations receive adequate consideration? Please note I did not say to see that his recommendations are adopted. This point is important in that the recommendations of the auditor general should not be surrounded with an aura of infallibility. If the auditor general’s recommendations are well conceived and persuasive they should, of course, be aggressively pursued. However, at times his recommendations are bound to deal with controversial policy matters that are not simple to resolve.

To get back to the question of reporting – in order that all members of the legislature will have access to the findings and recommendations of the auditor general, it might be well to have his reports addressed to the presiding officer of each body of the legislature and the governor – the latter being provided for by the constitution with reference to his annual report.

Assuming the first premise of reporting just stated, that is, reports will be addressed to the presiding officer of each body, it then becomes a question of referral for consideration and action. There are a number of possibilities – each has advantages and disadvantages. The manner in which the legislature carries out its own functions is also to be considered.

Let us also bear in mind that the constitution refers to two kind of audits; that is, (1) audits of financial transactions and accounts and (2) performance audits. Further, the auditor general should have some flexibility as to the manner in which he carries out the reporting functions.

Without attempting to cover every facet of this situation we might consider some of the approaches.

The annual report called for by the constitution might be developed as a general report of the stewardship of the auditor general and cover the scope and results of his endeavors the previous year.

Through this media he could deal with summary information concerning the audit of financial transactions and accounts and convey an over-all evaluation of this facet of executive branch operations. Assuming that any deficiencies will have been the subject of specific interim reports to the executive agency concerned at the time the work is completed throughout the year, he can deal with recommendations which have been made with respect thereto and whether or not corrective action has been taken; for example, the auditor general might have found the record keeping was not up to date in some areas. Perhaps there should be a single point of reference in the committee structure of the legislature to deal with those situations where corrective action has not resulted or differences of viewpoints need to be aired to promote corrective action on financial activities. For example, there might be a difference of viewpoint between an executive agency and the auditor general as to the adequacy of controls over inventories or equipment.

It is with respect to the performance audit function of the auditor general that specific opportunities for ingenuity and innovation are presented in inaugurating this new function. It seem logical that when a subject matter committee has requested the auditor general to review a particular program or the operations of an executive branch agency, his report be referred to that committee for consideration and action, although the report is addressed to the presiding officer to assure access by all members.

Following a similar line of reasoning, it would be logical to refer each auditor general report dealing with a particular program or organizational entity to the subject matter committee normally having jurisdiction. Experience of other bodies would suggest that such an approach would be more likely to result in action, avoid jurisdictional problems and promote the idea that the auditor general serves the entire body.

Two other types of reports might also be particularly helpful –

- (1) At the beginning of each legislative session the auditor general might be requested to submit a report dealing with specific matters growing out of the conduct of his work that he believes should be included in the legislative program of that session; for example, discontinuance of an obsolete fund. Presumably the recommendations would, here again, be a matter of particular interest to the subject matter committees.

- (2) The work of the auditor general should be of particular value to the committees responsible for action on appropriation requests and thus it might be useful to ask that the auditor general bring to the attention of the cognizant committees his specific recommendations with respect to appropriation requests in a timely special report. For example, the auditor general might supply information relating to utilization of present equipment in a situation where funds to acquire new or additional equipment are being requested.

The foregoing comments are intended only as illustrations of particular services the auditor general might render. The opportunities are almost unlimited but the resources made available to the auditor general and his use of them will likely be the determining factor.

The State of Michigan and its leaders are to be congratulated on providing for the vital function of legislative auditor general – may you reap the full benefit of the constructive contribution which the office can make.

Concluding Remarks by Mr. Semple

Thank you very much, Mr. Brasfield. I am sure that this concept of legislative review strikes a responsive chord in all of us. Each of us in our own way has a responsibility to see that the dollars under our control are well spent. The most advantageous use of our money, time and substance are fundamental to what we all want out of our society. Waste only contributes to the defeat of our aspirations.

On behalf of the Research Council, thank you again, ladies and gentlemen, for taking the time from your busy day so that we might renew old acquaintances, and make new ones. Good Evening.