Can Politicians Police Themselves?
Natural Experimental Evidence from Brazil's Audit Courts

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Abstract

To enhance government accountability, policymakers and reformers have advocated the creation of institutions of "horizontal accountability", particularly auditing institutions that can monitor and punish lawbreaking elected officials. Yet these institutions differ greatly in their willingness to punish corrupt politicians, which is often attributed to variation in their degree of independence from the political branches. Taking advantage of a natural experiment embedded in Brazil's State Audit Courts, we study how variation in the appointment mechanisms for choosing independent auditors affects political accountability. We show that auditors appointed under few constraints by the executive or the legislative branches punish lawbreaking politicians—particularly co-partisans—at substantially lower rates than bureaucrats insulated from political influence. Additionally, we find that even when executives are heavily constrained in their appointment of auditors by meritocratic and professional requirements, appointed auditors still exhibit a pro-politician bias in their decision-making. Inferences have strong internal validity as assignment of auditors to cases occurs by random lottery.

1 Introduction

Elections are the defining institution of democracy, yet disappointment with electoral competition's capacity to reliably produce the rule of law is widespread (Collier 2011; Fukuyama 2011). Similarly, Madisonian solutions, such as the separation of powers between independently elected executives and legislatures, have frequently failed to foster robust oversight of state functions (O'Donnell 1994; Morgenstern and Manzetti 2003). This disappointment has led scholars and policy makers to argue for the creation of institutional arrangements that can compensate for the failures of legislatures to ensure that officials, particularly members of the executive branch, govern within the bounds of the law. Disillusionment with standard institutional solutions has lead to increasing attention to the creation and functioning of *unelected* institutional bodies designed to oversee the state and sanction law breaking by the elected branches.

Among the most common non-elected institutional solutions proposed for constraining the state are "auditing agencies" or formally independent bodies tasked with monitoring government compliance with the law and, in many cases, sanctioning noncompliance. Multilateral agencies such as the World Bank and the Inter-American Development Bank argue that these agencies can be "an essential instrument for development, promoting good governance by improving public sector management" (Dye and Stapenhurst 1998, pg. 10). Prominent theoretical analyses of good governance suggest that horizontal accountability necessitates "state agencies that are authorized and willing to oversee, control, redress, and if need be sanction unlawful actions by other state agencies" (O'Donnell 1998, pg. 19). Furthermore, well known empirical analyses of how the revelation of government corrupotion affects political accountability (e.g. Ferraz and Finan (2008)) hinge on the credibility of the auditing institutions which produce the information in the first place.

Of course, the degree to which these agencies actually are able and willing to confront elected officials who break the law differs greatly across contexts (Santiso 2009). To explain this variation, scholars have emphasized—among other factors—the importance of institutional design (Diamond 2002; Moreno, Crisp, and Shugart 2003). Of particular importance are the rules governing how the unelected officials charged with monitoring the state are chosen, particularly the degree to which

the process is shielded from political considerations. Yet, in stark contrast to the vast literature on the institutional rules governing legislatures and executives, empirical assessments of the rules structuring audit agencies and related agencies of horizontal accountability are relatively few.[1]

In this paper, we study how the rules governing auditor selection affects the outcome of audits and the extent to which these outcomes are politically biased. Specifically, we take advantage of two unique institutional features governing state-level auditing institutions in Brazil that create natural experimental leverage to test the link between selection rules and audit outcomes. First, state-level audit courts are composed of councilors who are selected by different procedures: (1) appointed by the executive with few restrictions, (2) appointed by the legislature with few restrictions, (3) appointed by the executive where the nominated member must be a career bureaucrat, and (4) professional "substitute" auditors who are not appointed by the electoral branches. In general and as we discuss in detail below, these selection rules create two sets of auditors: professional bureaucrats and professional politicians. Second, annual audits of government agencies and subnational governments are assigned by *random* lottery to each of the councilors. These two institutional features create variation in the types of officials that are tasked with identifying and punishing malfeasance but remove the potential for confounding induced by strategic selection by the auditors of government actions to investigate. Thus, the research design allows for robust causal inferences on the relationship between official-type and decision-making in investigations of government lawbreaking.

Overall, we find that auditors appointed by the political branches with few restrictions are more reluctant to punish local governments than career bureaucrats. Furthermore, effects are heterogeneous by the partisan affiliation of the mayor under scrutiny: governor or legislature appointed auditors are more lenient towards subnational governments headed by politicians belonging to the party that appointed them than politicians belonging to other parties. Furthermore, we find that even when governors are heavily constrained in their choices by the requirement to appoint career civil servants, appointed bureaucrats exhibit detectable partisan bias in their decision-making. The

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1. Important exceptions include Mello, Pereira, and Figueiredo (2009), Santiso (2009), and Blume and Voigt (2011)

answers we obtain have important implications for institutional design, as appointed politicians and appointed bureaucrats—even when granted strong tenure protections— behave quite differently from unappointed bureaucrats when tasked with ferreting out corruption and law breaking.

1.1 Auditing Institutions and Horizontal Accountability

Audit institutions such as Brazil's Audit Courts are quite heterogeneous organizations that vary both on how the information they generated is used and how they are structured (Santiso 2009; Speck 2011). Most generally, audit institutions are unelected public agencies tasked with generating information about state activities that can be used for a variety of purposes by policymakers, bureaucrats, and the broader public. A primary function of this information is to provide actors—such as legislatures, public prosecutors, and voters—an evidentiary basis for punishing lawbreaking (Schedler 1999). Another common use for information generated by audit institutions is to identify inefficiencies and otherwise poor performance in policy implementation, which can be used by policymakers to reform government processes. In some cases, audit institutions can directly sanction lawbreakers, but generally these agencies are dependent on other actors such as public prosecutors, courts, and voters to punish misconduct.

The heterogeneity in auditing agencies' goals and capacities is reflected in variation in institutional organization. While some audit institutions are organized around a chief auditor, others are headed by a collegial body or panel of councilors, as is the case of Brazil's Audit Courts.[2] Another dimension of variation, which we examine empirically, is the relationship between the audit institution and the political branches.

The degree to which audit institutions or any bureaucracy in a democracy fulfill their intended role is linked to their relationship with the elected branches and the relationship of the elected branches with each other (Moe 1984, 768-9). Of chief importance is institutional *independence*,

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2. Santiso (2009, p. 50) identifies three ideal types of audit institutions: the monocratic model, the court model, and the board model. According to his typology, audit institutions are differentiated by the decision-making structure, formal links to the political branches, and the rules of appointment for the top decision makers. He categorizes Brazil's Audit Courts as falling under the court model because of ambiguity over its principal, quasi-judicial character, and the collective decision-making structure.

i.e. the degree to which the selection and survival in office of the institution's agents is controlled by elected officials (Wood and Waterman 1991). On one extreme of no independence, a chief auditor may be unilaterally appointed by the executive and serves at his or her pleasure. In this case, the chief executive might prefer to select an agent interested in ferreting out deviations of the bureaucracy from the executive's preferred policies, but who also show little interest in the exposure of politically damaging law breaking by the executive himself or his allies. At the other extreme of high independence, auditors may be given life tenure by a committee of experts with no formal links to elected officials. Auditors picked under such an arrangement are presumably more willing to confront executive law breaking. Lack of independence does not imply that auditors cannot generate useful information and sanction wrongdoing, but standard delegative models do predict that their behavior will be aligned with the preferences of the electoral authorities that control their selection and persistence in office (Calvert, McCubbins, and Weingast 1989). Audit agencies are often beholden to legislative majorities, for example, and thus likely to be biased in favor of officials belonging to the majority party or coalition. Yet even these legislature-beholden audit agencies may be quite willing to expose malfeasance by the executive, particularly during periods of divided government. Of course, executive dominance of the legislature through partisan ties or patronage is not uncommon, so even nominal independence from the executive may be undermined by cross-branch collusion.

Our research design enables us to test the empirical relevance of the predictions that arise from delegative models of separation of powers when applied to agencies of horizontal accountability. Randomization of cases to councilors and a dependent variable that is comparable across units gives us an unusually strong opportunity to test our proposed hypotheses. Furthermore, in contrast to the existing empirical literature which has relied on cross-national comparisons (Blume and Voigt 2011) and cross-sectional observational studies (Schelker and Eichenberger 2010) potentially confounded by unmeasured factors, we can compare the behavior of different types of officials in a common institutional setting. These design features allow us to observe the degree to which politicians on the Audit Court behave similarly to bureaucrats, appointed or unappointed,

when judging other politicians and thus assess how much political incentives distort political accountability.

While it is somewhat unusual for officials in a single organization to be chosen by distinct principals as is the case in Brazil,[3] the individual selection mechanisms that we study are similar to the procedures used to staff the national audit agencies across the world (Speck 2011, . 152-153). In Peru, for example, the head of the national audit agency (*Contralor General*) is appointed by the president, with confirmation by the legislature. In Mexico, in contrast, the chief auditor (*Auditor Superior de la Federacíon*) is appointed by the national legislature with no role for the executive in the selection process. Technical and professional requirements also vary substantially. In Portugal, for example, members of the audit court (*Juízes Conselheiros*) must pass a public civil service exam in order to be eligible for nomination. In Uruguay, ministers (*ministros*) of the audit court only must meet minimal citizenship and age requirements.

The paper proceeds as follows. First, we provide institutional background on Brazil's state Audit Courts and the annual auditing process of municipalities' government accounts. In the next section, we provide a theoretical framework inspired by models of judicial decision making and institutional delegation. Relying on this framework, we delineate several testable hypotheses. In the subsequent sections, we detail our research design, present basic characteristics of our data, show evidence that our design is valid, and present our results. Finally, we conclude with a brief discussion of the theoretical implications of our results.

2   Audit Courts in Brazil

Audit institutions in Brazil follow the Audit Court (AC) model, where the court acts as a quasi-judicial authority with an independent budget and staff, but headed by ministers or councilors (*conselheiros*) nominated by the political branches. Both federal and state constitutions mandate that the ACs aid the national and state legislatures in overseeing public sector spending and pro-

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3. Speck (2011) using data on Latin American supreme audit institutions shows that around 35% of agencies have a shared selection process.

grams by providing independent and professional assessments of compliance with the law. While some of these courts date to the late 19th century, the 1988 constitution significantly strengthened their role in overseeing state agencies by giving them the authority to investigate virtually all public expenditures (article 71). The new constitution also altered the rules governing selection of the councilors at both federal and state ACs by substantially decreasing the executive's role in appointing members to the court (articles 73 and 75).

A chief advantage in studying the Brazil's state ACs is that they are collegiate bodies composed of councilors who are selected under different decision rules that imply varying levels of dependence on the elected branches.[4] The legal framework in the 1988 constitution grants the state legislature the authority to nominate four out of seven councilors on the court, as well as mandating that two councilors be professional auditors or public prosecutors.[5] In general, to fill the "bureaucrat" slots on the court, the governor must choose, alternately, a career auditor or a public prosecutor off of a list of three nominees presented by the AC.[6] In addition to the two bureaucrat appointments, the executive can only choose one councilor unconstrained by technical requirements.[7] Independence of the councilors is further reinforced by the rule that they cannot be removed by the political branches and remain in office until a mandatory retirement age of 70.

Every appointed councilor has to be vetted through a public hearing and win confirmation in the state legislature. Approval is by simple majority, the same process necessary to elect the president of the assembly. In Brazil, governors typically build multi-party coalitions by appointing party

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4. All councilors must meet general requirements: older than 35 and less then 65 years of age; moral standing and "unblemished" reputation; legal, accounting, economic and financial or public administration knowledge; and more then 10 years of experience in a profession related to auditing. Despite these legal provisions, it is often the case that the importance or meaning of reputation, specialized knowledge and experience is interpreted liberally and thus these restrictions are of little practical importance. We can find instances of former journalists, physicians, and dentist serving in ACs, as well as several councilors with criminal charge or under judicial investigation.

5. Prior to 1988, only the executive could nominate councilors and were virtually unconstrained in who they could select.

6. Typically, this list (known as the *lista tríplice*) is formed by AC's councilors following rules of seniority and merit. As a result, high performing and long tenured bureaucrats should be favored in the selection process. However, it is possible that internal politics in some instances play some role in the composition of the list. Furthermore, the timing of appointments is not strictly regulated and governors have been known to delay appointing bureaucrats to the AC. These delays and related controversies have led to appointments being frequently contested in court.

7. Of course, in some instances governors might appoint highly qualified bureaucrats to their "unconstrained" slots, even though are not required to do so. In our analyses below, we focus on the appointment mechanism as opposed to the actual qualifications of the appointees since judgments about professional qualifications are likely to be subjective.

members to key executive positions, effectively building a majority in the local legislature. Consequently, councilors are normally candidates aligned with the governor and the largest party in the assembly, representing the strongest member of the political coalition at the time of appointment. While minority parties can propose candidates for the slots appointed by the legislature, those candidates still need to pass the bar of a simple majority. Minority victories only occur in rare cases of coordination failure between parties in the governing coalition. In addition, since legislative minorities do not have the filibuster option in Brazil, they have little power in the nomination process.

When the court lacks regular councilors due to absences or retirement, unappointed bureaucrats (*Conselheiros-Substitutos or Auditores-Substitutos*) temporarily fill vacancies. Substitute auditors are career bureaucrats hired by a competitive and open selection procedure. Generally, substitutes are auditors who regularly prepare the evidence that form the basis of councilors' overall judgments. While serving as a substitute, an auditor enjoys the same prerogatives and salary as a regular councilor. A substitute can serve until the member returns or, in case of retirement or death, a new one is appointed. In a few cases, Audit Courts hire auditors directly to serve as a substitute. As are summarized in table 1, these rules thus creates four types of councilors: *executive appointed*, *legislature appointed*, *appointed bureaucrat*, and *unappointed bureaucrat*.

Type	Appointed by	Restrictions	Num. Positions
Executive Appointed	Governor, with legislative approval	Minimal	1
Legislature Appointed	Legislature	Minimal	4
Appointed Bureaucrat	Governor, with legislative approval	Selected from a list of 3 public prosecutors	1
	Governor, with legislative approval	Selected from a list of 3 professional auditors	1
Unappointed Bureaucrat	Not appointed	Only professional auditors	NA

Table 1: Appointment Procedures for State Audit Court Councilors. Unappointed Bureaucrats are substitutes that fill vacancies on the court.

The ACs operate at the federal, state, and local levels. The federal AC (*Tribunal de Contas da União* or TCU) is responsible for investigating federal activities, including federal transfers

to subnational governments and the operation of state-owned enterprises (SOEs). All 27 states have an analogous institution, designed to monitor each state government and all 5570 of Brazil's municipalities.[8] These State Audit Courts (*Tribunal de Contas do Estado* or TCE) all have a similar overall structure, but vary substantially with respect to budget and staff size (Mello, Pereira, and Figueiredo 2009).

The role played by politicians in the appointment of councilors—who will ultimately judge the accounts of other politicians—is a common source of criticism both in the press and in academic circles. A common charge is that councilors are selected through political influence irrespective of technical capacity. The perquisites of office—among them high salaries with tenure—is commonly treated as a reward for politicians approaching the end of their career, especially state deputies belonging to the legislative majority. According to a report prepared by the NGO Transparency Brazil (Paiva and Sakai 2014), based on an examination of all Audit Courts in the country, 60% of councilors were elected politicians before being appointed to an Audit Court. Another 17% are relatives of politicians and 20% faced or were convicted of criminal charges. Alston et al. 2005 claim that the greatest limitation of the Brazilian Audit Court model is the appointment procedure for selecting councilors. Similar criticisms are made by Santiso (2009) and Speck (2011). Paiva and Sakai (2014) goes as far as to say that Audit Courts are designed not to work, arguing that politicians are appointed to neutralize the oversight role of the institution.[9]

Despite these criticisms, Pereira and Melo (2016) show that the information provided by court audits negatively affect the probability of municipal incumbent re-election when corruption is re-

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8. Generally, each state has a state-level court that audits both the accounts of the state government and the municipal governments within the state. However, in six cases (Bahia, Ceará, Goiás, Pará, Rio de Janeiro, and São Paulo), there is one agency in charge of auditing the state government alongside another court that audits municipalities located in that state. Finally, the cities of Rio de Janeiro and São Paulo are the only municipalities that have a tribunal solely dedicated to audit a single municipality.

9. It is not difficult to find examples of former-politicians serving as councilors involved in corruption scandals with charges of influence peddling, money laundering and receiving kickbacks. Robson Marinho, a long serving councilor in the São Paulo Audit Court, for example, was removed from office in 2014 by judicial decision after being convicted for receiving bribes to favor a multinational company with SOE contracts. Similarly, the President of the Maranhão Audit Court faced accusations that he used his position to pressure mayors to support his son's 2014 run for a seat in the state legislature. In a more extreme case, the councilor Luiz Eustáquio Tolêdo was convicted of murdering his wife in 1989, but kept his position in the Alagoas Audit Court. He served a six years sentence in the semi-open regime, what allowed him to work during the day.

vealed, indicating that the activities of the courts are not as meaningless as some critics argue. Related research by Mello, Pereira, and Figueiredo (2009) shows that broader institutional factors, particularly volatility and political competition, affect the overall performance of the state courts. Specifically, states with higher levels of programmatic political competition are more likely to have professional auditors appointed to the court, as well as reject the annual accounts of the governor. Our research design allows us to directly tests some of the mechanisms postulated by these authors, but we treat the broader institutional setting as fixed given that our comparisons are within states as opposed to across states.
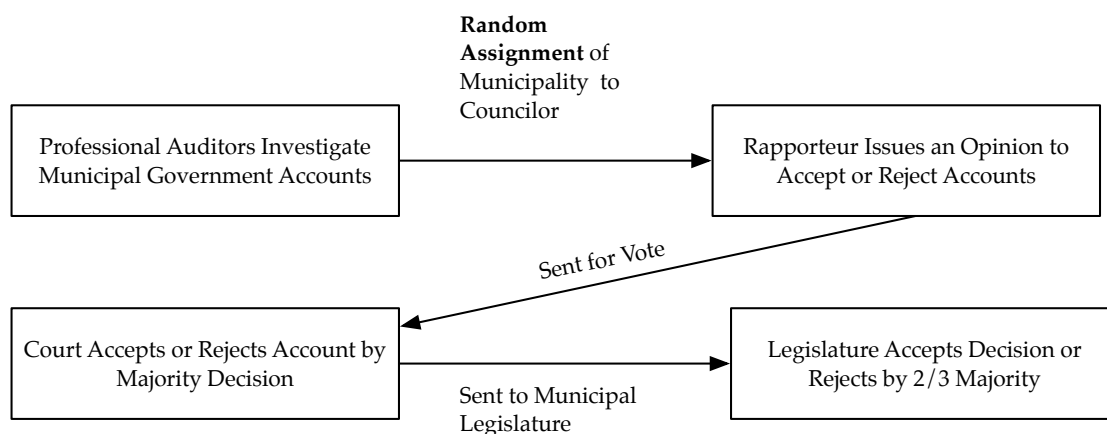

Figure 1: The Municipality Accounts Auditing Process. This figure is a simplified representation of the accounts process and details can vary by state.

One of the chief means by which ACs oversee state agencies is by annual audits (*prestação de contas*) of federal, state, and local governments. The ACs produce an overall recommendation to accept, accept with reservations, or reject the "accounts" of government entities with respect to compliance with the law.[10] In this proposal, we focus on state ACs' adjudication of municipal accounts, which entails an examination of each municipality's execution of the budget, fiscal management, legality of contracts, procurement policies, fulfillment of mandated spending requirements, and related matters. This process is carried out in phases, where the first stage is a

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10. ACs are not restricted to mandatory legal and financial compliance audits, as they can also act as advisory organizations, report on governmental performance, and initiate special audits to investigate suspected irregularities, usually requested by legislatures, public prosecutors, opposition politicians and trade unions.

technical examination of each municipality's accounts by the professional auditing staff and the second stage is a deliberative process involving representatives of the public prosecutor's office and AC councilors. The overall process is illustrated in figure 1.[11] The recommendation of the technical staff and accompanying materials are given to a randomly assigned AC councilor known as the "rapporteur" who adjudicates the case.[12] After the rapporteur receives a technical report, the official under investigation is allowed to present a defense, and the councilor can call for further investigation. Then, a public prosecutor is heard, and the rapporteur generates an opinion for adjudication by the court (or a subset of the court) on whether the municipality's accounts should be rejected, as well as any associated punishments. The court then decides by majority decision whether to uphold the rapporteur's opinion[13] and notifies the municipal legislature about the result (known as *parecer prévio de contas*). The final decision whether to accept the findings of the court, however, rests with the municipal legislature as it can overturn the court's report via a 2/3 majority vote.

The final outcome of the audit process is an overall recommendation of approval, approval with accompanying recommendations for improved compliance with the law (approval with reservations), and rejection. Rejection of accounts, according to Mello, Pereira, and Figueiredo (2009, 1228), is the "most severe sanctions that the [Audit Court] can inflict on a mayor..." Depending on the findings, the court may set a fine, mandate reimbursements for financial losses due to irregularities, and even recommend civil and criminal prosecution. However, because the state ACs are not formally part of the judicial system, enforcement of these rulings are left to the public prosecutors and the courts. Enforcement can be blocked or delayed in the courts due to plaintiffs' extensive right to appeal, the complexity of statutes that govern public expenditures, and the courts' huge

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11. The details of the accounts process vary by state. In some states, the rapporteur is randomly assigned before the auditors investigate the municipal accounts. Additionally, the Public Prosecutor advises the rapporteur in arriving at a decision. In some states, the final decision of the court is made by a panel of judges (known as a *câmara*) rather than the full court.

12. The principle of random assignment is reflected in the internal rules of the ACs in our sample. For example, article 140 of the internal by-laws (*regimento interno*) of the Maranhão AC stipulates that distribution of audits to councilors will obey the principle of "openness, alternation, and assignment by lottery". Similar clauses can be found in the internal bylaws of the Bahia AC (Article 17), the Minas Gerais AC (chapter 4), the Pernambuco AC (chapter 5), the Rio de Janeiro AC (chapter 2, subsection 3), and the Rio Grande do Sul AC (article 47).

13. Empirically, it is quite rare for the court to overturn the recommendation of the rapporteur.

backlog of cases. Recently, however, the consequences of rejected accounts have become substantially more severe. As the result of the passage of a "Clean Slate" (*Ficha Limpa*) law, rejection of accounts is sufficient grounds to ban a politician from running for office for 8 years. In 2014, for instance, the Public Prosecutor's office sued to prevent almost 500 candidates from running for office, with the majority of challenges attributed to a rejection of accounts.[14]

3   Theoretical Framework and Hypotheses

To provide a theoretical framework for our design, we borrow from the literature on decision-making under uncertainty as applied to judicial decision-making (Austen-Smith and Banks 1996; Iaryczower and Shum 2012; Alesina and La Ferrara 2014). Specifically, we conceptualize the decision-making process of the Audit Court councilors as one of Bayesian updating after receiving a private, noisy, signal about the true state of the audited government. The governments under scrutiny, according to this framework, are of two types: law breakers and law followers. When councilors act as a rapporteur and adjudicate the accounts of a government, they seek to reject the accounts of law breakers and accept the accounts of law followers, but they are uncertain about which type the government under review truly is. The signal received by the councilor is probabilistically drawn from one of two distributions and, as a result, the councilor can never be certain his decision is the correct one. Given the inherent uncertainty in making this determination, councilors decide on an optimal decision rule for rejecting or accepting the accounts of the audited government that depends on three parameters: the prior probability of the government being a law breaker, the signal received through the auditing process, and the bias of the councilor. We conceptualize the bias of councilors as the importance (or weight) they place on avoiding rejecting the accounts of a government that is in reality a law follower (Type 1 error) versus accepting the accounts of a government that is actually a law breaker (Type 2 error). This bias parameter

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14. Press Release by the Federal Prosecutor's Office. Accessed on September 15, 2014:
http://noticias.pgr.mpf.mp.br/noticias/noticias-do-site/copy_of_eleitoral/
eleicoes-2014-mpf-impugna-mais-de-4-mil-candidatos-sendo-500-pela-lei-da-ficha-limpa

may vary by councilor and categories of cases, especially the partisan identity of the office holder under investigation.[15] The prior probability is an exogenous probability that the government under investigation is the law breaking type and can vary by government, such that an office holder with a long history of corruption might have a higher ex-ante probability of being corrupt than another office holder with a clean record.
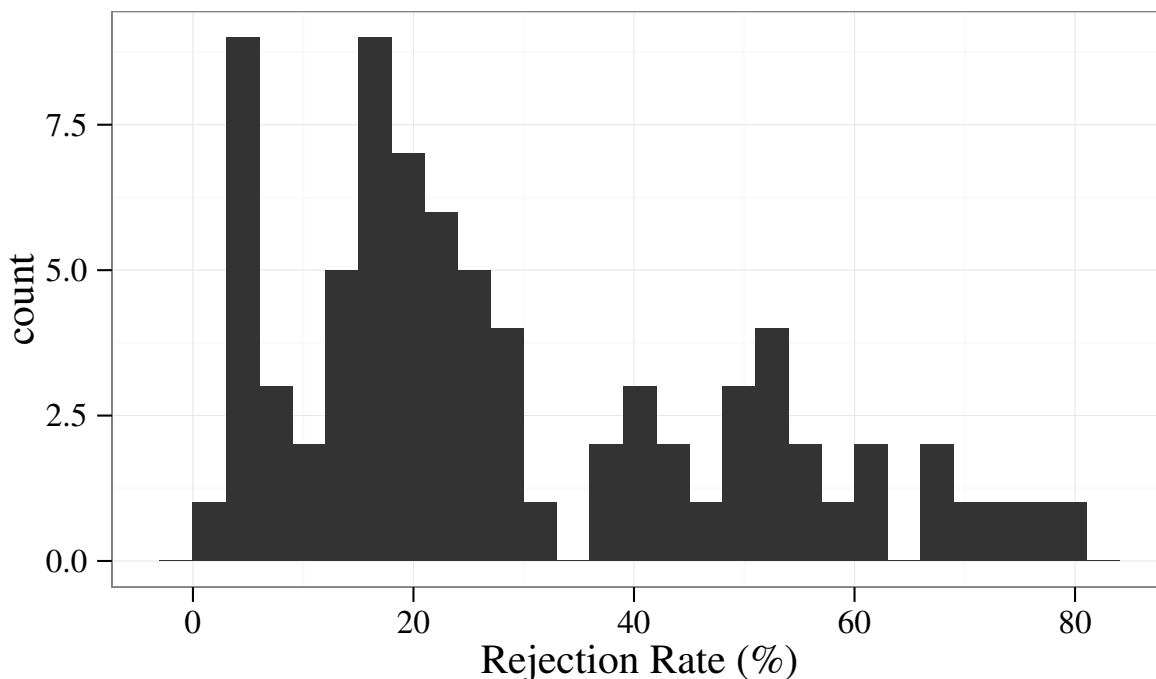

Figure 2: **Variation in Rejection Rates.** Histogram shows the distribution of rejection rates of municipality accounts across 81 councilors in State Audit Courts in 6 states over 10 ten years. Councilors who adjudicate fewer than 50 cases are omitted.

Under this model, for any given signal and prior probability of guilt, the councilor's bias will determine the outcome. If he is extremely averse to mistakenly punishing innocent politicians, then almost no evidence could induce him to reject the government's accounts. Conversely, a councilor heavily prioritizing the punishment of all guilty law breakers will necessarily punish many innocent officials. While we do not observe such extreme cases in our data, we do document

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15. This bias can arise from a variety of sources, including political calculation, differences in training, socialization, and less concrete factors such as the personality of the judge. For a formalization of how bias can be incorporated into a model of this type, see Iaryczower and Shum (2012) and Alesina and La Ferrara (2014).

large variation in rejection rates across different councilors (data described below) as shown in figure 2, which might be indicative of a large variation in bias. As shown in the figure, some councilors reject the accounts of fewer than 5% of municipalities that are assigned to them, yet others reject over 70%. Empirically, however, different rejection rates are not conclusive evidence of variation in bias, as such a pattern of evidence could be consistent with heterogeneity in the types of cases investigated by each councilor. Observing a former politician appointed to the Audit Court who rejects relatively few accounts, for example, is consistent with the councilor having a pro-government bias *or* deferentially auditing governments with low prior probabilities of being corrupt. Thus, lower rejection rates by politically-affiliated councilors are not necessarily indicative of the effect of the appointment procedure. In other words, without further assumptions, differential rejection rates are consistent with multiple mechanisms and need not be caused by pro-government bias.

The randomization of governments or agencies for adjudication solves the inferential dilemma posed above. Because of random assignment, the proportions of law breaking agencies or governments reviewed by each councilor will be equal, in expectation. Thus, any differential rate of rejection—according to the model—is due to differences in bias across decision-makers. From the perspective of institutional design, what matters is how this bias covaries with the selection procedure used to appoint councilors. Standard models of delegation (e.g. Calvert, McCubbins, and Weingast (1989)) predict that the actors with authority to select agents will do so to advance their political interests. In practice, this means that the governor or legislature will nominate councilors with biases that further their goals, under the constraint that the nominees must win consent from a majority of the legislature.

What are the goals of governors and legislative leaders? With respect to adjudicating the accounts of municipalities, governors and legislators will wish to shield allied mayors from scrutiny and thus will not want their accounts to suffer rejection unless evidence of law breaking is pronounced. As is well established in the literature on Brazilian politics, mayors are important political actors who act as vote brokers and political operatives for gubernatorial and, in particu-

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lar, legislative candidates (Mainwaring 1999, 151; Bezerra 1999; Novaes 2014). Candidates to state and national office invest considerable resources in cultivating mayors, as mayors have the extensive—often clientelistic—relationships with voters that are relied upon for votes on election day. Given the importance of currying favor with local politicians for the political careers of state-level politicians, the legislature and governor will, when unconstrained, likely nominate councilors who require a high standard of proof in order to reject the accounts of a mayor. This yields our first hypothesis:

Hypothesis 1 *Municipal accounts adjudicated by governor or legislature-appointed councilors will be rejected at lower rates than when adjudicated by councilors subject to technical pre-qualifications.*

While we expect "political" councilors to be more favorable towards local governments than bureaucrat councilors, not all mayors will be treated equally. Although party attachments are more fluid in Brazil than some other established democracies, substantial evidence indicates that cross-level partisan ties are important for range of outcomes including elections (Avelino, Biderman, and Barone 2012) and government transfers (Brollo and Nannicini 2012). As a result, we expect governors and legislatures to appoint officials who are sensitive to the interest of local co-partisans. State-level politicians will seek to forestall the negative electoral and financial consequences of account rejection for co-partisan officials by appointing councilors with biases that further their partisan aims. Specifically, governor appointed councilors should be more reluctant to reject the yearly accounts of municipalities governed by mayors belonging to the party of the governor that appointed him than non-co-partisan mayors. A similar logic should pertain to legislature appointed councilors, who should be particularly sensitive to the interests of the largest party of the state legislature.[16]

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16. State legislatures are usually organized around a governing coalition that encompasses multiple parties. While in principle we could expand our focus to include smaller parties in the ruling coalition, in practice the largest party is particularly influential in selecting councilors. Furthermore, governing coalitions tend to change dynamically over time and thus identifying precisely which parties are part of the governing coalition at any particular point in time can be error prone.

Hypothesis 2 *Municipal accounts will be rejected at lower rates when adjudicated by a governor-appointed or legislature-appointed councilor selected by a governor or legislature lead by the same party as the mayor than when adjudicated by councilor appointed by a political branch led by a different party.*

While the legal requirements for the two bureaucrat positions should substantially diminish the capacity of the legislature and executive to appoint councilors heavily biased towards their interests, it is still the case that the political branches have some discretion in which senior auditor or public prosecutor they appoint. As such, it is plausible that the governor and legislature would seek to appoint the most lenient of the potential bureaucrat councilors. As explained above, however, a large proportion of cases in Brazilian states are adjudicated by unappointed bureaucrats (substitute councilors) who are members of the technical staff of the auditing institution and are not appointed by the political branches. As such, it is plausible that non-appointed bureaucrat councilors are even less sensitive to the interests of political actors than appointed bureaucrat councilors. Under a similar logic, appointed bureaucrats should be more sympathetic to mayors who are co-partisans of the governor that appointed them than with mayors from other parties.

Hypothesis 3a *Municipal accounts adjudicated by appointed bureaucrat councilors will be rejected at lower rates than when adjudicated by unappointed bureaucrat councilors (substitute councilors).*

Hypothesis 3b *Municipal accounts will be rejected at a lower rate when adjudicated by a executive appointed bureaucrat councilor chosen by a governor of the mayor's party than when adjudicated by a bureaucrat councilor not appointed by a co-partisan governor.*

4   Research Design and Data

The common institutional rule across Brazil's Audit Courts that the annual audits of government accounts are assigned by random lottery to councilors forms the basis of our empirical strategy.

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To take advantage of lottery, we collected ten years (2000-2009) of municipal audit and councilor data from six Brazilian states: Bahia, Maranhão, Minas Gerais, Pernambuco, Rio de Janeiro, and Rio Grande do Sul.[17] These states are among the largest states in Brazil, containing about 40% of the country's population and 41% of its municipalities, and are heterogeneous with respect to economic and political characteristics. Maranhão, for example, has a GDP per capita of about $3,500 USD, while Rio Grande do Sul's is almost three times higher at about $11,000 USD. Politically, the states in our sample are also quite diverse: Maranhão is well known for its oligarchic politics, while electoral politics in Minas Gerais and Rio Grande do Sul are highly competitive and structured around a stable left-right ideological divide. Given this economic and political diversity, our findings are likely to be broadly applicable to Audit Courts throughout much of Brazil.

To classify councilors we consulted a variety of sources, including news accounts and legislative debates. Preliminary information were obtained through Audit Courts' and state legislatures' websites, consulting official documentation available online. To double check the data, we made formal requests to state Audit Courts using their library system (when available) and Brazil's Freedom of Information Law, as well as sources from newspapers and magazines, official gazettes, interviews with the councilors themselves, and cross-referenced party affiliation data with records from Brazil's National Electoral Tribunal. Specifically, for each councilor, we collected information on year of appointment, branch of government that nominated him or her, prior party affiliation (when former politicians), governor's party at time of appointment, largest party in the state assembly when appointed, and if the councilor is a substitute, a bureaucrat or politician.

Our dataset contains over 22,000 cases which encompasses over 2,000 municipalities (see table 2).[18] The average rate of rejection of municipal government accounts by the ACs is about 25%, but this overall average masks considerable state by state variation. In Rio Grande do Sul, the rejection

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17. These particular states were chosen out of a combination of considerations; specifically data availability, size of the state, and regional diversity. Size of the state was important because statistical power to detect treatment effects depends on the number of municipalities, which are generally more numerous in populous states. Audit data was collected via web scraping of the ACs' public databases of cases. For Pernambuco, we were unable to obtain the original randomization for years before 2003. As a result, instrumental variable estimates drop these years.

18. In a small proportion of cases, a second recommendation was issued after appeal by the mayor being audited. In those cases, we only use the initial recommendation of the rapporteur.

Variable	Full Sample	Bahia	Maranhão	Minas Gerais	Pernambuco	Rio de Janeiro	Rio Grande do Sul
# of Municipalities	2,257	417	217	853	183	91	496
# of Cases	22,542	4,170	2,170	8,530	1,830	910	4,932
% of Cases Rejected	24.9	26	66.3	20.5	45.3	14.1	8.3
% with Missing Treatment Data	0.8	0.4	3.7	0.4	0.3	0.5	1.1
# of Councilors	93	12	11	18	23	9	20
# Governor Appointed	20	5	3	4	3	2	3
# Legislature Appointed	37	4	4	7	9	6	7
# Appointed Bureaucrat	13	1	1	4	2	1	4
# Unappointed Bureaucrat	23	2	3	3	9	0	6

Table 2: Descriptive Statistics. This table shows descriptive statistics on municipal audits (top panel) and councilor characteristics (bottom panel) for six states for the years 2000-2009.

rate is only about 8%, while in Maranhão the rejection rate exceeds 60%. Data on treatment status is missing in a relatively small percentage of cases.

The distribution and number of councilor types can be found in the bottom panel of table 2. We obtained biographical data on 93 different councilors and categorized them into five distinct types. The most numerous type is "legislature appointed", representing 40% of all councilors. Each councilor adjudicated an average of 231 cases. The substitute councilors, which we call "unappointed bureaucrat", are relatively numerous but 6 out of the 23 substitutes observed in our sample adjudicated fewer than 25 cases.

To evaluate whether rejection rates are affected by partisan considerations, we created a binary variable that measures mayor-councilor partisan ties. In the case of municipalities assigned to governor appointed councilors, this variable measures whether the mayor's party belongs to the party of the governor that appointed the rapporteur adjudicating the municipality's accounts. In the case of legislature appointed councilors, this variable indicates that the mayor belongs to the largest party of the legislature at the time of the councilor's appointment. Among mayors assigned to appointed councilors (non-substitutes), we find a rate of mayor and councilor "co-partisanship" of 16%. Data for coding party of mayors were obtained from the Supreme Electoral Court (*Tribunal Superior Eleitoral*).

4.1 Specification and Inference

We treat the natural experiment created by randomization of audits to councilors as a block randomized design. A separate randomization occurs in each state in each year and consequently each state-year pairing constitutes an experimental block. In three states—Pernambuco, Maranhão, Rio Grande do Sul—the assignment lottery is restricted to prevent the same councilor from adjudicating the accounts of any given municipality two years in a row. To account for this restricted randomization procedure, we further stratify municipalities in these states by the identity of the rapporteur in the previous year, which ensures that within each block, treatment assignment probabilities are equal.

As is common in field and natural experiments, there is a degree of non-compliance with random assignment in three of our states. In Maranhão, we observe a small degree of noncompliance due to vacation and retirement. In Pernambuco and Rio Grande do Sul, noncompliance is substantially larger as the initial randomization allocates cases only to appointed councilors, but in practice many cases are redistributed to substitute councilors. In Pernambuco and Maranhão, the second distribution of cases occurs via random lottery, while in Rio Grande do Sul they are distributed to substitutes in order of seniority. Although the majority of redistribution to substitutes occurs due to vacation and retirements, strategic allocation to substitutes is also possible, which would possibly introduce bias. Fortunately, we observe the outcome of the initial randomization before the redistribution to substitutes, thus allowing us to still take advantage of the lottery as an instrument. To adjust for this non-compliance, we instrument[19] the endogenous treatment variable with assignment-to-treatment status as represented by this first stage equation:

$$T_i = \alpha_0 + \pi Z_i + \sum_{k=1}^{K-1} \mu_k B_{ki} + \epsilon_i \tag{1}$$

where T_i is a dummy variable for treatment status (e.g. rapporteur is bureaucrat councilor), α_0 is an intercept, π is the effect of the instrument on treatment status, Z_i is an assignment-to-treatment

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19. Intent to treat estimates are reported in the appendix.

indicator (e.g. randomly assigned to bureaucrat councilor), B_{ki} is a block dummy for the kth block, μ_k is the block effect, and ϵ_i is the disturbance term. The first stage is quite strong across all of our specifications with F-statistics on the excluded instrument well over thresholds recommended in the literature.[20] For example, the F-statistic on the excluded instrument when examining the effect of assignment to a political councilor is over 1,000.

Our second stage estimating equation is as follows:

$$Y_i = \beta_0 + \tau T_i + \sum_{k=1}^{K-1} \gamma_k B_{ki} + u_i \tag{2}$$

where Y_i is dummy variable for whether the accounts of the municipality are rejected, β_0 is an intercept, τ is the treatment effect, T_i is a treatment indicator, B_{ki} is block fixed effect for the kth block, γ_k is the block effect, and u_i is the disturbance term. As is well known, two stage least squares identifies effects among "compliers", i.e. municipalities who follow the treatment assignment. In addition to this basic specification, in the appendix we also present covariate adjusted results, which we estimate by including a vector of pre-treatment variables. Standard errors are heteroscedasticity-consistent and clustered on the unit of randomization.[21]

For analyses of partisan bias, it is important to account for the fact that the probability of assignment to treatment varies by party. For mayors belonging to minor parties that never successfully elected a governor or achieved a plurality in the legislature, for example, the probability of having a partisan tie to the councilor adjudicating their accounts is 0. Under the same logic, mayors will have a probability of assignment to treatment that is a function of the number of AC councilors serving that year appointed by governors or legislatures controlled by his or her party. To account for this issue, we include a full set of block by party fixed effects when estimating co-partisanship

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20. With respect to the *monotonicity* assumption necessary to identify average causal effects among compliers, there is no reason to believe that assignment to a particular type of councilor would induce a municipality to be endogenously assigned to the opposite treatment status. This is especially the case in Pernambuco and Maranhão where municipalities are re-randomized when cases are re-assigned.

21. The unit of randomization in four of the six states is the municipality. In Rio de Janeiro (see *Deliberação 221*, January 30, 2001) and Pernambuco (for example, see *Portaria* 438/2008), however, municipalities were assigned to groups and these fixed groups are randomized to councilors. The composition of these groups is rather haphazard suggesting that the correlation in outcomes within groups should be rather low and thus only minimally affect precision. Nevertheless, we cluster our standard errors on these groups to account for the process of randomization.

effects, which ensures that comparisons are made within party-strata.[22]

4.2 Covariate Balance

	Political Councilor			Councilor & Mayor, Same Party		
	Estimate	Std. Error	p-value	Estimate	Std. Error	p-value
GDP Per Capita (2000)	0.638	1.066	0.55	1.027	2.071	0.67
Governor Vote Share	0.156	0.170	0.37	-0.405	0.306	0.22
Governor, Mayor Co-Partisans	-0.015	0.006	0.02	0.003	0.001	0.15
Lag Accounts Rejected (1 Year)	-0.004	0.006	0.56	-0.005	0.011	0.68
Lag Accounts Rejected (2 Years)	-0.001	0.006	0.81	-0.007	0.011	0.52
Lag Councilor & Mayor, Same Party	-0.011	0.008	0.17	-0.021	0.010	0.22
Lag Political Councilor	0.006	0.006	0.36	-0.003	0.012	0.78
Log Electorate	0.010	0.015	0.49	-0.015	0.028	0.59
Mayor Vote %	-0.251	0.145	0.08	-0.214	0.278	0.47
PT Presidential Vote Pct (2002)	-0.167	0.148	0.26	-0.008	0.284	0.98

Table 3: Covariate Balance. This table shows the estimated effect of two independent variables on ten pre-treatment covariates. Coefficients are estimated using two stage least squares.

An implication of random assignment is that pre-treatment municipality characteristics should not be systematically correlated with the type of councilor assigned to adjudicate the accounts of the municipality. To check whether this is the case, we examine two contrasts: (1) whether a municipality is assigned to a political councilor (appointed without technical requirements) or a bureaucrat councilor and (2) whether the municipality is assigned to a councilor who shares a partisan tie with the mayor. We check balance on a range of covariates, including lagged values of the outcome variable, lagged values of the treatment variables, and political and socio-economic characteristics.

The results of our balance tests can be found in table 3. In total, we perform 20 hypothesis tests and overall find that treatment and control units are relatively balanced across the two treatment variables. We find no significant differences at the 5% level on lagged values of the outcome variable, whether the lag is one or two years. As one might expect given the number of hypothesis

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22. Because units that have a 0 or 1 probability of assignment to treatment are effectively dropped from the sample when estimating partisan bias, inferences under this design, are not necessarily applicable to all municipalities in the 6 states we study. Out of the 2257 municipalities in our sample, 1886 municipalities have a positive probability of a party match in at least one year.

tests conducted, we do find one covariate that is significantly different (at the 5% level) between treatment conditions. The political treatment variable is statistically related to partisan alignment between the governor and mayor, but the coefficient is substantively small at a difference in proportions of -0.02. Furthermore, when we test the joint null hypothesis that all differences in table 3 are 0 using an F-test, we fail to reject the null in both cases. In the appendix, we show our results are robust to the inclusion of the one potentially unbalanced covariate in our estimating equations, as well as other potentially prognostic covariates such as lagged values of the outcome variable, lagged values of the treatment variable, and party fixed effects.
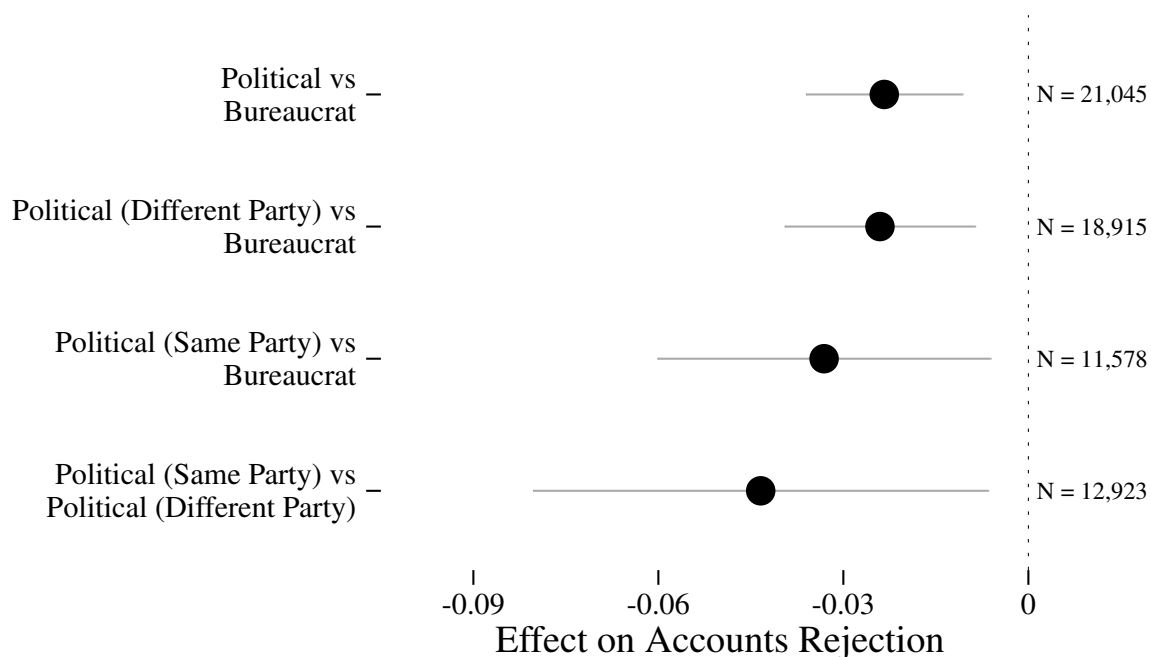
5   Results

Figure 3: **Political Councilors vs Bureaucrat Councilors.** Point estimates and 95% confidence intervals are from a regression with block (first row) or block by party (second through fourth row) fixed effects. Confidence intervals based on standard errors clustered on unit of randomization, which varies by state. Mean of dependent variable in the full sample is 0.25.

Recall that our first hypothesis posited that bureaucrat councilors would be comparatively more

willing to punish mayors than the political councilors appointed under less restrictive procedures. To evaluate this hypothesis, we compare the average rejection rates of municipalities assigned to political councilors (governor appointed or legislature appointed) to those assigned to bureaucrat councilors, be they appointed or unappointed. Estimates of the causal effect of assignment to a political councilor as the rapporteur for the municipality's accounts can be found in the first row of Figure 3. This estimate supports hypothesis 1, as we find that a being assigned to a political councilor decreases the probability of rejection by about 0.023, which amounts to about 8% of the average rejection rate in the sample. While supportive of the hypothesis, the point estimate is rather small and suggestive of only modest differences in bias between the two types of councilors.

Hypothesis 2 predicts that political councilors will be biased towards mayors with whom they share partisan ties. To test hypothesis 2, we separate the sample of mayors assigned to political councilors by whether or not the rapporteur of the municipality's accounts was appointed by a governor or legislature of the same party as the mayor. According to hypothesis 2, the contrast in rejection rates between political councilors and bureaucrat councilors should be greatest when the mayor and the political councilor share a partisan tie. As evidenced by the coefficients in the second row of Figure 3, our estimates are consistent with this expectation. In this specification, we compare municipalities assigned to governor or legislature appointed councilors appointed by a party *other* than the mayor's party to those assigned to career civil servants. This estimate represents an increase in the probability of rejection by about 0.024 and is statistically significant. Even without a shared partisan affiliation, politician councilors punish mayors at greater frequencies than their bureaucrat counterparts, though the difference remains rather modest.

When the treatment group is mayors assigned to councilors *with* a partisan tie (row 3 in Figure 3), the coefficient increases substantially to a statistically significant 0.033. The magnitude of this effect is more politically meaningful than previous estimates given that it represents about 13% of the average rejection rate in the full sample. Assignment to a councilor with a shared partisan affiliation imparts a distinct advantage to mayors, on average.

Next, we directly compare rejection rates among mayors assigned to political councilors with

whom they share a partisan background to assignment to political councilors without a partisan link. In other words, this comparison holds councilor type constant by dropping cases adjudicated by bureaucrat councilors and examining only those municipalities assigned to governor or legislature appointed councilors. As shown in row 4 of Figure 3, partisan ties matter substantially. When being adjudicated by a non-bureaucrat councilor, being assigned a rapporteur that was appointed by a co-partisan governor or legislature reduces the probability of rejection by 0.04 when compared to those with accounts adjudicated by councilors appointed by another parties. Overall, hypothesis 2 is supported by our data.[23]

Up until this point, we have found consistently negative, albeit modest, effects of assignment to political councilors as opposed to bureaucrat councilors. Grouping together appointed and unappointed (substitute) bureaucrats into a single category, however, may mask substantial differences between the two types of councilors. Because appointed bureaucrats are selected by the governor and approved by the legislature, appointed councilors—even if they are professional civil servants—may be appointed precisely because they tend to be favorable to politicians, particularly co-partisans of the governors. If so, then comparing rejection rates between political councilors and *unappointed* councilors may yield larger treatment effects. To test this possibility, we drop municipalities assigned to appointed bureaucrats from the sample and estimate the difference between political and unappointed bureaucrats. As before, we also check whether treatment effects are larger when the mayor and political councilor share a partisan tie.

Results for this set of comparisons can be found in Figure 4. Consistent with hypothesis 3, treatment effect estimates are larger when the comparison group is unappointed bureaucrats as opposed to bureaucrats. Assignment to a political councilor as opposed to an unappointed bureaucrat,

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23. One might question why estimate in row 4 is not equal to the difference between the estimates in rows 2 and 3 (i.e. the difference-in-differences). In a block randomized experiment where all units have a positive probability of receiving each treatment condition, this would indeed be the case. In our case, however, within some party-block strata, there is a 0 probability of being assigned to either the bureaucrat or one of the partisan alignment treatments. This issue arises mostly because of the alternation rule used in some states, which mandates that municipalities not be assigned to the same rapporteur two years in a row. As a consequence, the sample of municipalities which contribute to treatment effect estimates differs somewhat across rows 2, 3, and 4. In row 4, the effective sample is compromised of units in strata where units have a positive probability of the "Political (Same Party)" or "Political (Different Party)" treatments, which is not exactly equivalent to the sample that contributes to the estimates in rows 2 and 3.
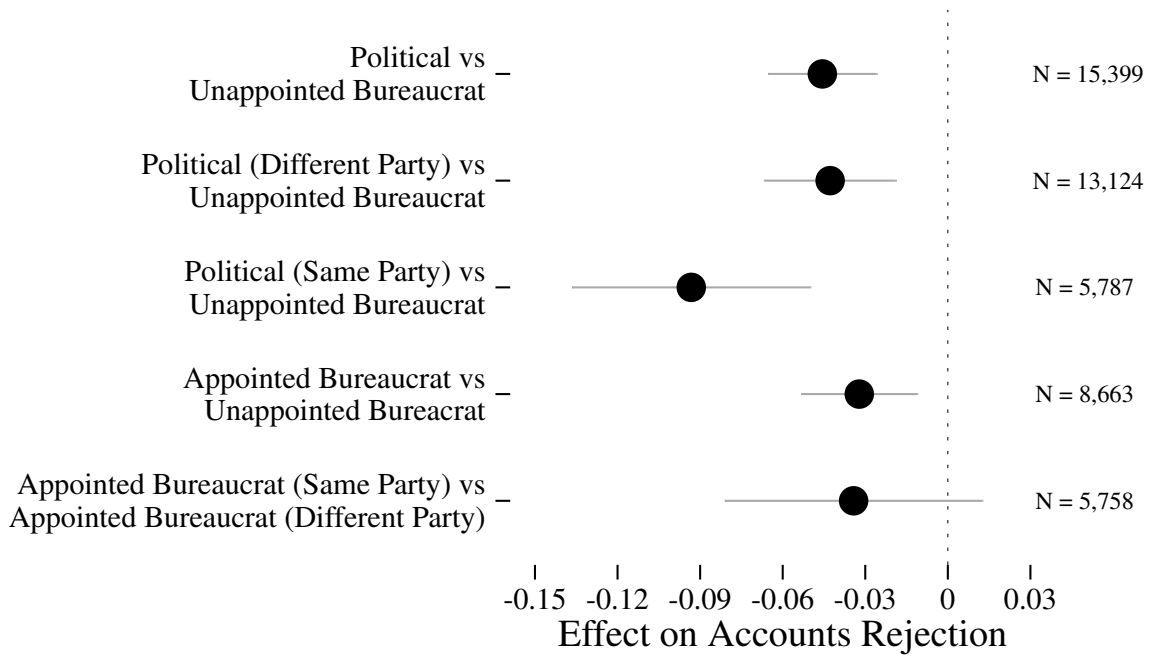
Figure 4: **Political Councilors vs Appointed Bureacrat Councilors.** Point estimates and 95% confidence intervals are from a regression with block (first and fourth rows) or block by party (second, third, and fifth rows) fixed effects. Confidence intervals based on standard errors clustered on unit of randomization, which varies by state. Mean of dependent variable in the full sample is 0.25.

decreases the probability of rejection by 0.046, which is twice the size of the estimated treatment effect when the comparison group includes appointed bureaucrats. When the political councilor was appointed by the same party of the mayor whose accounts he or she is judging, the effect size is a substantial -0.093, which is almost 40% the full sample mean. This effect estimate indicates that there are sizeable benefits for mayors whose accounts are assigned to a partisan ally when the alternative is an unappointed career civil servant. When we directly compare unappointed versus appointed bureaucrats (row 4), we find that assignment to bureaucrats appointed by the governor lowers the probability of rejection by 0.032.

Overall, these results indicate that the difference between political councilors and bureaucrat councilors reported in Figure 3 is driven by the unappointed bureaucrats. Indeed, when unappointed bureaucrats are removed from the sample, the difference between politicians and bureau-

crats is a statistically insignificant 0.002 (standard error: 0.007). With respect to their observed behavior, appointed bureaucrats are closer to political councilors than to unappointed bureaucrats. In fact, we find some, albeit weaker, evidence that appointed bureaucrats are biased towards the parties of the governors that appointed them. When we compare rejection rates among municipalities assigned to an appointed bureaucrat with a partisan tie versus assignment to a bureaucrat without a partisan tie (row 5 of Figure 4), we find an imprecisely estimated difference of -0.034 (standard error: 0.021). Surprisingly, even heavily restricting the choice set of the executive does not prevent the selection of politically biased councilors.

5.1 Evidence on the Strategic Appointment of Bureaucrats

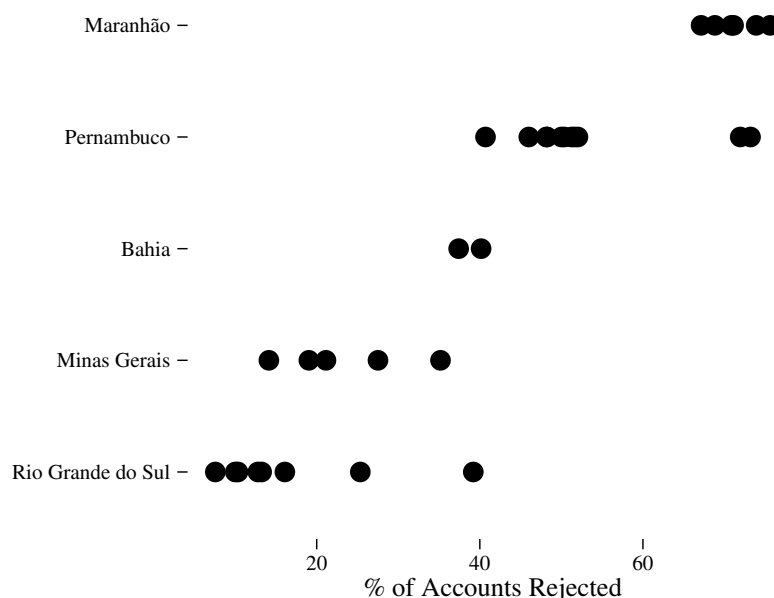Figure 5: **Rejection Rates of Unappointed Bureacrats**. Each dot represents the average rejection rate of one unappointed bureaucrat.

Our results indicate that the members of Brazil's audit institutions most willing to punish politicians are those for whom the executive or legislature play no role in the selection process. Even when the governor is restricted by the requirement that he or she select among three career civil

servants, appointed bureaucrats behave similarly to appointed politicians. An explanation for this result could be that the constraint faced by the executive when choosing bureaucrats may be less restrictive than it first appears. The rules that dictate the composition of the list of three senior auditors or public prosecutors eligible for appointment by the governor varies by state, though seniority is usually a key determinant. However this list is constructed, if there is sufficient variation in the degree of pro-politician bias among the civil servants in the choices available to the governors, then the executive may succeed in choosing a bureacrat substantially more aligned with his interests than the average civil servant. Some evidence for this is presented in figure 5, which plots the distribution of account rejection rates by unappointed bureaucrats, with each dot representing one bureaucrat[24]. As is evidenced by the figure, in most states there is considerable variation in the willingness of unappointed bureaucrats to punish mayors, as proxied by the average rejection rate. Given that the auditors who act as substitutes are frequently the same civil servants eligible to be chosen by the governor, this variation indicates that executives often will have the option of choosing relatively lenient bureaucrats even when constrained to choose one among a menu of three options.

Type	% Accounts Rejected	# of Councilors	# of Accounts
Never Appointed	46	28	5066
Eventually Appointed	41	9	2560

Table 4: **Comparing Eventually Appointed and Never Appointed Bureaucrats.** This table shows the rejection rates of career auditors who were either eventually or never appointed by the governor to the Audit Court.

Further evidence that governors do succeed in choosing civil servants who are less likely to punish politicians can be found in Table 4. This table classifies unappointed bureaucrats into two categories: those who would eventually be appointed by the governor to a fill a position on the accountability court and those who would never be appointed (as of 2010). As the table demonstrates, civil servants chosen by the governor have rejection rates (before appointment) that are meaningfully lower than those bureaucrats never selected to be formally on the court. This

24. In Rio de Janeiro, substitutes never adjudicate cases, so no data is available for this state.

roughly 5 percentage point difference is consistent with the hypothesis that governors strategically choose the most pro-politician choice available to them, which then produces the small difference between appointed bureaucrat councilors and politician councilors.

6 Conclusion

Despite the general consensus that institutions of "horizontal" accountability matter for reigning in government malfeasance, there is relatively scant evidence on question of how these institutions can be designed to best fulfill their promise. In this paper, we study how selection procedures affects the propensity of auditors to punish government officials. Our empirical analysis suggests that constraining those who appoint the auditors matters for subsequent behavior, as auditors appointed by relatively lax procedures and who tend to be politicians, are relatively less likely to punish subnational officials than career civil servants. Yet even career civil servants appear to exhibit some bias towards politicians when they are appointed by the political branches. This finding calls for more research on the relationship between elected officials and the bureaucratic staff of accountability agencies, particularly on how civil servants— despite strong tenure protections and meritocratic promotion criteria—behave as political actors and respond to political incentives.

These results also have implications for the increasing reliance on unelected bodies such as auditing institutions to "correct" failures of the electoral process to select honest and competent public officials. Brazil is a case in point. The passage of the so called 'Clean Slate' law in 2010 created a new rule that bans politicians from holding elected office for 8 years after their accounts are rejected by a state or federal audit court. This law—even if inconsistently enforced—has dramatic consequences for the importance of these auditing institutions as their power over the careers of politicians has sharply increased. Yet our results indicate the the decision of these courts is partly a function of the partisan identity of the politician facing judgement. Given that a politicians' career is now on the line, losing the "lottery" of case assignment can have enormous consequences for an elected official. From the perspective of the politician, it is troubling that

factors apart from the merit of the case such as party can have such serious consequences.

But perhaps of greater concern are the implications for voter welfare. While a fuller theoretical analysis is needed, the growing power of the accountability courts, will plausibly lead politicians to increase their efforts towards obtaining favorable judgments from the courts. If the interests of the courts are well aligned with the interests of the voters, such a change may incentivize better performance from politicians. If on the other hand, the goals of the court do not perfectly align with those of the voters, then politicians may sacrifice some effort to comply with court demands that otherwise would be spent pleasing the electorate. Such a shift could have troubling implications even if the court's decision-making was free of political considerations. For example, account-ability agencies may be more interested in formal compliance with the letter of the law, rather than policy innovations tailored to the needs of the electorate. Strengthening accountability courts could have the unintended consequence of increasing the conservativism and sluggishness of local governments, as fear of inadvertently breaking the law could paralyze policy making. Even more troubling, however, is if partisan decision-making by court councilors incentivizes local officials to follow the priorities of their governor or legislative majority rather than their local constituency. In such a scenario, increasing the power of agencies of horizontal accountability may end up *undermining* electoral accountability.

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A Results with Covariate Adjustment

| | Accounts Rejected | | | |
	Model 1	Model 2	Model 3	Model 4
Political vs Bureaucrat	−0.022***			
	(0.006)			
Political (Different Party) vs Bureaucrat		−0.023***		
		(0.008)		
Political (Same Party) vs Bureaucrat			−0.039***	
			(0.013)	
Political (Same Party) vs Political (Different Party)				−0.044**
				(0.017)
Block Fixed Effects	Yes	No	No	No
Block x Party Fixed Effects	No	Yes	Yes	Yes
Covariates	Yes	Yes	Yes	Yes
N	20757	19226	12742	11666

***p < .01; **p < .05; *p < .1
Clustered standard errors in parentheses.

Table A.1: **Estimates with Covariate Adjustment.** This table shows same contrasts as Figure 3, but estimating equation also includes pre-treatment covariates. Pre-treatment covariates are governor-mayor copartisanship, party fixed effects, lagged dependent variable, and lagged treatment variable.

| | Accounts Rejected | | | | |
	Model 1	Model 2	Model 3	Model 4	Model 5
Political vs Bureaucrat	−0.046***				
	(0.009)				
Political (Different Party) vs Bureaucrat		−0.044***			
		(0.011)			
Political (Same Party) vs Bureaucrat			−0.077***		
			(0.020)		
Political (Same Party) vs Political (Different Party)				−0.031***	
				(0.010)	
Appointed Bureaucrat (Same Party) vs Appointed Bureaucrat (Different Party)					−0.037
					(0.027)
Block Fixed Effects	Yes	No	No	Yes	No
Block x Party Fixed Effects	No	Yes	Yes	No	Yes
Covariates	Yes	Yes	Yes	Yes	Yes
N	15364	13625	7141	10253	4349

***p < .01; **p < .05; *p < .1
Clustered standard errors in parentheses.

Table A.2: **Estimates with Covariate Adjustment.** This table shows same contrasts as Figure 4, but estimating equation also includes pre-treatment covariates. Pre-treatment covariates are governor-mayor copartisanship, party fixed effects, lagged dependent variable, and lagged treatment variable.

B Intent to Treat Estimates

	Accounts Rejected			
	Model 1	**Model 2**	**Model 3**	**Model 4**
Political vs Bureaucrat	−0.022***			
	(0.006)			
Political (Different Party) vs Bureaucrat		−0.022***		
		(0.007)		
Political (Same Party) vs Bureaucrat			−0.030**	
			(0.013)	
Political (Same Party) vs Political (Different Party)				−0.036**
				(0.015)
Block Fixed Effects	Yes	No	No	No
Block x Party Fixed Effects	No	Yes	Yes	Yes
N	21045	18915	11578	12923

***p < .01; **p < .05; *p < .1
Clustered standard errors in parentheses.

Table A.3: **Intent to Treat Estimates.** This table shows same contrasts as Figure 3, but without accounting for non-compliance via two stage least squares.

	Accounts Rejected				
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**
Political vs Bureaucrat	−0.045***				
	(0.010)				
Political (Different Party) vs Bureaucrat		−0.042***			
		(0.012)			
Political (Same Party) vs Bureaucrat			−0.092***		
			(0.022)		
Political (Same Party) vs Political (Different Party)				−0.032***	
				(0.011)	
Appointed Bureaucrat (Same Party) vs Appointed Bureaucrat (Different Party)					−0.032
					(0.023)
Block Fixed Effects	Yes	No	No	No	No
Block x Party Fixed Effects	No	Yes	Yes	Yes	Yes
N	15399	13124	5787	8663	5758

***p < .01; **p < .05; *p < .1
Clustered standard errors in parentheses.

Table A.4: **Intent to Treat Estimates.** This table shows same contrasts as Figure 4, but without accounting for non-compliance via two stage least squares.