

## E. INTERNAL AUDIT SYSTEM

Mr. BROOKS. Would you describe briefly your internal auditing system?

Might I introduce to you Congressman Fletcher Thompson.

Mr. THOMPSON. Good morning.

Mr. BROOKS. Mr. Tierney, Chairman of the Interstate Commerce Commission, Mr. Bernard Schmid, managing director.

Mr. TIERNEY. The internal auditing function of the Commission is under the direction of Mr. Schmid, the managing director, Mr. Chairman, and the persons who actually perform this service are qualified in accounting and auditing as well as in management, the substantive program areas.

Since we are not a large agency, the auditing function is not handled separately as such. It is carried out in conjunction with other management controls, for example our program evaluation process, our central status system, our field internal inspections and our internal fiscal audits. That is the summary of it, sir.

Mr. BROOKS. Mr. Chairman, I have a long interest in this internal auditing area. To whom do the senior internal auditors report their findings on investigations or analysis of a section of your agency?

Mr. TIERNEY. They report them to the managing director. Summaries, of course, have been furnished to me or to the vice chairman or to the members of the Commission, depending on the subject matter involved.

Mr. BROOKS. Who is the internal auditor?

Mr. TIERNEY. We don't have an internal auditor as such. The whole program is operated out of the managing director's office, Mr. Chairman. For example, our internal audits would be handled through the central status area, through our fiscal people who conduct fiscal audits, also through our inspection people who conduct inspections of the various areas, and the program evaluation process.

Mr. BROOKS. I think this indicates that your internal audit is not particularly independent of your management or your managing director. I would think that in this type of an agency you ought to have a fairly independent auditing section. It would probably be a fair, equitable system to have whomever is running your internal audit system report frequently to you, the chairman, and to the managing director, since his relationship to the operation of the agency is a little different than being the second man of the agency. He has been there for some time and his successor will be there for some time. His is a continuing function, and I think this would be real substantial protection for the prevention of errors in operation or fraud or mismanagement that would protect both the chairman and the members of the Commission and would protect the managing director.

I think if it is just an auditor whom you assign to do that audit, operating out of your managing director's office, that neither you nor the managing director will get a really impartial, more or less objective view of both how the managing director does his job and how all of the other agency personnel operate and function. This is the danger. This is what we are trying to get in an internal audit as such.

Mr. SCHMID. May I clarify this a little bit?

Mr. BROOKS. I would be pleased if you could.