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Accounting Controls in the Federal Government: Supplement to the Proceedings, Conference on Municipal Accounting and Finance

E. .F Bartelt

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ACCOUNTING CONTROLS IN THE FEDERAL GOVERNMENT

E.F. Bartelt
Commissioner of Accounts and Deposits
U.S. Treasury Department
Washington, D. C.

American Institute of Accountants
135 Cedar Street
New York, N.Y.

PART I

Emergency Accounting Organization

I have been requested to talk to you tonight about the system of accounting established by the Treasury Department to take care of the eight and one-half billions of dollars appropriated by the Congress in the Acts of 1935, 1936, and 1937, for work relief. I am glad to have this opportunity, because, in my opinion, it has conclusively demonstrated that it is possible to maintain a system of accounting in the Federal Government which would compare favorably with those maintained by our largest and most progressive industrial corporations.

If you are sincerely interested in the development of a modernized system of accounting in the Federal Government, I commend to your most earnest consideration a study of the Treasury's emergency accounting organization.

General outline of Government accounting system

In order that you might more clearly understand the procedure set up to handle the emergency work relief appropriations, it may be advisable first to give you a general outline of the accounting system of the Government.

Original system

It is frequently remarked that the Treasury is still operating under the accounting system installed by Alexander Hamilton. I do not know whether such remarks are intended as a reflection on Hamilton or the system. But I do know that the principles laid down by the First Congress in the original law are sound.

This law provided that no acknowledgment of the receipt of money into the public Treasury shall be valid unless it is endorsed on a warrant of the Secretary of the Treasury. Likewise, no money may be withdrawn from the Treasury except on authority of warrants issued by the Secretary of the Treasury in pursuance of appropriations made by the Congress.

The truth about the accounting system of the Government is that it is not nearly so bad as a great many people outside the service believe it to be, nor quite so good as many people long in the service consider it to be.

The cardinal principle upon which it is based is Article 1, Paragraph 7, Section 9 of the Constitution, which provides that "No money shall be drawn from the Treasury, but in consequence of appropriations made by law and a regular statement of accounts of the receipts and expenditures of all public money shall be published from time to time".

The laws which have been made to carry this provision of the Constitution into effect, so far as accounting for receipts and expenditures is concerned, are the basis of the accounting system. The accounts must conform to the appropriations and such other laws as affect the disposition of the money authorized to be expended. Above all, the accounting must disclose whether the expenditures have been made in conformity with the law.

In the beginning, of course, the business of the Government was relatively small and the accounting problems were comparatively simple. In 1792, total receipts of the Government, including postal revenues and receipts from the sale of public debt obligations, amounted to less than nine millions of dollars. In 1915, just before the War, the total receipts from all sources was less than a billion dollars. In 1937, including public debt issues and exchanges, they had jumped to almost 16 billions of dollars.

Not only has the volume of money transactions increased many times, but the character of the financial transactions and the methods of doing business have become considerably more intricate.

Difficulties

We know, through all history, that there has been a division of thought concerning the character of control which the Treasury Department should exercise over the public moneys.

On the one side are those who believe that all financial transactions of the Government should be controlled through the Federal Treasury, and that the accounting should center in the Treasury.

On the other side are those who believe that the Treasury should be more in the nature of a cashier -- to collect and disburse the public moneys and to borrow funds when necessary. They believe that once an appropriation is made to an executive department, the matter should be of no concern to the Treasury other than to turn the money over to the department upon its requisition and that the accounts of the Treasury should reflect only total receipts and expenditures.

Then, too, there are wide differences of opinion with regard to the manner in which the financial transactions of the Government should be publicly reported, particularly with reference to the operations of revenue-producing enterprises, governmental corporations, and so-called revolving funds.

Some believe that the gross receipts and expenditures of all agencies should go into the financial statements to swell both sides of the Federal Budget.

Others contend that the operations of revenue-producing enterprises and revolving funds should be treated in the nature of annexed budgets, and only the net result carried into the principal financial statements.

It is impossible, of course, to please both sides.

Opportunities for improvement

That there are great possibilities for improving the accounting system of the Federal Government, no one can deny.

There is no such thing in the Federal Government as a complete system of accounts in the sense that a single set of books reflects all the financial transactions of the Government. Furthermore, the accounts kept in the different agencies are on entirely different bases, as I will presently point out.

Central Accounts kept only on "warrant" basis.

The central accounts of the Government relating to receipts, appropriations, and expenditures are, by law, maintained upon the books of the Division of Bookkeeping and Warrants of the Treasury Department. These accounts, however, are based only upon warrants issued by the Secretary of the Treasury and countersigned by the Comptroller General.

A warrant is a formal document issued by the Secretary of the Treasury authorizing the setting up of appropriation accounts; the advance of money to disbursing officers; the payment of direct settlements of the General Accounting Office; and the covering of money into the Treasury. They represent the so-called control of Treasury receipts and issues, but do not reflect the current financial transactions of the Government.

Let me give you an illustration:

In the accounting for Government receipts there are involved at least 4 basis transactions.

First, the assessment of taxes;
Second, the collection of taxes;
Third, the deposit of the collections into a Federal reserve bank or designated depositary for account of the Treasurer of the United States, and
Finally, the formal acknowledgment of the deposit into the Treasury on a covering warrant.

Of these 4 transactions only the last is reflected in the central account of the Treasury Division of Bookkeeping and Warrants.

Now let us take the expenditure side. The expenditure of money involves 8 basic transactions:

First, the setting up of the appropriation account;
Second, the apportionment of the appropriation according to the months in which the funds are to be obligated;
Third, the allotment of money to operating units or field agencies;
Fourth, the incurring of obligations of various kinds and descriptions;
Fifth, the approval of vouchers for payment;
Sixth, the advance of funds for credit to checking accounts of disbursing officers;
Seventh, the drawing of checks by disbursing officers; and
Finally, the payment of the checks by the Treasurer of the United States.

Of all these transactions only two appear in the central accounts of the Treasury Division of Bookkeeping and Warrants. One of these is the warrant setting up the appropriation account, and the other is the warrant advancing funds to disbursing officers. (This is subject to the qualification that under the Executive Order of July 27, 1935, certain budgetary data must be reported to the Treasury by the Executive Departments and establishments).

Treasurer's Accounts

The second and entirely different set of accounts are those maintained in the office of the Treasurer of the United States. These accounts are based upon moneys received and disbursed by the Treasurer. They also include the checking accounts of disbursing officers.

When funds are advanced by the Secretary of the Treasury to a disbursing officer, the warrant is reflected as a charge against the appropriation account on the books of the Division of Bookkeeping and Warrants and a corresponding credit in the checking account of the disbursing officer on the books of the Treasurer. The Treasurer does not keep a separate account for each appropriation, nor does the Secretary keep a separate account for each disbursing officer.

Disbursing Officers' Accounts

The third set or class of accounts are the accounts maintained in the various disbursing offices of the Government. These accounts are on a different basis from either set of accounts previously mentioned. They are based primarily on advances of funds to disbursing officers through warrants of the Secretary of the Treasury, and upon checks issued in payment of Government obligations. To some extent disbursing officers also account for collections received from miscellaneous sources through the various operating agencies of the Government.

Collecting Officers' accounts

The fourth and fifth sets or classes of accounts maintained in the Government are the accounts of collectors of customs and collectors of internal revenue. There are 48 collectors of customs and 64 collectors of internal revenue. The bulk of the Government's revenue is received through these officers. Their accounts are based principally on assessments, collections, and Treasury deposits.

Administrative Appropriation and Fund Accounts

The sixth set or class of accounts are what are called administrative appropriation and fund accounts of the several departments and establishments of the Government. Except in the case of the Emergency Relief Program, these accounts are scattered throughout the departments, bureaus, offices, and field services of the Government. They are based essentially on Congressional appropriations, Budget apportionments, administrative allotments, contractual and other obligations, and approved vouchers; and in some cases include collections from miscellaneous sources. It is this class of accounts which presents the most difficult problem in the development of the Government's accounting system. It is also in this field that the Emergency Treasury Accounts organization has made notable progress during the past two and one-half years.

Cost, Security, and Property accounts

Finally, there are cost accounts, mint accounts, security accounts, supply accounts, and property accounts, - - all operated, more or less, as separate systems.

Summation

These various systems have never been brought together and correlated into a single system.

I mention these different systems, - - operated on different bases and under different directing heads, - - in order that you might more fully understand not only the difficulties, but also the opportunities which lie ahead in the development of the Government's accounting system. It would not be extremely difficult to devise a plan which would bring all of these different systems together. But the human factor is something different, and considerably more difficult to deal with because of the many divergent views and interests.

PART II

Having outlined the various systems of accounts maintained by the Government, I will now proceed to outline briefly how money gets into and out of the Treasury.

Depositaries

The moneys of the United States are kept in the Treasury at Washington, in Federal reserve banks, in the mints and assay offices, and in designated bank depositaries. The working balance of the Treasury, however, consists principally of deposits with the Federal reserve banks and special bank depositaries, the latter holding money on call from the Treasury in connection with the sale on credit of public debt obligations.

Federal reserve banks

The Treasury's operations are carried on principally through the Federal reserve banks, each of which maintains an account with the Treasurer of the United States.

The bulk of the Government's revenue is deposited by collecting officers in Federal reserve banks for credit of the Treasurer of the United States. Likewise, checks, coupons, and public debt obligations of the United States are paid by the banks and are charged to the Treasurer's account.

The work of financial administration does not cease when appropriations for support of the Government are made. Appropriations are only Congressional authorizations to spend money within specified limitations and for specified purposes.

Although the Congress makes appropriations "from any moneys in the Treasury not otherwise appropriated", it must be remembered that actually appropriations are not made from money in the Treasury at the time the appropriations are made, but rather in anticipation of the collection of revenues. To the extemt that revenues do not synchronize with expenditures, or are insufficient to meet expenditures made pursuant to appropriations, it is the Treasury's responsibility to raise the necessary funds through borrowing on the public credit.

Daily transfers of funds between Federal reserve banks

In the forenoon of each business day the Treasury receives telegraphic advice from each reserve bank concerning the amount on deposit for account of the Treasurer of the United States at the close of business on the previous day. Upon the basis of such balances and estimates of the receipts and expenditures for the day, the Treasury determines whether there is enough money in each bank to meet the Government's obligations for that day. In case one bank's balance runs low, a sufficient amount is transferred by wire from another bank through the medium of the Gold Certificate Fund.

Special depositaries

While the Treasury maintains a large working balance with Federal reserve banks, the bulk of the Government's money is on deposit with special depositary banks throughout the country, representing, as I have already indicated, the proceeds from the sale on credit of public debt obligations. This money is subject to call by the Treasury. Although the money represented by subscriptions to public debt obligations on credit is left with the banks, certificates of deposit are issued in favor of the Treasurer of the United States and the amount is included in the Treasurer's cash balance.

Semi-weekly calls

When expenditures exceed receipts, the balances in the Federal reserve banks are replenished through the transfer of money from the special depositaries. This transfer is reflected in the Treasury's assets as a reduction in the deposits with special depositaries and a corresponding increase in the deposits with Federal reserve banks.

At about 1 o'clock on Monday and Thursday of each week, the Treasury estimates the receipts and expenditures of the Government for the ensuing week. For instance, on Monday, we estimate how much money will be received and paid out by the Federal reserve banks through Saturday. If we find that the banks' balances at the end of the week will be too low, we send out instructions to the reserve banks to call in a specified percentage of the amount remaining on deposit with special depositaries on account of the oldest public debt issue.

On Thursday we repeat the operation, estimating the amount, if any, which will be required up to the close of business on the following Wednesday.

In this way and through arrangement of debt maturities and interest payments so as to fall in heavy quarterly tax periods, the Treasury is able to keep the flow of money in and out of the Federal reserve banks and the money market on an even keel in spite of the uneven flow of revenues and expenditures. Although call sheets are made up twice each week, frequently is is not necessary to call money in from the depositary banks.

Daily transcripts of accounts

At the close of each day's business each Federal reserve bank transmits to the Treasurer of the United States a transcript of his account showing the debits and credits of the day's business. This transcript is supported by certificate of deposit, paid checks, coupons, etc.

Certificates of deposit

Under the law a certificate of deposit must be issued by the depository bank for each deposit. The original certificate must be sent to the Treasury, and a duplicate to the depositing officer.

After the certificates of deposit have been cleared through the Treasurer's accounts at Washington, they are sent to the Secretary of the Treasury who issues a covering warrant formally covering the money into the Treasury.

Covering-in process

In the covering of money into the Treasury, the Department uses bookkeeping machines. At the time the warrant is written there are posted by carbon process several records:

First; a depositor's register on which is accumulated all deposits relating to a particular depositor. This register is made in triplicate, and at the end of the month two copies are sent to the General Accounting Office for auditing purposes. The other remains in the permanent files of the Treasury.

The next record (prepared in the same process) is a revenue of appropriation register (as the case may be) upon which is accumulated all of the deposits relating to a particular revenue or appropriation account. This record is prepared in duplicate and at the end of the month one copy is sent to the General Accounting Office for auditing purposes and the other is retained in the permanent files of the Treasury.

The third record is what is known as a Departmental Deposit list, which is sent currently to the operating agency concerned in order that it may be immedidately informed concerning the deposits covered into the Treasury relating to such activity.

The depositors' register furnished to the General Accounting Office is checked against the accounts current of collecting and disbursing officers, and the Departmental Deposit List is checked by the executive department or operating agency against triplicate copies of certificates of deposits. This procedure provides a double check upon the covering of money into the Treasury. So much for the receipts.

Appropriations made by Congress

Under Article 1 of the Constitution, no money may be withdrawn from the Treasury except pursuant to appropriation made by the Congress.

Accordingly, every appropriation made by the Congress is set up on the books of the Division of Bookkeeping and Warrants of the Treasury Department. The warrants setting up appropriation accounts are based upon appropriation acts which are certified by the Department of State. Before the appropriation warrant is posted to the Treasury's books, it is sent to the General Accounting Office for countersignature.

After the appropriation warrant has been returned by the General Accounting Office, the Treasury sends to the executive department or operating agency concerned a certified copy of the warrant which is used as a basis for making the entries in the administrative appropriation accounts to which I have already referred.

Apportionments of appropriations approved by Budget Bureau

The next step in the operation involves what is known as the apportionment of the appropriations.

Under the so-called Anti-Deficiency Act, the heads of the various departments and establishments were required to so apportion their appropriations at the beginning of the fiscal year in monthly or other periodic allotments as to avoid the expenditure of money in one part of the fiscal year which would result in a deficiency in the latter part of the year. An important change was made in budgetary procedure when the function of making such apportionments of appropriations was transferred to the Director of the Budget under the Executive Order of June 10, 1933. This order was followed by the Executive Order of July 27, 1933, which provided for a system of budgetary accounts in the Treasury Department, based upon reports from operating agencies.

Under these Orders the operating agencies prepare their apportionments showing the months in which they propose to spend their money. These apportionments are submitted to the Bureau of the Budget for approval. After they have been approved by the Budget Director they may not be waived or modified except upon the Budget Director's written approval. Within the amounts of these monthly apportionments the operating agencies are authorized to make administrative allotments and to incur obligations.

Apportionments of appropriations are made only with respect to the total amount which may be expended during a certain month or period under an appropriation. They are not subdivided either with respect to particular projects, types of work, or objects of expenditure.

Allotments made heads of bureaus and offices

Subject to limitations of law, such matters are left to the discretion of the heads of bureaus and offices in Washington, who make "allotments" to field offices for specified objects of expenditure.

Allotments are in the nature of authorizations to incur obligations, and, of course, must be kept within the monthly apportionments approved by the Director of the Budget.

Obligations

Within the amounts of allotments, and subject to legal and administrative restrictions or limitations, project managers and other authorized operating officials are authorized to employ personnel, make purchases, enter into contracts, and make such other commitments as may be necessary and proper. In the Government, these transactions are frequently called "encumbrances". To a large extent they are necessarily estimated, adjustments being made to the actual amount when the vouchers are approved for payment.

Approval of vouchers

Government obligations are paid only upon forms approved by the Comptroller General of the United States. The voucher must be executed by the Government creditor and delivered to an authorized official for certifications to the effect that the goods have been delivered or the services performed. Under the

Exedutive Order of June 10, 1933, certifying officers are personally accountable for the proper certification of vouchers. The voucher is then approved by a higher Government official and scheduled to a bonded disbursing officer for payment.

Advance of funds to disbursing officers

But before a disbursing officer may pay the voucher he must have to his official credit an available balance under the particular appropriation involved.

In order to procure such credit the head of the Department, bureau or establishment in Washington must submit a requisition on the Secretary of the Treasury for an advance of funds under the particular appropriation involved. This requisition is sent to the General Accounting Office for approval before coming to the Treasury.

Accoutable warrant

On the basis of the requisition the Secretary of the Treasury issues an accountable warrant, - - so called because the disbursing officer is accountable for the proper expenditure or legal disposition of the money contained therein. As stated earlier this warrant is reflected as a charge in the appropriation account on the books of the Treasury Division of Bookkeeping and Warrants and as a credit in the disbursing officer 's checking account on the books of the Treasurer.

Disbursement

On the basis of the approved pay rolls and vouchers and within the total amount standing to his credit on the Treasurer's books, the disbursing officer is authorized to draw checks in the payment of Government obligations.

This briefly explains the general procedure in the handling of the Government's business.

PART III

I now come to the third part of my discussion which relates to the accounting organization set-up by the Treasury Department to handle the emergency work relief appropriations.

On April 8, 1935, the Congress enacted the Emergency Relief Appropriation Act, appropriating over 4 billions of dollars for relief and work relief. This law and the Executive Order of May 6, 1935, issued pursuant thereto, marked an important milestone in the field of Government accounting.

The customary practice of the Congress is to appropriate funds directly to over 200 different departments,establishments, bureau, boards and commissions of the Government. However, in this case, the Congress placed upon the President of the United States the responsibility of administering and expending this huge sum of money, which, in subsequent acts, was increased to approximately 8½ billions of dollars.

On May 6, 1935, the President issued an executive order creating the Works Progress Administration which was made responsible to the President for the coordinated execution of the work relief program as a whole, and for the execution of the program in such manner as to remove from the relief rolls to work on projects, or in private employment, the maximum number of persons in the shortest time possible.

In the same order the President directed the Secretary of the Treasury:

"1. Through the disbursing and accounting facilities under the Commissioner of Accounts and Deposits of the Treasury Department, to make provision for all disbursements from the funds appropriated by the Emergency Relief Appropriation Act of 1935, subject only to such exceptions as the Secretary may authorize, and to maintain a system of accounts necessary to enable the President:

"(a) To exercise executive control over such funds;

"(b) To provide current financial and accounting information for governmental agencies concerned;

"(c) To make a complete report to the Congress concerning expenditures made and obligations incurred, by classes and amounts;

"2. Through the Director of Procurement to purchase, or to provide a system for the purchase of all materials, supplies and equipment to be procured with the said funds."

The procedure established for the purpose of handling the Emergency relief appropriations is designed to throw every protection around the allocation and use of the funds.

Proposed projects are reviewed by the Bureau of the Budget prior to being considered by the President, and before any funds are made available for any project, the allocation therefor is independently reviewed by the Comptroller General of the United States.

Allocations of funds for the Works Progress Administration, the regular Executive Departments and other Federal agencies have been made by the President in considerable detail generally for specific projects, many in comparatively small individual amounts. Each approved project is assigned an official project number and set up on the books of the emergency Treasury accounts organization. The expenditures on account of the various projects are formally accounted for every ten days to the Comptroller General of the United States, and are supported by detailed vouchers, contracts, and other documentary evidence.

In order to facilitate the work relief program, the Treasury Department established separate accounting, disbursing, and procurement offices in each State. Funds are made available by the Treasury for projects in the several states, territories, and insular possessions, through telegraphic facilities almost simultaneously with the approval of the Treasury warrant. In this manner the Treasury makes funds available promptly upon the fulfillment of all legislative and executive requirements involving the allocation of money under the Act.

In setting up the accounting and disbursing procedure under the Executive Order of May 6, 1935, the Treasury recognized the following as fundamental requirements:

1. The necessity for making payments promptly;

2. The necessity for maintaining effective accounting control over all allocations made by the President, and determining that funds are used only for authorized purposes;

3. The necessity for administratively determining in advance of payment the legality of vouchers and pay rolls;

4. The necessity for providing an internal accounting check upon the operations of disbursing officers;

5. The necessity for rendering to the General Accounting Office at frequent periodic intervals, detailed accounts for independent audit;

6. The necessity for keeping administrative agencies currently informed concerning the financial status of funds allocated to each official project;

7. The necessity for compiling frequent periodic reports showing the financial status of all funds;

8. The necessity for making a complete annual accounting by the Executive to the Congress, as required by the Emergency Relief Appropriation Acts.

Regulation No. 1

On June 18, 1935, the Secretary of the Treasury issued Regulation No. 1, governing the administrative procedure for the maintenance of a system of accounts and disbursements under the Emergency Relief Appropriation Act. This Regulation was approved by the President. In it were laid down the basic principles upon which the accounting system would be based.

Organization

The regulation authorized the Commissioner of Accounts and Deposits of the Treasury Department to establish and maintain a Treasury Central Accounts Office in the District of Columbia and such accounting and disbursing offices in the several States as, in his judgment, were necessary. The Commissioner was also authorized to prescribe such administrative procedures and to take such other action as might be necessary.

Pursuant to this authorization there were established a Central Treasury Accounts Office in Washington, D.C.; and, as I have already indicated, separate accounts and disbursing offices were established in each State, the District of Columbia, and in the territorial possessions. In New York State offices were set up in Albany and in New York City. In California offices were set up in San Francisco and Los Angeles.

Central Treasury Accounts Office

The Central Treasury Accounts Office consists of five major divisions - an Accounting Control Division; a Voucher Procedure and Review Division; a Financial Reports Division; an Administrative Division; and a Field Supervision Division. The Commissioner's emergency staff consists of the chiefs of these divisions, two special assistants, an executive assistant, and a general assistant. One of the special assistants is responsible for the study and development of improved accounting procedures. The other is an expert on machanical operations and is directly responsible to the Commissioner for seeing that the mechanical equipment in all offices is producing results, - - not only maximum results, but the results for which the equipment was acquired.

Accounting Control Division

The Accounting Control Division has two major functions, the first being the maintenance of the control accounts, and the second being the administrative examination of the disbursing officers' accounts before they are sent to the General Accounting Office for audit and settlement.

Voucher Procedure and Review Division

The duties of the Voucher Procedure and Review Division relate to the propriety of payments. Its main function is to see that the examination of vouchers and pay rolls in State offices is properly conducted; to advise State offices with respect to examination problems; to see that suspensions made by the General Accounting Office in disbursing officers' accounts are properly attended to; to review vouchers sent to Washington for pre-audit; and generally to keep the Commissioner of Accounts and Deposits informed concerning the status of this work.

Financial Reports Division

The function of the Financial Reports Division is to compile a complete financial report every ten days showing the financial status of the program and a more detailed report for transmission to the Congress at the end of each calendar year. This Division is also responsible for furnishing administrative agencies in Washington with such information as they require.

Administrative Division

The Administrative Division is responsible for matters relating to personnel, supplies, office furniture, space, files,etc.

Field Supervision Division

The Field Supervision Division was created for the purpose of assisting the Commissioner in the supervision of field offices; to see that the prescribed procedures are followed; to conduct internal audits; and to make recommendations in the interest of economy and efficiency.

Accountants-in-Charge

Accountants-in-Charge of State offices are directly responsible to the Commissioner of Accounts and Deposits. They are held strictly responsible for results and the efficient management of their respective offices.

Treasury State Accounts Offices

The State Offices are set up along the same general lines as the Central Office, so that the work of each division will definitely tie into the related division of the Central Office. In this way the Commissioner of Accounts and Deposits can look to one executive official in the Central Office for information and results in a certain field. The heads of the divisions, both in Washington and the States, were selected upon the basis of their particular qualifications and ability in chosen fields.

Major problems

The prompt payment of workers and public creditors; the control of funds within executive limitations; the legality of payments; and the preparation of adequate financial statements within prescribed time limits are the 4 major problems of the Treasury's State offices. The State offices are so organized as to accomplish those purposes in the most efficient and economical manner.

Prompt payments

The first problem, namely, the necessity for making prompt payment to workers and public creditors, depends upon the smooth working of the whole organization, particularly the Accounts Division and the Examination Division.

Early in the program a procedure was devised so that the Central Office in Washington could tell within a fractional part of a day the time required in the various stages of handling and paying a pay roll, from the end of the pay period to the time the check was delivered to the worker. This information was tabulated both geographically and by organization units, so that delays could be localized with respect to both States and the administrative organizations within the States. In this manner the Treasury Accounts organization is of assistance not only in the field of accounting but also administration.

Control of funds

The accounting control of funds is handled through the Accounts Divisions of the several State offices. Such divisions maintain general ledgers and detailed project ledgers containing about 220,000 accounts in all States combined. Among other things, the general ledgers control the project ledgers and also the financial transactions of disbursing officers. It is the duty of the Accounts Division to see that obligations and disbursements are kept within the limits of funds available in the State, and also within the limitation fixed by the President with respect to each project. The Accounts Division has two further functions, namely, to produce the ten-day and annual financial statements relating to the State, which are transmitted to the financial Reports Division in Washington; and a trial balance of the general ledger, which is transmitted to the Accounting Control Division every ten days for the purpose of enabling that division to check the disbursing officer's account in making the administrative examination.

Legality of payments

The Division of Examination is charged with the responsibility of examining all documents before transmission to the Division of Accounts. The Division of Examination is organized into four sections, namely, the project section, which examines all documents for the purpose of setting up the project; a pay roll section which examines all pay rolls; a miscellaneous voucher section which examines all vouchers other than pay rolls; and a check verification section which examines copies of all checks issued by the disbursing officer.

Pay roll trouble unit

In some of the larger offices, in order to avoid delays in making payments to workers because of questions arising in the examination, the Treasury set up what is called a "pay roll trouble unit", to which all questioned pay rolls are promptly referred. The Treasury arranged to have stationed in the pay roll trouble units representatives of the operating agencies in order that the necessary administrative action might be expedited. These pay roll trouble units were undoubtedly instrumental in avoiding serious situations which inevitably would have arisen through delays in making payments to workers.

Suspensions by General Accounting Office

Later there was established in the Division of Examination what is known as a "suspension reply unit", the duty of which is to see that all questions raised by the General Accounting Office in the audit are properly and promptly attended to.

Suspensions, - - or "exceptions" as they are sometimes called - - made by the General Accounting Office are classified in the Voucher Procedure and Review Division of the Central Accounts Office according to organization units, types of vouchers, and reasons for the suspensions. Since many suspensions are based upon legal or procedural technicalities, State offices are constantly reminded to study the types and reasons for suspensions made by the General Accounting Office in order to avoid repetitions.

The Voucher Procedure and Review Division in Washington also compiles every ten days a summary report showing, with respect to each State, the total number and amount of suspensions taken by the General Accounting Office; the number and amount cleared; and the outstanding suspensions classified as to those under consideration in the field, those being reviewed in the Central Office, and those in the General Accounting Office pending further consideration. In this manner the Commissioner of Accounts and Deposits is always in possession of current information concerning the status and condition of disbursing officers' accounts.

Stock of blank checks

The Division of Examination is also charged with the responsibility of maintaining a control over the stock of blank disbursing officers' checks and to make a periodic audit of such stock.

Financial Reports

The fourth problem, as I have already indicated, involves the prompt dispatch of financial reports to the Central Office in Washington every ten days. Since this is one of the major objectives, there was provided in the organization of the larger State Accounts offices an official whose title was "Special Assistant on Financial Reports".

The principal responsibility of this officer is to see that effect is given to all instructions issued by Central Office in connection with the preparation of financial reports; and to see that they are complete, accurate, and dispatched within prescribed time limits. The smoothness and efficiency with which this function is performed is indicated by the fact that the annual reports consisting of approximately 500 pages were transmitted to the Congress within 9 days after the close of the year to which they pertain. The State reports, coming from all over the United States and the territorial possessions, are tabulated and consolidated in the Financial Reports Division of the Central Office according to act limitation, organization units, States, types of work, and objects of expenditure. They show the amounts allocated by the President, the amount obligated, the amount disbursed, the unobligated balances and the unliquidated obligations. From these reports it is possible to ascertain the amount allocated and expended and the status of the funds of any organization in any State.

Farm Security (formerly Resettlement) Loan accounts

There is another phase of the work to which I have not heretofore made reference. This work relates to the accounting for loans and collections in connection with the Farm Security program. The Treasury Accounts Offices maintain approximately 640,000 borrowers' accounts. From these accounts the Department compiles periodically a statement showing the status of loans, including the amount loaned, the maturities, the collections with respect to both principal and interest, the delinquencies, and the unmatured loans. In the month of December, 1937, collections on these accounts amounted to almost 5 millions of dollars.

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Thus far I have given a general outline of the organization and functions. We will now proceed to a brief discussion of procedure.

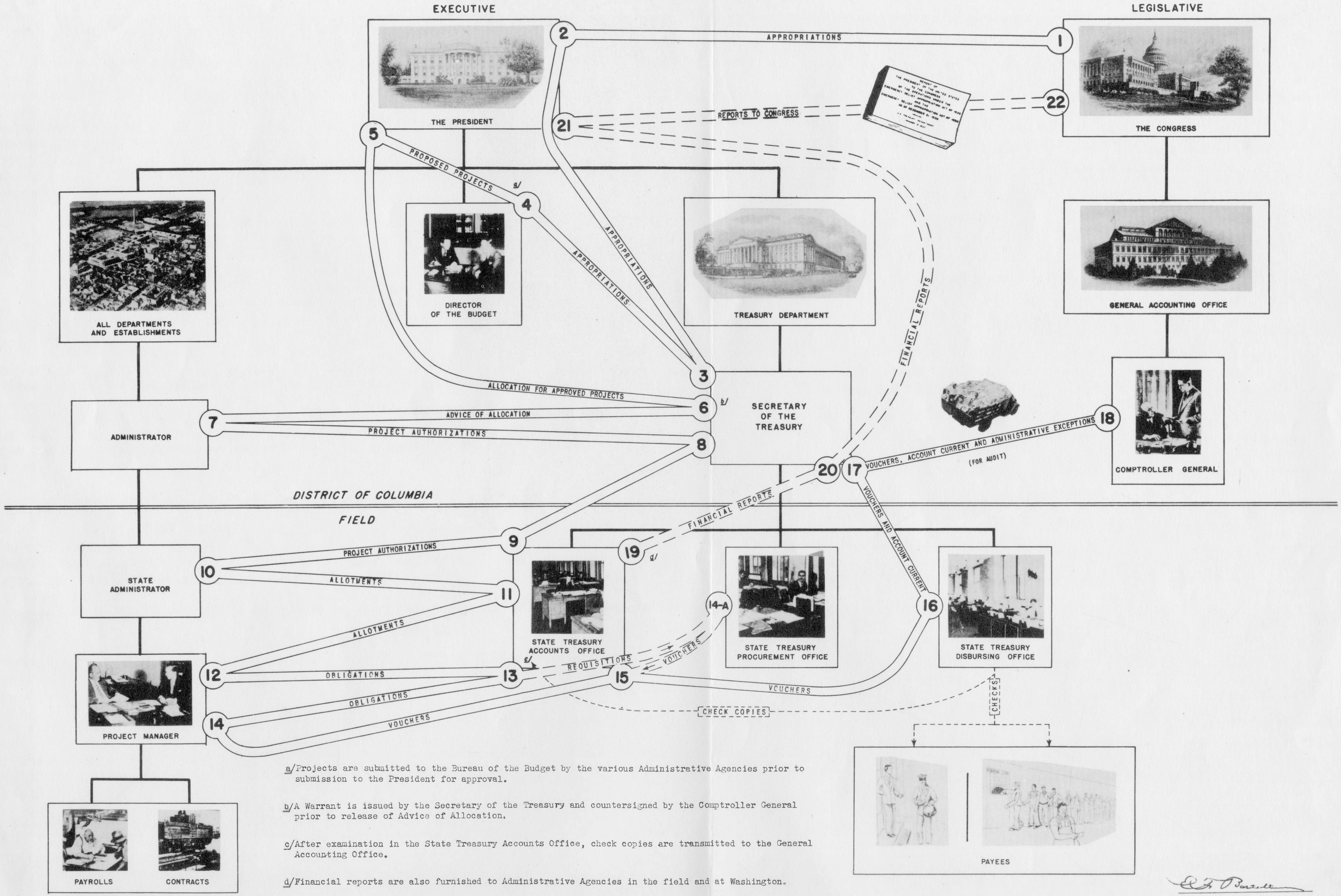
Flow Chart

I have brought with me this evening a flow chart (Note: chart accompanies this transcript) for the purpose of showing you graphically how the centralization of accounting in the Treasury Department affords the President the means of exercising executive control over the work relief funds; and how it enables him to make to the Congress a full accounting for the funds.

You will observe that the chart is divided at the center horizontally with a double line to separate the operations in the "Field" from the administrative or control functions in the "District of Columbia".

Attention is called to the large numerals, beginning with the numeral 1 in the upper right-hand corner of the chart. The flow of authority begins with the Congress at numeral 1, and ends with the accounting by the Executive to the Congress at numeral 22.

TREASURY CONTROL OF RELIEF EXPENDITURES UNDER EXECUTIVE ORDER 7034



a/Projects are submitted to the Bureau of the Budget by the various Administrative Agencies prior to submission to the President for approval.

b/A Warrant is issued by the Secretary of the Treasury and countersigned by the Comptroller General prior to release of Advice of Allocation.

c/After examination in the State Treasury Accounts Office, check copies are transmitted to the General Accounting Office.

d/Financial reports are also furnished to Administrative Agencies in the field and at Washington.

Commissioner of Accounts and Deposits
U. S. Treasury Department

Appropriations

After an appropriation act of passed by the Congress, at numeral 1, it is sent to the President for approval, at numeral 2. The original act is filed in the State Department, and a certified copy is delivered by the State Department to the Treasury Department, at numeral 3.

The initial appropriation of 4 billions of dollars in the Emergency Relief Appropriation Act of 1935 was set up in a master appropriation account on the general books of the Government in the Division of Bookkeeping and Warrants of the Treasury Department. Into this master account were later deposited the proceeds of a 500 million dollar check from the Reconstruction Finance Corporation.

There were also transferred to this account from other appropriations certain unobligated balances, as authorized by the Act. Subsequent appropriations increased the total to about $8\frac{1}{2}$ billions of dollars.

Upon the basis of allocations made by the President, to which I will later refer, funds are transferred by warrants from this master appropriation account to other appropriation accounts identified with limitations contained in the Act.

The balance in the master appropriation account represents the amount available to the President for further allocation to operating agencies.

A copy of every appropriation act is sent to the Bureau of the Budget at numeral 4. At the same time a copy of every act also is sent to the Comptroller General, although for the purpose of clarity this step is omitted from the chart.

Allocations of funds by the President

The first step in the executive control of work relief expenditures is what is known as the "Presidential allocation of funds". While it is customary for the Congress to appropriate funds directly to executive department and establishments of the Government, the emergency work relief funds were appropriated to the President for expenditure, in his discretion, subject to certain general limitations on the total amounts which may be used for various classes of projects.

Requests for allocations of funds and approval of projects to be undertaken are submitted to the Bureau of the Budget for review at numeral 4 before submission to the President, at numeral 5. Presidential letters of allocation and lists of approved projects are sent to the Treasury Department, at numeral 6.

Upon receipt in the Treasury Department of an order of the President making an allocation of funds, the Division of Bookkeeping and Warrants of the Treasury Department issues an appropriation transfer warrant for the purpose of transferring the amounts allocated from the master appropriation account on its books to separate controlling accounts under the applicable general limitations of the appropriation acts. Such warrants, together with the supporting documents, are sent to the Comptroller General for countersignature. Meanwhile, an advance copy of the President's order containing a detailed listing of the projects and the limitations, is sent by the Central Treasury Accounts Office to the appropriate State Treasury Accounts Office for its advance information, but with instructions not to make the funds available until the receipt of telegraphic advice that the warrant has been countersigned by the Comptroller General. This procedure enables the Treasury to make funds available in the States almost simultaneously with the approval of the warrant in Washington. At the beginning of the program this practice was of great importance in the commencement of projects and the putting of men to work.

After an appropriation transfer warrant is countersigned, a certified copy is sent to the Treasury Central Accounts Office and is used as a basis for charging the applicable limitations of the Act and establishing the necessary controlling accounts.

Project Limitations

In order to provide maximum flexibility in the selection of projects on which work was to be commenced, the President authorized projects containing limitations which, in the aggregate, are considerably in excess of the amount of money available. It, therefore, became necessary for the Treasury to adopt a procedure whereby necessary controls would be maintained, not only with respect to individual projects but also with respect to the total amount of cash available in any one State. This also created the further problem of avoiding a situation where more projects might be commenced than could be completed within the total amount appropriated by the Congress.

Upon the basis of the Presidential allocations and countersigned warrants, "Advices of Allocation" are prepared in the Treasury Central Accounts Office and sent to the administrators of the agencies to whom the allocations are made, as shown at numeral 7 in the chart. At the same time, the allocations are set up on the books of the Treasury Central Accounts Office to control the administrative allotment of funds under each allocation.

Administrative Allotments

Upon receipt of the Advices of Allocation at numeral 7, Federal administrators in Washington who have jurisdiction over a program issue Advices of Project Authorization through which the allocated funds are distributed to State or other field administrators.

In order to maintain centralized accounting control in the Treasury, the Advices of Project Authorization, after issuance, are sent to the Treasury Central Accounts Office, at numeral 8, where they are set up on the books and charged to the allocations to which they pertain.

After posting to the books of the Treasury Central Accounts Office they are forwarded to the appropriate State Treasury Accounts Offices, at numeral 9. The Advices of Project Authorization are then set up on the books of the State Treasury Accounts Offices after which they are transmitted to the State Administrators at numeral 10.

Allotments

The next step in the operation is the allotment of money by State administrators for the operation of specified projects. This is accomplished through an Advice of Allotment.

In regulation No. 1, the term "allotment" is defined as follows:

"(j) The word 'allotment' means the amount of an authorization on a prescribed form issued by an administrator or other authorized person to a project manager, authorizing the latter to enter into contracts, to make purchases or pay-roll commitments or to incur other obligations, for a work project."

On September 28, 1935, Accounts and Deposits Field Office Memorandum No. 74 was issued requiring State Administrators to certify in each case where an allotment was made in an amount less than the Presidential limitation to the effect that the amount so allotted was sufficient to complete the project or a useful unit of a project. As the allotments are made, the funds are set aside on the books of the Treasury State Accounts Office for the purpose of the projects indicated in the allotment. It is the duty of the Treasury State Accounts Offices to see that obligations incurred are kept within the limitations of such allotments.

The Advices of Allotment, after issuance by the State administrators, are sent to the Treasury State Accounts Office, at numeral 11, for the purpose of establishing an accounting control over the expenditures to be made under the allotments. After the allotment accounts have been posted in the Treasury Accounts Offices against the Project Authorizations to which they pertain, the Advices of Allotment are forwarded to the project managers to whom the allotments are made, at numeral 12.

Thus far it will be seen that the Congress exercises legislative control through appropriations at numeral 1; that the Bureau of the Budget exercises certain control through the review of proposed projects before approval by the President at numeral 4; that the President exercises executive control through the approval of individual projects and allocations of funds for the work to be undertaken on such projects at numeral 5; that the administrators of the agencies receiving the allocations exercise administrative control through the apportionment of allocations by means of project authorizations at numeral 7; that the State administrators exercise operating control by making allotments under the project authorizations for specific projects and purposes at numeral 10; and that the Treasury Department exercises accounting control through the recording of appropriations, allocations, project authorizations, and allotments at numerals 3, 6, 8, 9, and 11.

Encumbrances for Pay rolls, Contracts, Purchase Orders, etc.

We next come to the obligations of funds.

A provision in the regulations upon which the Treasury Accounts Offices placed particular emphasis is paragraph 12 (a) which reads --

"The records of the Treasury Accounts Offices shall reflect as currently as practicable the accruing liability of the Government on account of each project. To this end, Administrators and other designated officers shall furnish the appropriate Treasury Accounts Office such information as it may require."

Copies of all contracts, purchase requisitions or orders, and copies of papers, advices, and documents covering encumbrances or obligations incurred are required to be furnished to the appropriate State Treasury Accounts Office promptly after issuance. Each pay roll submitted for payment is accompanied by an encumbrance document covering the ensuing pay period.

In order that the limitations fixed by the President with respect to the amounts of allocations and also with respect to approved projects may be observed, it is necessary that the obligations incurred, such as pay roll commitments, contracts, purchases, etc., be kept within the bounds of administrative allotments and project limitations. The numerals 12 and 13 in the chart show the transmission of obligating documents from the various project managers to the State Treasury Accounts Offices where such obligations are posted to the allotment and project accounts previously mentioned in connection with numeral 11.

Procurement

It will be recalled that under the Executive Order of May 6, 1935, the President vested in the Procurement Division of the Treasury Department the responsibility for making purchases under the Work Relief Program. As I previously stated, the Procurement Division maintains State Offices in the same cities in which the Treasury Accounts and Disbursing offices are located.

Whenever materials, supplies, equipment, or contractual services are needed, it is necessary for the operating agency concerned to make requisition on the State Treasury Procurement officer. However, before the Procurement officer will enter into a contract or execute a purchase order, the requisition must clear through the Treasury State Accounts Office for posting and certification as to availability of funds.

It will be observed by reference to numeral 13 that the requisitions are forwarded to the State Treasury Procurement Offices, through the State Treasury Accounts offices at numeral 14-A. This is done in order that the estimated amounts of the purchases may be posted in the allotment and project accounts and a determination made as to the sufficiency of unobligated funds and project limitations before the actual obligations are entered into.

Promptly upon issuance, copies of purchase orders are sent by the State Treasury Accounts Office at numeral 15, in order that accounting adjustments, if necessary, may be made for differences between amounts contained in the requisitions and the purchase orders. Copies of all obligating documents are returned, after entry, by the State Treasury Accounts Offices to the project managers for their information as indicated at numerals 13 and 14.

It would be impracticable to issue for the Government as a whole reasonably current financial statements on an accrual basis, unless the accounts are maintained under centralized supervision. Different officers of the Government have different ideas about the manner in which accrued expenses should be reflected in the accounts and our experience in the handling of this program has demonstrated that many administrative officers do not appreciate or attach proper importance to the necessity for promptly reporting the obligations they incur, or for executing the necessary accounting documents for that purpose.

It is not sufficient that accounts be kept on standard forms and according to uniform rules. They must be actively supervised by an organization of trained accountants, who will see that the rules are uniformly applied in a manner consistent with economy, efficiency, and proper understanding of administrative needs and sound accounting practice. This is an important phase of the control of work relief expenditures that has been developed and put into effect by the Treasury Department through its emergency accounts offices.

Contracts

A step which has been omitted from the chart, in the interest of simplicity, involves the transmission of original contracts, together with such supporting documents as are required for audit, to the General Accounting Office, Washington, D. C.

Disbursements

We now come to the disbursements.

Under Federal procedure no payments may be made except upon a properly executed voucher or pay roll. All vouchers and pay rolls must be certified by project managers or by such other persons as are authorized to do so.

The next step, indicated by the numerals 14 and 15, shows the transmission to the State Treasury Accounts Offices of approved vouchers and pay rolls by project managers. Approved procurement vouchers are transmitted to the State Treasury Accounts offices by State Treasury Procurement offices as shown by numerals 14-A and 15.

Before vouchers and pay rolls are transmitted to the State Treasury Disbursing Offices for payment, they are given a Treasury pre-audit in the State Treasury Accounts Offices. The principal objects of this Treasury pre-audit are to see that the voucher is in liquidation of an obligation legally incurred; that sufficient funds are available for payment; that the voucher has been approved by a duly authorized administrative officer; and that necessary supporting documents are present. In this connection it should be mentioned that under the Treasury's system, illegal expenditures to some extent can be prevented through the examination of encumbrance documents prior to the actual incurring of obligations.

After the vouchers and pay rolls have been examined in the Treasury Accounts Office, they are transmitted to the Treasury Disbursing Office for payment. This is indicated by the numerals 15 and 16. It is the responsibility of the disbursing officers to draw the checks and make the payments to the identical persons named in the vouchers and pay rolls and for the amounts approved therein.

The chart shows checks going from disbursing officers to payees. They are paid through Federal Reserve banks.

Analysis of Unliquidated Balances

An important feature of the Treasury's emergency accounting procedure involves the preparation of a monthly detailed listing of unliquidated obligations and the transmission of such lists to the administrative agencies for examination and follow-up. This is in the nature of a "weeding-out" process. By that I mean that in this manner the Treasury is constantly "weeding-out" of its accounts accruals which for one reason or another do not represent liabilities.

The necessity for this is apparent when it is realized that the accuracy of the accounts depends in a large measure upon the proper reporting of obligations incurred by thousands of different individuals connected with administrative agencies. Another purpose which is served by this practice is that it calls to the attention of responsible administrative officers delays in the settlement of amounts due public creditors. Here again, the Treasury accounts offices are of service not only in the accounting field, but also in the field of administration.

Check Verification

Another feature of the system is the immediate verification of checks issued by disbursing officers. It will be noted that carbon copies of checks are immediately transmitted to the State Treasury Accounts Offices where they are examined to see that the checks have been issued in the proper amounts to the persons specified in the vouchers and pay rolls. To a considerable extent it has been possible to accomplish this examination before the checks are released by the State Treasury Disbursing Offices to the payees. After examination in the State Treasury Accounts Offices, check copies are transmitted to the General Accounting Office. The State Treasury Accounts Offices also make periodic audits of the stocks of blank checks for which the disbursing officers are accountable.

While not shown in the chart, the Treasury Accounts Offices maintain controlling accounts with respect to the accountability of the disbursing officers for funds advanced to them and collected by them. Subsidiary accounts are also maintained by the State Treasury Accounts Offices relating to all transactions of the disbursing officers, regardless of whether such transactions involve changes in the cash balances for which the disbursing officers are accountable.

It will be seen that the State Treasury Accounts Offices act as a dual check, first, upon administrative officers who, on the one hand, incur obligations, and second, upon the disbursing officers who, on the other hand, pay the obligations.

Independent Audit by General Accounting Office on 10-day basis

Numerals 16 and 17 show the transmission of paid vouchers and pay rolls, and accounts current which they support, from the State Treasury Disbursing Offices to the Treasury Central Accounts Office.

Disbursing officers are bonded for the faithful performance of their duties and under the law are required to account to the General Accounting Office for all Treasury advances, receipts, and expenditures. This is accomplished through the periodic rendition to the General Accounting Office of an account current in which the disbursing officer charges himself with all Treasury advances, and receipts and takes credit for all expenditures. These accounts must be supported by certified vouchers, pay rolls, and other original papers. It is the general practice for disbursing officers to render their accounts monthly or quarterly; but recognizing the value of a prompt accounting and audit of the vast sums of money to be expended for work relief, the Treasury arranged with the General Accounting Office for audit of these accounts on a 10-day basis.

Administrative examination of disbursing officers ' accounts.

Under the law, before accounts are rendered to the General Accounting Office for audit and final settlement there must be made in Washington what is called an administrative examination. This is usually done by or under the head of the operating service in Washington, but with respect to the disbursements made by Treasury disbursing officers for emergency work relief, the President vested this responsibility in the Commissioner of Accounts and Deposits.

After administrative examination in the Treasury Central Accounts Office, the accounts current and paid vouchers, together with any exceptions noted in such examination, are sent to the General Accounting Office for post-audit of the vouchers and settlement of the accounts as indicated by the numeral 18.

Financial Reports

We now come to the financial reports.

The compilation of the financial reports is one of the most interesting as well as one of the most important functions which the Treasury Accounting Organization performs. The dispatch with which these reports are compiled is evidence of the smoothness with which the whole accounting organization operates.

From the beginning of the program, a complete financial report, in summary form, has been made available every 10 days for the information of the President and others concerned, and a detailed annual report has been transmitted to the Congress at the beginning of each regular session as required by law.

The usefulness of any financial report for purposes of administration is in direct proportion to the promptness with which such report is furnished after the close of the period for which the report is made. The 10-day summary reports are placed in the hands of the President within a few days after the close of each 10-day period. The annual reports are compiled on the basis of the calendar year and are available to the Congress within 9 days after the close of the year.

These financial reports show the status of the appropriated funds as to Presidential allocations, administrative allotments, obligations, expenditures, unobligated balances, and unliquidated obligations, and are classified according to Congressional limitations, organization units, states and regions, types of work, and objects of expenditure. The reports also contain tables showing comparative data according to 10-day, monthly, and yearly period.

Numerals 19 and 20 show the transmission of the State reports to Washington for consolidation. These reports are submitted to the Central Accounts Office in Washington within 72 hours after the close of each accounting period.

Before the State reports are consolidated in Central Office they are checked against the central accounting controls.

Numerals 20 and 21 show the transmission of financial reports by the Secretary of the Treasury, numeral 20, to the President at numeral 21. This is done every 10 days. And numerals 21 and 22 show the accounting by the President to the Congress, annually.

Although not shown in the chart, the State Treasury Accounts Offices also provide State administrators (at numeral 10) and project managers (at numeral 12) with accounting reports for operating purposes.

Extracts from President's report (exhibits)

It is difficult to give an adequate word picture of the financial reports which are submitted to the President every 10 days and to the Congress once a year, and in the limited time available I will not be able to cover all phases of the report.

My talk this evening is already too long and I appreciate your attentiveness. Your realize, as I do, that there are many matters relating to the Government's accounting system which I have not touched. My principal difficulty in preparing my address was one of selection and elimination. I could not close this discussion, however, without answering to the best of my ability a question which must be uppermost in your minds, and which is more important than anything that I have said. The question is:

What is wrong with the present accounting system and what can be done to improve it?

Of course, it would require some time to explain in detail what might be done to improve the present accounting system, but the whole problem can be reduced to organization, personnel, procedure, and the law. When proper principles have been adopted with respect to all these matters, improvement of details will follow in due course.

In the first place, there should be prescribed either by law or Executive Order, if possible, the basic principles upon which the whole accounting system and fiscal procedure shall rest.

In making appropriations, distinction should be made between operating expenses, grants and subsidies, loans, and capital expenditures.

I will give you just one illustration in order that you might appreciate the difficulties under which the Treasury's accounting organization must operate. First bear in mind that the accounts must be kept strictly in accordance with the law, and the Secretary of the Treasury is required to render an annual report to the Congress showing the expenditures under "each separate head of appropriation".

Under the Act of June 16, 1933, the Governor of the Farm Credit Administration purchased $144,500,000 of stock in the Banks for Cooperatives. Payment for the stock was made from the Agricultural Marketing Fund created in 1929. The official accounts of the Treasury Division of Bookkeeping and Warrants, therefore, do not adequately reflect this transaction. Under a proper accounting system the Secretary of the Treasury would have been authorized to set up a separate account, the title of which would properly describe the nature of the transaction.

The situation with respect to the purchase of $120,000,000 of stock in Production Credit Corporations is even worse. This stock was purchased from 3 different funds, viz:

$35,000,000 from seed and feed loan funds relating to the years 1921 to 1932;

$45,000,000 from funds allocated by the Reconstruction Finance Corporation for crop loans; and

$40,000,000 from a special appropriation.

Under a proper accounting system the Treasury should have been authorized to set up on its books a separate account under a title "Subscriptions to stock in Production Credit Corporations", transferring to such account funds from the accounts indicated, if, as a matter of policy, it was determined that the latter funds should be used for purposes other than those for which originally appropriated.

Moreover, since the accounting should square with the appropriations, the appropriations should be made in such manner as will facilitate functional classification. There should be a requirement that all recoverable assets and all liabilities be reflected in central control accounts. There should be brought together in such accounts all essential data relating to the financial operations of the Government. This should be done in such manner as will provide for the needs of all officers concerned without unnecessary duplication of expense and effort. Finally, there should be a proper classification of personnel engaged on accounting work and proper standards should be set for their selection.